BUSINESS HINTS FOR ENTREPRENEURS

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My mother and late father have played a huge role in my life and giving me the ability to apply "common sense" to every day entrepreneurial questions. Common sense being the common thread bonding entrepreneurs.

Many family and friends have helped me at different facets of this book. Let me start with my sister in law – Inez Carlisle – who helped with several of the initial drafts and even thought I had lost my mind when trying to make head or tail of some of my notes that I had jotted down.

Michele Cohen, who took a very poorly written text and made it into something readable and enjoyable to all.

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To the clients of CTF Services (Pty) Ltd whose entrepreneurial enthusiasm gets me jumping out of bed in the morning, and

looking forward to the challenges of the day. An entrepreneur is rare breed of person, probably less than one in ten but he has the drive, ambition and enthusiasm to inspire the other ninety percent. Without this special breed the world would not be as colourful and as interesting a place as we find today.

CONTENTS

THE ALTERNATIVE ACCOUNTANT

I must admit, when Pete and I were at Parktown Boys together in the early 1980's, I did not think I would ever be writing a forward to a book he had authored – high end literature (and even attending English classes) was a little off our collective radar back then. Things change it would seem, I did not become the world's best pilot, and Pete has become an author. As the Romans put it "ex Africa semper aliquidnovi".

This is certainly the first time I have ever been asked to write the forward for a book dealing with Accounting (which could be because my Ph.D is in Geology and Palaeontology) and whilst I may have some entrepreneurial skills, I am not even remotely close to being up to speed on accounting - that is why I have Pete. That being said, I am probably one of the best qualified people in the world to write a forward on Pete himself, having been friends for nearly four decades now. During this time we have undertaken a number of insane ventures and even started a bakery together.

Due partially to various beer adverts featuring Lofty, most South Africans think of accountants as technocrats - grey if not completely invisible. I would have to be the first to admit that not all accountants are boring (and that the ones that are boring are not necessarily boring just because they are accountants). There have in fact been some very interesting accountants. The infamous Thomas Michael ('Mad Mike') Hoare was a chartered accountant, and a member of the Institute of Chartered Accountants in England and Wales. It should however be noted that he was in fact expelled from the institute in 1983 for spending time in jail. This was not however for any shortcomings as an accountant, but rather in that he and 'The Ancient Order of Froth-Blowers' failed to secure the Seychelles airport during the abortive coup, eventually being convicted of hijacking the Air India flight that gave him a ride back to South Africa.

Anyone who knows Pete, or anyone after reading this book, will know that he is not an accountant in the little grey man mould. Pete smashes the misconception on your first meeting, and will leave you in no doubt as to his feelings for Big Accountanting Firms, Big Corporates and Banks, normally doing so smartly attired in a Hawaiian print shirt –having given away the last of his ties some fifteen years ago.

I have heard it said that there are only two rules for being a successful accountant:

1. Don't tell them everything you know;
2.

Pete breaks with convention here as well, and now in the pages of his new book for entrepreneurs, gives up all of his learned wisdom (written in a desperate bid to stop them from wanting to become accountants themselves). The book is full of useful practical tips and sage (and sane) measured advice, and delves into a number of entrepreneurial principles and even some advertising and marketing guidelines. The true relevance of this book is in the simplicity – in Pete's own words KISS. To find out more – simply put aside a Sunday afternoon and read the book – it may just save your entrepreneurial life.

"Keep calm and carry on being entrepreneurial"

John Hancox Ph.D

Johannesburg, 2013

"Accountants are the witch-doctors of the modern world and willing to turn their hands to any kind of magic"

(Charles Eustace Harman 1894-1970 - British judge)

PART 1

"Entrepreneurs are risk takers, willing to roll the dice with their money or reputation on the line in support of an idea or enterprise. They willingly assume responsibility for the success or failure of a venture and are answerable for all its facets."

- Victor Kiam, best known for his "I liked it so much, I bought the company"

INTRODUCTION

Making hard earned profit is really great. Profit is the good stuff that gets the chemistry going for the average entrepreneur. But, one problem that's confounded the most astute businessmen is to know how much of this good stuff he has made?

I don't intend to make accountants out of entrepreneurs, as that will totally stifle their entrepreneurial spirit and reduce good business minded folk into huddled sniffling cowards. However, it is important that the average entrepreneur should at least have some basic idea of how the accounting process works; if only to uncover those instances when the average accountant attempts to pull the wool over their unsuspecting eyes!

Prior to the double-entry system, accounting for transactions could only be done by establishing lists of income and expenses, deducting the one from the other which would leave the profit or loss. It was natural to presume that the net profit will be represented by the value of cash on hand. The inherent problem with this process was that there was no check to ensure that a transaction may have been omitted or incorrectly captured. In most instances all that was apparent was that the cash on hand did not equal the resultant net profit.

The only other alternative was to prepare some kind of clever reconciliation to understand where the profit had been allocated. If that didn't work the recording process would require closer scrutiny - a time consuming process that could not guarantee success.

The earliest existent records that follow the modern double-entry form are those of Amatino Manucci, a Florentine merchant living at the end of the 13th century. Take note that it took an entrepreneur to develop a system that undoubtedly the accountants of the time were incapable of doing.

By the end of the 15th century, the merchants' of Venice used this system widely. Luca Pacioli, a monk and collaborator of Leonardo da Vinci, first codified the system in a mathematics-textbook of 1494. Pacioli is often called the "father of accounting" because he was the first person to publish a detailed description of the double-entry system, thus enabling others to study and use it. It was considered to be the most advanced accounting methodology of the time.

The concept underlying the double-entry system is that for every transaction there must be an equal and opposite transaction. So by adding up one side of the transactions they must equal the sum of transactions on the opposite side of the ledger. The beauty of this process was that, in the event that the two sides did not agree, simply removing one transaction after another, the missing items would be uncovered. Then by allocating both the left hand (debit transactions) and the right hand side (credit transactions) between expenses or assets and income and liabilities respectively, a clear picture of the financial position of the enterprise would emerge.

Allow me to give you an example.

If an outside party should lend your enterprise some cash, it would have the following impact on the enterprise:

- The amount of cash in the bank will increase; (Increase Debit)

- The obligations of the enterprise (the obligation to repay the debt) will also increase. (Increase Credit)

So by debiting the bank with the cash we represent the increased cash resources and by crediting the liabilities we show the exact same increase in obligations to our creditors. Similarly if we sell an item to a customer we would:

- Credit the revenue account with the transaction amount; (Increase Credit). and,
- Debit the customers' account, keeping track of the fact that the debtor is indebted to the enterprise. (Increase Debit).

Actually it's quite simple: each transaction is recorded on both sides in any general ledger account and the sum of those accounts represent a series of transactions to the enterprise.

I don't wish to give an accounting lesson but suffice to say that the pure double-entry system works well, is easy to perform and gives the entrepreneur the information he requires to keep his business alive. If done properly, the entrepreneur now knows how much cash is in the bank, who owes him money, to whom he owes money and the sum total of his revenue. This turns out to be good, useful and relevant information which he uses daily to keep track of his cash flow, profitability and other financial aspects of his enterprise.

So when you have a good system that works well, it becomes imperative that we then introduce an accountant to properly mess the whole thing up.

This pure system was taken by our accounting leaders and changed, manipulated and re-engineered (an activity best left to actual Engineers who have half an idea of what to do when

“Engineering”) to suit their reporting requirements. Regrettably, the pure system was taken over and manipulated to such an extent; it now ensures that no one has a clue as to what this system is reporting.

To reiterate: it took a tremendous amount of effort, debate and manipulating to re-engineer the accounting process.

It is my opinion that years of philosophical arguments and intellectual policy changes may have prompted our well-respected Judge to utter his comments quoted on the first page. “Accountants are the witch-doctors of the modern world and willing to turn their hands to any kind of magic”.

You would expect, after reading the quote by Judge Harman, that neither he nor I appreciate the workings of the modern accountant. Your observation would actually be remarkably accurate.

CHAPTER 1

"Business opportunities are like buses, there's always another one coming."

- Richard Branson, founder of Virgin Enterprises

BARE ESSENTIALS and OTHER THOUGHTS

When I started to write this book I was not really sure where to begin.

I had jotted down many thoughts during consultations with entrepreneurs over a period of some fifteen years.

I found myself time and again repeating the same phrases to my clients. Of course, they would have a slightly different application for each client depending on their particular business. I started to realize that much of what I was advising was not rocket science. Much of my advice was stuff to which any sensible person would say, "*yes, of course*". What I soon discovered was that many entrepreneurs had simply never thought of these things and had succeeded in making simple principals very difficult. Too many entrepreneurs would get lost in the complexities and somehow totally mismanage their enterprises and then be surprised when they get forced into situations they did not want to be in, or worse, wind up insolvent.

"Genius is 1% inspiration, and 99% perspiration."

- Thomas Edison, founder of General Electric (GE)

In this chapter I discuss number of very elementary ideas on how to approach and run an enterprise. These are a bundle of loose ideas which are, to some extent, self explanatory, but I have expanded and perhaps more fully outlined them for illustrative purposes. These are not exhaustive, but are some of the more important ones that I have encountered over time. They contain some very clear messages. See if you can embrace these ideas in your everyday business activities.

Chase the business and the money will take care of itself.

Chase "the money" and you will not get either.

This is the most important statement in this book. I assure you that if you run around only chasing “the money” you will never get it and one day, when will find that you have lost things that are worth so much more. I have seen people who have lost their families, their businesses and their minds chasing “the money”. Although you should always be vigilant, it is too easy to fall into the trap of single-mindedly running after the money.

Let me illustrate what I mean. I recently had alternations done to my house. The builder and I had many discussions during which time we agreed on the nature and the extent of the alterations and also on the price. A contract agreement was entered into and signed by both parties. However, when he was finally finished, three weeks after the scheduled completion date I might add, I was presented with an invoice for more than double the original agreed amount. The resulting bun fight left a sour taste in my mouth and I vowed never to use or recommend the services of this particular contractor again. It was clear that he had first under-quoted in order to be awarded the contract, and then spent the entire time carrying out work which was beyond the scope of our original agreement, for which, of course, he charged extra.

Now admittedly, and perhaps in his favour, I didn't detail every item of work that was required in the contract, nor did he furnish a detailed price per item, but little did I know that his only objective was to screw me for every penny. He was only chasing the money. What should the contractor have done? He should have prepared a realistic quote that included for the possibility of some variations and, most importantly, he should have stuck to the scope of work and invoiced as per our agreement. Now it’s my turn to screw him, out of any future business I might have passed his way. (You have a good meal or experience and you tell your best friends. But, you encounter bad service/food and you will tell everyone you meet about it).

Sometimes you need to weigh up the options, communicate with your client and try to obtain a fair and reasonable transaction. To simply attempt to maximize your income with no regard for the other party will ordinarily result in that party being reluctant to transact with you in the future. The motor mechanic who not only services your car but affects those other "necessary repairs" then extracts a huge fee under the veiled threat that if you don't pay up then he may retain your car. This is another prime example of an entrepreneur chasing "the money". This "entrepreneur" is probably now contending with a dwindling client base.

It's not to say don't communicate to the client. Explain the risks of the engine knock but don't surprise the client with a whopper of an account after the fact. This has the dire effect of alienating future business.

***Kill a job dead - If it not dead then it's alive*:**

It takes three times longer to finish a job that's wounded than if you killed it the first time round. A little example: A while ago I had a plumber complete some work at my house. As per standard practice, he sent an assistant who got things wrong and all the pipes leaked. I called the plumber back and after another half-baked attempt by yet another assistant, he was still no closer to fixing the problem. On the third call finally the plumber personally graced us with his presence and his expertise and the problem was solved completely. Now consider the actual cost of the three call outs, including time away from other jobs, fuel costs, telephone costs and wages, and it is highly unlikely that the plumber would be in the black on this job. The crux of the matter is that the job should have been completed properly on the first attempt. Had the plumber planned to have three bites at the apple his quote would have been too high and he would not have been contracted in the first place. So assuming that he quoted for only one visit then by the third visit he's just chasing his tail and any prospect of profit no longer exists.

The point is this, get in, do the job right first time, and get out. When you're busy with a job it actually take less time, less effort and lower cost to make sure that the job is done properly. Test your work a few times before handing it over and you're guaranteed that after you leave, when you are called back, it will be for new work.

Email disturbance:

I hear more than one entrepreneur tell me how much time is spent answering and writing emails. This form of communication is actually very useful, quick, reliable and – an entrepreneur's personal favourite - cheap. The problem comes in that a lot of time is spent replying to emails and a disconcerting small amount of time is spent finding new business. I personally have found myself so busy replying to mails that only get to my own “to do list” at the end of the day. Managing the “email disturbance” can enhance your daily productivity. Here are some ideas, not an exhaustive list, to reduce the intrusiveness of emails in your business.

- The person who sent you an e mail does in all likelihood, not require an immediate response. So turn off your outlook until say 14h00 in the afternoon. Then spend the remainder of the day returning all those emails. That way when new mails come in during the day they do not interrupt your work.
- When you respond to an email, you often find that the person to whom you replied is inclined to ask another question. By the end of the day the same question has been answered three times, thus tripling the time to address a single issue.
- Answer each email in the order that you received them and don’t move off until you have answered the query or passed it onto the responsible person. By leaving one e-mail till later you land up working on the same email time and time again.

<u>You reap what you sow:</u>

It is my opinion that the Bible should have phrased it “You reap **ONLY** what you sow”. It took me many years to really understand its full implications. Not being a Theologian I suppose I may be treading on thin ice, but what I understand in literal terms it means that you will reap the fruits of your labour. Expanding on this thought a minute, but keeping it in the same context, if you sow wheat your harvest will be wheat, if you plant potatoes then that’s exactly what you can expect to come out of the ground at harvest time.

In order to illustrate my point, let’s move more towards an entrepreneurial perspective. A few years ago I met a Management Consultant who complained bitterly about his chosen career. He lamented that times were either “boom” or “bust”. When I prodded him about the “bust” periods to understand why these periods were so lean, he explained that he used these quiet times to build new management models designed to assist management with understanding their profitability and efficiencies. To me the problem was clear. He was reaping the fruits of his labour: by the end of the month, he had a number of new management models, but no new customers. If he had focused on building his customer base, the lean periods would not have been quite so lean.

The lesson here is simple. Had he applied himself to the real problem – THE LEAN PERIOD – then there is a good possibility that he would have had a number of new clients and also a load of new work.

Understanding your problem and then working to solve that problem seems simple enough, but it’s surprising how often I get asked to assist an enterprise and I’m met with the refrain “I am not a salesman”. If your problem is a lack of sales, then it’s appropriate to believe that you are in a heap of trouble. Identifying your problem allows you the opportunity to solve that specific problem, don’t go spending your time solving issues that are not actually your underlying problem.

Be critical and exact when identifying the problem. Don’t fixate that the root of all your problems is a lack of income when the problem could more plausibly be a bottleneck in your manufacturing process, or being slow to respond to changes in the market place, etc. Once identified, apply your efforts to resolving the problem and I guarantee you will reap exactly what you sow

<u>Don't put all your economic eggs in one economic basket:</u>

The ethical rules of my professional code of conduct insist that a Chartered Accountant should not have "too much" dependence on one particular client. "Your independence", they say, "may be impaired or worse, the perception of your independence, could be impaired". From an entrepreneurial perspective this type of "perception" is complete rubbish but in economic reality, being economically dependent is entrepreneurial suicide. The fact is that if one client gives you the major part of your business, you basically take on the role of an employee without any of the benefits, like medical aid and a guaranteed salary. You land up dancing to every whim of that client and, if that client is an entrepreneur, he will squeeze you out of all your profits

Not only do you have your own business risk but now you have adopted the business risk of your one "big" client too. SAICA's ethical rules are really great in that they don't quantify what "too much" really is. It's a great tool with which the professional body can hit you over the head. Aren't we accountants brilliant, we use ambiguous language on ourselves!

I would suggest that if any one client contributes more than 10% to your gross profit then they are probably contributing "too much". There I said it. Not more than 10%. Don't let one single customer contribute more than 10% to your Gross Profit and also very importantly don't let one customer encompass more than 20% of your Debtor's Book. Such a large debtor makes you very vulnerable to your Customer's business risk. See this as a guideline and not a rule. You as the entrepreneur are free to push whichever boundaries you feel comfortable with. Just remember, you carry the consequences of your actions. Don't tell another entrepreneur that you're a "victim". It's probably not true and besides, he's not even remotely interested. Remember too: Your customer is not your friend. He will jettison you as soon as you are no longer useful to him.

Keep it simple, stupid:

(The KISS principle). When starting a business, stay as loose as possible and avoid entering into long term relationships. Don't lease that photocopier but rather rent it. Yes, renting is more expensive, but when times are tough one is able to reduce overheads quickly. Try to obtain short term rentals or even better, start off working from home. Keep your fixed overheads low, and try to limit your fixed monthly obligations to as low as possible without compromising your ability to deliver your product or service. Do everything you can do to give your enterprise the competitive advantage that you will need to put your business on its feet.

A swarm of over qualified business advisors will attempt to set you up in a limited liability company or some kind of business trust. Yes these vehicles are designed to protect you in the event of a business failure, but they are cumbersome and ordinarily quite expensive to implement and audit etc. Be aware that the banks are not in the business of losing money, therefore their over-paid legal representatives will see to it that you sign contracts with them which waive all the protections offered to you by the limited liability entity.

I once met a lawyer who was eagerly trying to convince his clients to obtain three trusts; one, in which to run their business, a second to hold their house and a third has title to their furniture and personal belongings. The legal structure seemed fairly well in place to ensure that if the bank invoked their surety and sold the house on auction, you at least had a warm bed in which to sleep!

The practical implications of preparing three sets of financial statements, and three sets of tax returns, etc., makes this structure so complicated that it consumes more time than running the business. I guess I shouldn’t complain, these big structures are mother’s milk for me as an accountant, as they’re a great excuse to triple my fee. I suppose now is a good time to mention that I have three children to feed, clothe and educate.

Keep the business structure simple. Have a Sole Proprietorship where it makes sense. You can always create the right amount of structure when your business has grown, and at that stage the value you derive from it will warrant the additional costs incurred to create and to manage the structure.

When commencing your business venture, you had best fully understand the way in which the business is going to work. Understand where the control points need to be and ensure that the administration is properly in place. Be mindful that the administration system should be in proportion with the size and nature of the business. Businesses go into decline when their administration is in a mess. People always think that admin is boring and they try to avoid having to do it or hand it over to their associate or colleague (qualified or not). I constantly get told by my creative clients that the type of work I do would kill them. Well I have heard of enough starving artists who don’t actually die from doing their admin, but rather live until tomorrow to continue the suffering.

Ensure that throughout your business the correct level of admin is in place to give you the correct amount of information. For example, should you start a small retailer it would not make much sense to have a fully integrated automated inventory monitoring system, but you would definitely need a cash register, which is properly reconciled each time a new person assumes responsibility for its contents. I only have one client who is able to successfully operate his small business “on the back of a cigarette box”, so to speak

"***Experience taught me a few things. One is to listen to your gut, no matter how good something sounds on paper. The second is that you're generally better off sticking with what you know. And the third is that sometimes your best investments are the ones you don't make.***"

- Donald Trump.

My late father-in-law remarked to me one day that “the business of life is built on common sense”. He was absolutely correct – but then, common sense in not really common at all. Building a business is no different. Whatever you do, undertake things that make good practical sense. If you, or your over-paid business advisor, come up with some kind of plan which sounds too complicated, it probably is; walk away. Keep it simple and straight forward for everyone to understand. Don’t try to cover every gap. Initially your internal control/information system (structures) will have leaks. Accept those, but, as your business moves forward, close them in a practical and sensible manner. This does not mean start your business believing that every staff member will be absolutely honest and declare every cent. No, understand your business and your people, and put controls in place that make sense, then as your business progresses you will discover all those areas where people are stealing you silly.

The grind:

Starting a business is like pushing a heavy truck along a flat road. As you start moving this enormous load you find that it takes a heck of a lot of effort to move the truck forward just a little. But as soon as you overcome inertia and have some forward momentum, you find that for the same amount of effort it goes twice the distance. As you continue along the road, the vehicle picks up momentum and with less and less effort the truck moves along almost by itself. It's interesting to note however, that this massive vehicle will never get to a stage where it requires no input from you at all, and it will soon stop moving completely without you continually pushing it. Machines may have different masses and one may have more lubricated bearings than the next, but at the end of the day they all work in exactly the same way, someone has to have his foot on the gas. Someone needs to make tough decisions, like insisting that the Personal Assistant, who insulted a client, apologize. Or jumping on the chest of a slacking-off staff member, making sure that sales are made and deliveries go out on time. Someone needs to kick butt to ensure that the invoices are sent to the clients and the money is received. That role is the role of the entrepreneur. There are naturally more diplomatic ways of doing things and there are less diplomatic ways, whichever way you do things it's probably not going to win you any popularity awards. Those people who thought you were a nice guy don't come running to your shack to bring you free soup when the whole deck of cards comes tumbling down around your ears, and your business is in Bankrupt Avenue. As I said before, no-one cares, and actually it's my house, my car and my retirement plan on the line, so if you find this uncomfortable, then migrate to a Corporate.

This is not say that you have to act like a boss with a Napoleon-complex and shout the odds. But it does mean that sometimes the best decision is not necessarily the most popular.

Make your life, or the path on which you are pushing the truck, as easy as possible. Wherever you are in the world, an entrepreneur really doesn't need to get into a scrap with the relevant Revenue authorities. In any country where the rule of law is in place one has an opportunity to study the tax laws and conduct business accordingly. Obviously you would want to pay the least possible tax that you legally can, but in the same breath make sure that all your filings are up to date and legal. An entrepreneur will push the taxation boundaries as far as he can but he would not readily want to enter into a debate with the authorities as to how a certain piece of legislation has been interpreted. The best way to attract attention is to try and hide from the taxman. Rather stay in plain sight, suggest to him that you are a model citizen and that you have nothing to hide. By not submitting returns you are being stupid and creating obstacles for yourself on the road ahead.

Let the ship sink:

Unfortunately there are times when you need to know when to let go. The saying goes "you can't flog a dead horse". If the animal is sick, it's not going to work, put your pride to one side and let the beast die naturally. There are times when a business just dies. It could be as a result of a multitude of reasons like the market could have collapsed, or new legislation was introduced or technological changes and developments. These things and many others can all spell the end of a wonderful adventure.

The trick is to know when to let go. What invariably happens is that the entrepreneur takes the losses personally and doesn't want to let go. He starts to pour in more and more resources, pushes the credit cards to their limits, and borrows money from friends and relatives. Always the optimist, he believes that next month things will turn around again. They don't, and by the time he's forced to let go, he has egg on his face and his friends and relatives are angry because he hasn't repaid that "one month" loan. The creditors who will still answer his calls insist on "cash on delivery". The tax authorities have a life size poster of him on their "most wanted" wall, which is located in the foyer of their head office for everyone to see.

A client of mine who suffered a slow and painful economic death once advised me that you should never use your own name as the name of your business. The reason is that there is an emotional relationship with the sinking ship. It makes it more difficult to walk away as you perceive that YOU are this business and therefore YOU are now a failure.

In your mind there lives a little grey man who tells you that your friends and relatives will see you walking down the street and laugh behind your back because of the failure of your business. You'll become an outcast, a social misfit. Gone are all those Christmas invites, no more invitations from friends to attend their children's christenings. This all lives only in your head and is the biggest rubbish in the world. The only people who will snigger are those corporate employed individuals who now soothe their consciences as to why they work for a boss, play corporate games and fear their colleagues stabbing them in the back. Any friends and relatives who are entrepreneurs will look past this and try to find other opportunities to help their mate.

Most successful business people today have had a business failure somewhere in their past. These may not have caused total bankruptcy, but it would none the less have been disappointing for them to see their dream or vision go down the drain. If you haven't failed at least once, you haven't tried hard enough.

Often the fact that a business fails is not in your hands, but the size of the disaster is well within your powers of damage limitation. Letting go in time will reduce the amount of resources ploughed into the sinking ship and allow you time to pursue other avenues to ensure your financial future. It may even allow the entrepreneur to suffer the ultimate pain by returning to the corporate world for a short spell to recover his losses.

Sell your dream:

I do not intend to give the magic password on how to sell your product or service to your customer in one paragraph. If this is an area of concern, please spend some time and read some good books on the subject, or attend courses on how to sell your product or service. This chapter is not meant to be the comprehensive guide to selling, simply a loose collection of ideas that an entrepreneur should bear in mind. Every business needs customers, and it is essential that the entrepreneur has some idea of how to market his product or service to those customers.

Generally, one of the biggest and most costly mistakes entrepreneurs make when moving from the corporate world, is that they are unsure of their source of clients. All too often these people tend to believe that the retail world will provide the fountain of customers which will herald in your entrepreneurial era. Don't believe it. It's not true. Every self respecting land-lord knows to charge for feet per square metre. You pay for the amount of feet attracted to the shopping centre, and not the amount of feet walking past your shop. With a retail store, one should have a number of potential customers walking past your store, pondering about doing business with you. But it's really the entrepreneur that will hook the customers. The entrepreneur who has a colourful front window, an "On Sale" sign, a smiling sales clerk, or unusual offerings, will be the shop that will attract the most custom. That entrepreneurial spirit is not something that came with the land-lord; it is rather within the entrepreneur. This begs the question. Why pay for something that you already have? Don't ignore that entrepreneur spirit, and certainly don't pay for something that you already have. When calculating the rentals to be charged to tenants, Landlords firstly consider the cash investment in the centre and an acceptable rate of return. Then, once the centre is launched and proves to be successful, Landlords will consider, amongst other things, foot traffic outside your door, your attractiveness to their tenant mix and the amount of profit you are making from trading at that centre. His every intention is to ensure that a suitable portion of your hard- earned profit is split with the Landlord. (The Landlord's priority is to ensure that your hard-earned profit will somehow suitably enhance his own bottom line)

Remember, when getting into a retail rental agreement the landlord is normally not interested in a short-term arrangement, usually wanting to extract the maximum from the transaction. Landlords' will often remind you that they are taking the risk that the centre will be a success. The property investment may never be recovered if the centre turns out to be a failure. However, the detail which ordinarily remains fairly sketchy is that they stand to take all the rewards should the centre turn out to be a winner. I am not picking a fight with landlords' in general, but see them as entrepreneurs who have gambled a load of their fortune. It makes them hard-headed and determined to ensure a sizeable, if not appropriate, return on their capital. They are not the brother-in-law to Beelzebub, but rather businessmen who have invested a great deal. Understand that fact when entering into a transaction with a landlord and you will better understand why they try to insist on certain terms and conditions. By understanding your adversary you should be clear as to what you are letting yourself into, and most importantly – why.

I have digressed, so let me continue with my original train of thought. There are a few ideas that should be kept in mind when dealing with customers and potential customers.

These are a few small pointers that have helped me.

- <u>If someone calls, call them back</u>. You never know when your supplier will become your client. Never have the idea that a particular person does not matter. "I am more important than he is, so he can phone me again". That's a corporate mentality! If a subordinate leaves a message for the senior, by not returning the call he's showing who is senior. This becomes a "no win" game. When two employees are approximately on the same level of seniority, then the first one to return the call agrees that he is the subordinate. The corporate games that people play ordinarily have no financial benefit to the enterprise. Not returning a call is actually rude, arrogant and not entrepreneurial. Return the Call!

- <u>Do not have someone else place your calls</u>. Having your PA/Receptionist place your call and then having the person hold whilst you are put through, makes people incandescent with rage. It immediately puts you on the back foot of the discussion.

- <u>Returning e-mails punctually.</u> This shows keenness in your client's problems or requests. It shows a respect which goes a long way in keeping that relationship healthy. Ordinarily responding within one day is considered a punctual response to emails. Even when I am on holiday I always have my laptop and my cell phone handy. Somewhere in the day there are always a few minutes to return emails. Some I simply forward to a colleague and have them advise the client, I am on leave, and if urgent, a colleague will assist them. Your customer appreciates it, and your colleague knows he is being put under the spotlight to send a punctual and detailed response.

- Respond and give a quote. I went to a seminar once where the speaker told us of an incident where he called for quotes to install a remotely operated steel gate. Of the five suppliers he approached only one gave him a quote. He accepted the quote and the gate was installed. Two weeks after the gate was installed another supplier approached the potential client to give him a quote. Well naturally that did not go down well! The other three were never to be heard from again. The speaker then asked us "why did I choose this particular supplier?" we all started off by saying that this one responded first, price was reasonable etc. Well to our amazement the speaker retorted. "He was the only choice I had!" Now that is actually quite profound. The only choice? If every time I gave a quote and my quote was your only choice? Would I not be rolling in money? I could quote any price I liked? I would always land the deal? The truth is, it does not always work like that. You do compete against other entrepreneurs for work, but if you do not quote then you have chosen not to compete. Nobody, but yourself has taken you out the race. You have been your own worst enemy. It has nothing to do with your price, quality of workmanship or race. If you do not quote the chances are almost guaranteed that you won't land the order. This is not rocket science? Surprising how often this part is ignored? If you want to win the Lottery, you have to buy a ticket!

- Honesty is the best policy. Don’t lie to your customers. Lying breaks the trust relationship and ultimately shows disrespect. Nobody likes it and ultimately, it will bite you in the back. If the shipment has not left because the clerk was too busy playing on the internet, take responsibility for the late departure. Be honest as to when your client can expect to receive his shipment, and climb into the clerk later.

- People do business with people, not with companies. Keep your relationship with customers and suppliers healthy. Showing respect for your customers cements the relationship. You don’t need to be all salesmen -like with your customers, that kind of slick, slippery behaviour is often a turnoff for an entrepreneur. Be yourself. Give your customer sincere intent to do the best you can, and it will be much appreciated. The only time people do business with companies is when they are buying Fast Moving Consumer Goods. The buyer of the household will buy a particular brand of soap because it cleans them properly, smells good or offers protection to the whole family. It does not matter that the rest of the time we go to a particular gas station because it sells the right brand of cigarette or has a cute cashier to serve you and make you feel good. That gas station is chosen above all the rest because of a person and not really a particular product. So give your customer a reason to do business with you. Go that extra mile; give that little extra service that the customer will appreciate.

- <u>Sell to the decision maker</u>. By convincing the wrong person that your product is the right thing won't help you sell it and just wastes your valuable time. The person who can either buy or strongly influence the purchase decision is the person to sell to. Don't be too arrogant though. I once had some telemarketer call me at the office. She told me about how they can market my business to everyone and his brother. I felt uncomfortable to fob her off, so went along with the discussion. Then my moment arrived when she asked if I was the decision maker. I said no, and she said goodbye. A Win, win situation? Not really.

There are many books written on how to sell ice to Eskimo's. They really are great and I believe that many entrepreneurs would be well placed to heed the ideas and recommendations contained within their covers. A good friend of mine now sells very expensive equipment very successfully. I remember a time when he used to go to see clients and potential clients and play these tapes on the way to the client to get ideas and inspiration. He is a person who took what those gurus's had to offer. Now, in the middle of a recession, he is successfully selling expensive equipment.

CHAPTER 2

"I do not believe a man can ever leave his business. He ought to think of it by day and dream of it by night".

– Henry Ford

This comes to real heart of the book. Whenever you start to think about owning and running your own business I believe it to be important to have a good action plan and a yard stick to measure how well you have performed. The next three chapters are a guide to understanding how to go about putting thoughts into action and being in a position to have the right information to take decisions. An entrepreneur's decisions are now no longer influenced by whether your corporate "friends" will see them as appropriate, but rather can I pay for it, does it make entrepreneurial sense?

THE BUSINESS PLAN

"Vision without action is daydreaming and action without vision is a nightmare".

– *Anonymous*

This undoubtedly is the most important part of starting a new business.

I am a big believer that a clever entrepreneur should review his Business Plan regularly and at the very least, prepare a budget annually.

I have all too often met with entrepreneurs who have no Business Plan to speak of, no clear idea of where he wishes to take his enterprise or how he intends to get there. As a result, the entrepreneur is unable to make a clear decision or to pursue a clear direction and he seems to remain in a state of limbo. The old adage "if you fail to plan, then plan to fail" is absolutely true.

The amazing thing is that a Business Plan is actually quite easy to prepare. It is exactly that, a written document that describes the entrepreneurs business, its objectives, its strategies, the market with in which it operates and its financial forecasts (budget). It's most important function is to give the entrepreneur clarity in terms of where he's going and how he intends to get there. The Business Plan may also be used to secure external funding or to periodically measure success within your business.

After commencement of operations, a comparison of the actual results with the expected results, as cited in the Business Plan, will indicate which assumptions are good and which are flawed. A regular review of your Business Plan, based on up to date information, not only helps to more accurately predict the company's financial future but also gives some understanding as to why those assumptions were flawed and which assumptions are most appropriate to the business.

The initial problem that our poor entrepreneur encounters is that he has no idea of how to prepare a Business Plan. He will go out to buy expensive software, complete with a monthly subscription, and settle down in front of his personal computer to prepare the Business Plan according to the Software Engineer´s requirements. I have encountered many computer programs to assist the entrepreneur in this process. Regrettably in most instances the programs are too complex, requiring many initial set up steps which must be put in place prior to working out The Plan. Then, they're normally linked to a mass of spreadsheet type programs, which generally spit out a fixed confirmed answer that you should blindly follow.

The second problem with the Business Plan is, 'what does the entrepreneur do with it?' After spending a lot of money buying software, or alternatively paying a host of incredibly intelligent Consultants to draft it for him, the entrepreneur is left with a masterpiece, a prime specimen, a Business Plan that could easily change the curriculum of Harvard Business School. So, naturally he pops it into a lever arch file properly labelled "BUSINESS PLAN', and never looks at it again. It only gets taken out to show to his Bank Manager or Audit Partner when the Company faces a cash shortage! Why, I ask you with tears in my eyes, is this wonderful document the best kept secret in the business?

The first step in preparing a Business Plan is to clearly understand all the aspects of your business. A great tool to use is a SWOT analysis. SWOT is an acronym for Strengths Weaknesses, Opportunities and Threats. Strengths and Weaknesses are internal factors and Opportunities and Threats are external factors.

Write down each heading on a separate page. Then under each heading list all the Strengths, Weaknesses, Opportunities and Threats you can think of specific to your business. Leave space in the right hand column to address each one. This gives a number of great qualitative items. Now pair strengths with weaknesses, strengths with threats, strengths with opportunities and action plan each weakness. See my example below.

Pair the Strengths with Opportunities, for example

Strengths	**Weakness**
1. Good product	1. Staff education
2. Good Knowledge of Products	2. Low Capital
3. Good Relationships with Clients	3. Cash Flow Poor
4. Low Capital Requirements	4. Waste
Opportunity	**Threats**
1. Product Variations	1. Competitor Products
2. New customer education	2. Low entry barier
3. More work from exsisting clients	3. Customer accept of Supp Prods
4. Supplimentary products Waste	4. Product Decline

Pair the Strengths with Opportunities, for example

- Good product : Product Variations

  We have a great product that can be modified slightly, new markets found and new demand created.

Pair Strengths with Weaknesses, for example

- Good product knowledge : Waste

  Allows us to explore ideas to reduce waste or find complimentary products which utilize and thus reduce waste.

Simply by identifying the various aspects and linking them to each other gives rise to great ideas. The analysis allows us to properly understand all the threats, seize opportunities and nullify weaknesses though the optimum use of strengths.

Once the SWOT analysis is completed, use the information to plan a strategy of how to seize the opportunities and overcome weaknesses, also calculate the costs as closely and completely as possible. In this way the qualitative aspects have been combined with the quantitative aspects for the year ahead.

I’ve done SWOT analysis with clients who have very successful enterprises and it has yielded some very interesting results.

Always consider the classic four “P’s”. They are Product, Place, Price and Promotion.

Product

Be sure that you understand the product or service that you intend to sell. Why you intend to sell it, and more importantly, why the customer should buy your product or service above those of your competitor. That's where you bring in the after sales service, the quality of your product and how your product satisfies a need, etc.

Place

Place is very important as you need to understand the market, in which you are dealing. It's not a bad thing to believe that your business will soon go national and even better, international, but at each step it is important to understand the people with whom you intend to transact.

We have seen all too often that successful Companies in one country come up short in another. Take The Health and Racquet Club for example. That was a very successful business in South Africa with a great concept which attracted the young and successful yuppies to gym with all the trappings one would expect: aerobics and spinning classes, sweating along on the treadmill, being the standard order of business. However, as soon as the directors took their concept to the United Kingdom it completely fell apart. According to those in the know, their business model did not appeal to the average bloke in the UK. Rental agreements which required the first three months rental in advance, in Pounds Sterling, placed far too much cash flow pressure on an under-capitalized company, who, I suspect, did not plan their UK entry. When Health and Racquet filed for liquidation it was identified by Virgin as a cheap target who desperately needed a white knight in order to meet immediate commitments. Virgin Active has changed very little from the original concept and yet boasts a successful group of gyms.

Price

It goes without saying that your price needs to be competitive, yet you need to ensure that your selling price will result in profits for your enterprise.

A key number to know is at what price it is no longer worth your while to continue with the business? This is very important, as there comes a point where one could land up working very hard and not make any profit. All you land up doing is chasing turnover and not improving your personal circumstance. Remember to chase the business – profitable business – the money will take care of itself.

All too often starting entrepreneurs believe that the price of their product or service is the only factor in the market over which they have control. They focus entirely on price and eventually end up with a business which, if run with anything short of military precision, will land up making a loss. What is disregarded however is that the entrepreneur can provide a superior level of service, caring and understanding that larger concerns often cannot. Price is not the only advantage that could be used in order to secure the client or contract. Take a good look at all aspects of your product and make sure that you're not missing out on other advantages that are present.

Promotion

This part of your business model needs to be carefully understood. Don't apply a blanket approach to promoting your business i.e. a couple of TV advertisements, two hours of radio time with a popular morning show host and cover to cover in a popular magazines and you're set! The problem is "IT´S NOT AFFORDABLE", and may not suit your product or service.

Promote your product or service cost effectively, by this I mean get the most "bang for your buck". To spend a huge amount on advertising could place the business under undue cash flow pressure and only promises a probable return in the future. It doesn't matter what advertising or promotional techniques are used, the end result will always be that you promote, get noticed, interact, produce, supply, transact and (tragically) lastly, get paid; and during all that time one still needs to eat, pay salaries and come up with the rent.

So think what costs can effectively promote your business. Here are some of the more cost effective ideas that I have come across:

BUSINESS IDENTITY

Before you start with promoting your business you need to have an identity, something that tells your customer who he's dealing with. It can be as easy as your name (however, there are risks to using your own name). Look at us we have some really creative names "Carlisle Financial Services"; there are no prizes for guessing that the proprietor is a Mr. Carlisle. Ideally you will want something perhaps that indicates the goods or services that you're selling. "Ferndale Hardware": this is actually a great business identity in that it tells the customer both where they are located and what they sell. Customers from across town and customers who don't want hardware will naturally not approach, but more importantly the converse is also true. A potential customer in Ferndale who is looking for hardware sees this business in their sweet spot. The business may be registered under another name, but the trading name should clearly indicate the enterprises identity.

So the name can do an enormous amount for a business. There are however a few other areas for promoting a business on which the entrepreneur can capitalize, and with a surprisingly small investment.

Business cards

Once you have established your business identity, the logo and the brand/ product identity Etc, put your creative marvel onto a business card. Besides for the business identity and logo, your business card must clearly indicate who you are and how your customer can get hold of you. Your name, area of expertise, cellular phone number, fax number and e-mail address are critical minimum information. So when the recipient sees your card he knows exactly how and why to contact you. Have a number of these printed and make sure that there are at least half a dozen in your wallet, half a dozen in the cars ashtray and a small bundle in your wife's handbag/husband's wallet. In other words you must always be within striking distance of a business card. You never know when you may happen to be speaking to someone who will need one of your cards. This potential customer will only call when he or one of his friends has a need This might only be in six months' time, but without your card in his possession he CANNOT call you, even if, when he met you, he believed you were the best thing since sliced bread. Telling a potential customer that he should look you up on the web, "the web address is easy" and believing that he would even bother to do so, would suggest that you're smoking a substance banned in most Western countries.

I have personally handed out my business card and had a customer call me a year later. Imagine my shock when the person said “Hi Peter we met last April in the Al’s pub, remember me? I’m John?” I definitely do not remember John but the point is he remembers me, and now he wants to do business.

A marketer will tell you that the anticipated response rate to various types of advertising and media is usually quite low and that the “hit rate” (the amount of potential customers with whom you actually close a deal) is normally quite low. Mass media will ordinarily generate a very low response rate and an even lower hit rate. Research on the internet suggests a response rate of somewhere from 1% to 2% for a mass media advertising spread. From my experience a person who has your card and calls you will almost certainly do business with you. My hit rate for people who call me or make contact with me is over 90%.

When your newly recruited or potential client gives you a call, take the opportunity to make him feel as comfortable as possible. When the phone rings to simply say “hello” is actually quite rude. My late father would always reply to a “hello” by saying “Hell’s not on Low but on High”. Rather take the time to introduce yourself by giving your name.

There are a number of tips that will go a long way to improving your telephone manner and invite your client to want to transact with you:

- Speak in a friendly, positive voice that says to this client: “let’s do business”.
- Answer your own phone as often as you can.

- Return “missed calls”: I have met many new clients that phoned me and I could not take their call at that time, but I never failed to return their call later in the day thereby opening the avenue to do business.
- Always answer and return your messages with a phone call: Even if you can’t give your client an answer to their query, for him to simply know that someone has heard him and that what he wants to say is being heard, is two- thirds of keeping your client on your side.
- Make sure that the telephone is answered within one or two rings. Nothing is more disconcerting than to phone your local supplier and the phone rings and rings. The first thought is “are these clowns out of business?” If your client is already questioning your financial stability, how much confidence will he have when thinking about your workmanship, warrantees and other after-sales issues? The idea that the phone is ringing on my neighbour’s desk, meaning that it’s not for me so I will let it ring is, with respect, bull. This is a clear indication that the employee who is watching his neighbour’s phone ring does not have the Company’s interest at heart. I have on more than one occasion run down the passage answering phones for others and taken messages. I must admit that the neighbour who was not able to get up and answer the phone suffered a verbal tirade best seen at a cattle auction. The crux is that by putting the call through to the right person your client believes that something is actually happening with his query, now he hits a ringing telephone and all his doubts come streaming back into his mind.

Advertising

If your product or service is directed at the consumer market, brand awareness is vital to your success. Don't be obsessed with national or large press coverage. There are often very good and well supported local newspapers which charge a fraction of the price of larger publications. In most towns and cities there are small community centres, churches and sports clubs etc., that will only be too happy to receive a small donation in exchange for allowing you to put up a couple of posters in their local meeting rooms. This is a really great and inexpensive way to promote your products or services to the average person in your neighbourhood. Just remember that the expected response rate will be very low.

The internet is also a fantastic form of creating awareness for your product or brand. It has a number of great characteristics which should not be ignored, for example:

- Long reach, in that anyone in the world with internet can access your website.
- Very inexpensive considering the amount of people it can reach.
- It's used by more and more people each day.
- Easy to set up and maintain. By this I don't believe that many people have the ability to create a good website, but there are many professional web designers who can develop an excellent website at very reasonable prices.

The best form of advertising or marketing or getting your brand out there (call it what you will) is by word of mouth. When someone refers you to their friend and that person calls you, there is a fantastic chance that you will do business. Also the type of client he will be is probably similar to your existing client. Let me explain. If you have a client who is a straight arrow but a very tough business person, he is the type who will drive home a tough deal up front, but when it comes to payment he is a proper gentleman and pays you timeously and as agreed. The chances are that his mate, who he's referred to you, will probably act in the same manner. That old saying "birds of a feather flock together" is absolutely true. Hence, common sense tells you that the converse is also true. If a real shlenter refers his friend to you, the chances are that when it comes to payment it will probably not be prompt and there may even be a request to reduce your price or to deliver more services at no extra charge. Sometimes keeping a healthy distance from a shlenter in the first instance also prevents his friends from seeking you out.

CHAPTER 3

"It's clearly a budget. It's got a lot of numbers in it."

– George W Bush

BUDGETS

The single biggest problem with Budgets is the way in which the big corporate companies have messed up their usefulness. Ask virtually any person who's worked in a big corporate and they'll tell you how useless a budget is and why one should never pay it more attention than one would a televised game of tiddlywinks.

You see, the biggest contributors to the demise of the "budget" are the big corporate companies. All over the world they are an 'ants nest' of living components, made up of upcoming yumpies (young, upwardly-mobile professionals); stroking their own ego's and making absolutely sure that they curry favour amongst the Corporate Executives in order to ensure their upwardly-mobile careers.

When it comes to budgets these big corporates employ a veritable slew of Einstein's who, usually, have little understanding of business and zero understanding of entrepreneurism, Of course, the way these programs link into other programs and extract valuable data in a logical and orderly way is nothing short of genius. These masterpieces are brilliant, and I don't say this 'tongue in cheek', but in absolute awe of their intellectual brilliance. However, the problems with budgets do not start at this stage.

Once these masterpieces are compiled, they then go through a bureaucratic process where overpaid and important Senior Corporate Executives are flown, first class, to and from exotic destinations where the products of the above-mentioned Geniuses are discussed, debated, amended and finally approved. This now represents the required future results that are acceptable to Corporate Executives and no effort will be spared to have the actual results meet the budget. The final approved Budget is then sent to the yumpies, who then dutifully see that the future, as approved by the overpaid important Corporate Executives, is implemented. Our Einstein's are called into action once more to ensure that the "approved future" is introduced into the Accounting System. This allows the yumpies to review the actual results and quickly compare them to the budgeted results. You see any deviation of the actual to the budgeted results could be catastrophic for the career of the yumpies who try earnestly to serve the Big Corporate. The revenue must always be close to, but never less than, budgeted income and expense budgets may NOT be exceeded for any reason. Any deviation from the "future" as approved by the Corporate Executives can only be tolerated if it is pre-approved at all levels. Any unexpected deviation WILL result in heads rolling. The firing squad was stopped some time ago however the Big Corporate can and will shoot holes in the career of the disobeying yumpie with zero conscience of the effect on his future and his life.

So our yumpie manipulates the actual results and ensures that the Corporate Executive receives Financial Reports which show actual trading results in full compliance with the Approved Budget. The problem here is that the actual results are completely manipulated and no one really knows what the actual financial position of the Company is. The budget is no longer the yard stick against which to measure actual results and has thus been rendered useless.

Marvellous, we have now made sufficient profits that meet our budget. We are congratulated on our business acumen and rewarded with an increase, a promotion and a bonus.

To prepare such incredibly complicated spreadsheets; that integrate into incredibly complex computer programs; which deliver the most extraordinary Budget Packs is hardly the way forward for small Entrepreneurial concerns.

So let’s take a look at what a budget really is and what it is designed to do. A budget is no more than an attempt to see into the future. Let’s face facts: if anyone could really see into the future we would not waste our time with unnecessary toil but rather head off to the local casino or horse racing track. I suppose this being a financial book I should have suggested the local Stock Exchange. Regrettably your odds are worse at the Stock Exchange, there only the crooks wear neck ties, which means they all do. At least the hoodlums at the races are just tough guys and not ruthless man-eating dragons ready to devour your innards and spit out your soul.

Regrettably none of us can truly see into the future, but we are usually intelligent enough be able to anticipate the future occurrence of certain events and the timing thereof. Let me give a few examples: Staff will demand an increase regardless of the state of the recession; the stationery cupboard will be replenished just before the commencement of the new school term; and government bureaucracy will cost you a small fortune this year.

You see, entrepreneurs do have some ability to anticipate parts of the future financial year, and that's the part which we need to nurture. Trying to predict the future and accurately anticipate the financial consequences of our actions is the vital building block to using a budget successfully.

Building a Budget

This is where the real fun commences. As I have indicated previously, the administration of your business is central to your ultimate success.

Building a budget is largely a matter of calculating the financial impact of a series of anticipated events and then determining the extent to which your business is in the position to deal with the unexpected. The unexpected is the real demon that keeps every entrepreneur awake in his heavily-financed bed. The resignation of your chief salesman, insolvency of your largest customer and principal debtor, and naturally, most notoriously, the withdrawal of your overdraft facility because the new Bank Manager values his job more than he does your business, are all examples of the unexpected which can cause enormous damage to your business and your confidence.

So when you’re putting together your version of the future, make the job methodical and as simple as possible. Make it easy by using a spreadsheet where your descriptions of Revenues and Costs are placed on the far left hand column and then pick a column for each month. That’s the easy part, the tricky part starts where you’re required to populate all the columns. Let’s break this down into its various components. The budget is a reflection of the business. Therefore, it must have the two basic components, cash inflows and cash outflows.

The best is to start with the component which is the easiest to project. Ordinarily one would start with the events that are almost guaranteed to take place. One would find these under the most feared heading of “Expenses”. Expenses are those items which you can count on. It’s curious how our worst fears somehow always become reality. Below I have listed a basic sketch of some of the typical outflows one would find in a company.

Budget of Entrepreneurs' Inc
For the year ended Dec 2013

Income

Expenses	Jan	Feb 2013	Mar 2013	Total 2013
Accounting Fees				
Advertising Costs				
Bank Charges				
Cell Phone Costs				
Donations				
General Expenses				
Rental				
Salaries -				
Employee 1				
Employee 2				
Employee 3				
Printing and Stationary				
Travel and Accommodation				

Net Surplus / Loss

Take a look at your accountants' list of expenses on your previous set of Financial Statements. Look out for all those generic terms we pride ourselves on having thought out alone; "printing and stationery", "travel and accommodation" and then my all time favourite "bank charges". This is where we put all those balancing items; you know - those little amounts with which the debit and credit side don't balance. These waste our valuable time because they can take forever to find. Every bookkeeper knows exactly what I am talking about!

Even though bookkeepers will deny it's very existence, these little unbalanced creatures will appear out of nowhere and be impossible to find. "Put it to Bank Charges" is what a very strict and fierce accountant at a client once instructed me. She took no nonsense from unbalanced trial balances.

List all the expenses that you can think of, look at your current bookkeeping system, last year's Financial Statements; even go to the latest episode of Star Wars to get ideas. One of the best sources of information will be your current transactions. Please don't let a dictatorial accountant tell you how to categorize your expenses. If a particular type of expense has significance to your business, then give it a name. If it isn't "packing material" but rather "protective clothing" then name it such.

Arrange these expenses items in order from the most predictable in both timing and amount to the least predictable. "Employees Salaries" and "Equipment Rentals" are examples of regular, predictable expenses. "Salaries" and "Rentals" are agreed up-front and are due on a predetermined date each month. The "Cellular Telephone Costs" will be due each month however the quantum of the cost will vary according to utilization. "Printing and stationery" will probably be one of the least predictable in both cost and timing, (save for the commencement of the new school term).

Then you encounter expenses that I would refer to as "discretionary" items. These the entrepreneur has the sole right to incur or not incur. All too often these are the costs that the enterprise incurs in order to promote the business, products, or any other area of the enterprises future. "Travel and Accommodation" is a classical example of such an expense. You as the entrepreneur can decide whether to attend a product show or alternately put the enterprise's products on show at an expo many miles away from home. The entrepreneur has the sole discretion to incur these costs or not. If he decides to incur these, then he also has some influence over the timing. Hence a discretionary cost is born.

Begin your budget by breaking down your expenses into your ability to predict the quantum, timing and the regularity of recurrence. Many good teachers would say that, as I'm only semi-literate I would not be able to advise setting down these costs in alphabetical order. But, alphabetical order has no purpose other than looking pretty. List your costs in groupings of predictability and don't worry about the prettiness. See proposed sketch of types of expenses below

For the year ended Dec 2013

	Jan 2013	Feb 2013	Mar 2013	Total
Income				
Expenses				
Who Knows?				
Accounting Fees	350	440	280	4,280
Donations		2,000		2,000
Advertising Costs	1,200			9,500
Printing and Stationary	350		440	5,510
Golf Lessons				8,000
Travel and Accommodation				25,000
Semi-Unpredictable				
Bank Charges	1,123	1,465	906	13,976
Cell Phone Costs	405	650	245	5,200
Motor Vehicles Expenses	850	770	350	7,880
I know 'em!				
Rental	5,000	5,000	5,000	60,000
Salaries -				
Employee 1	8,000	8,000	8,000	96,000
Employee 2	3,000	3,000	4,000	46,000
Net Surplus / Loss				

Income

This is normally the most challenging part of preparing the budget. The reason is I hear you saying to me – Loud and Clear – "I CAN'T PREDICT THE FUTURE!"

You are right, but remember that history repeats itself. In the same way, by looking at last year, one is able to get some inkling as to what the future holds. Provided you have not gone out of your way to annoy your customers there is a good chance that they will support you into the future. Look at the nature of your product, look at your customers and try to understand exactly what it is, or why it is that your customers actually buy your product or service from you.

If you are considering selling a brand new product, something that has not graced this planet before, take my neighbour's advice when he hears me singing in the shower "don't give up your day job". You will need guts bigger than Russell Crow in Gladiator or you should be labelled – Stupid. There is nothing wrong with introducing a new, improved and better product. What I am saying is keep the existing recipe that is working and try to introduce your new product or service alongside the existing array of products. Don't risk everything on a single roll of the dice. Being an entrepreneur does not have to resemble an evening at the local casino.

When you clearly understand the motivating reason why customers are on your doorstep, then you know what cycles will affect your sales. I will use the classical example of the shoe retailer. You will have a reasonable idea of what sales you can expect from month to month. During the colder months you can expect to sell more boots and in summer time sandals will be the order of the day. So by looking at your product and understanding what needs and desires your customers are getting fulfilled, you will have some idea of your expected turnover.

Then take things one step further. Look at your customers. Study their demographics. Are they young or old, male or female? This can often help you understand when and to what extent your customers will want your products. For example, after exam time college students may go hiking or enjoying other outdoor sports requiring boots. But, during exam time, ordinary sneakers will suffice.

If your customers are Corporates, try to understand their business and how your product or service is needed in the market they service. When you completely understand how your product fits into their business then you will be a position to understand and better predict when and how much of your product will be required.

Be conservative when preparing your revenue budget, but also be realistic. All too often clients will tell me that they have only included the revenue they know will DEFINITELY be realized. They proudly announce that they have excluded all non-guaranteed income. With respect, that's crazy. Your anticipated revenue will affect your intended spend for the year. If you vastly underestimate your income then the inevitable result will be to curtail spending and you could well compromise your entity's ability to operate properly. Too little money expected coming into the enterprise could result in not employing enough staff or under-purchasing materials and hence overloading the existing infrastructure or delaying production, all with dire consequences.

Be realistic. The truth is that when an entrepreneur considers approaching a new market or placing a product at a new exhibition, he will only undertake such an expense after considering the risks and potential reward. It's that potential reward that needs to be a part of your budget.

Whilst understanding and trying to realistically predict sales, one should always be mindful of the sales make-up (variety and volume of products sold). In other words, determine the anticipated sales mix. This is important not only to understand your income but also goes a long way to being able to calculate the associated cost of sales.

The cost of sales calculation is one that you would be well advised to look at very carefully. Examine your sales mix and calculate the cost of sales associated with each product. This is normally a great calculation but totally useless if you do not compare it to the previous years' figures.

In real life there is always an animal that seems to creep into the actual results. For example, the best calculations will show that "cost of sales" is a percentage of the "sales price". If you sell an item for 100 and it costs you 40 to purchase then your cost of sales is 40% of the selling price. But, when one analyses last year's cost of sales, somehow the average purchase price of items sold is 45%. No one can explain it – it's just there. This accounts for the item which fell off the "truck", the "free gift", the replacement item for which your biggest customer tells you "just does not work". Somehow these just filter into life and land up hitting the Income Statement where we don't like it to be hit.

Build this factor into your budget. Remember the budget needs to be a realistic prediction of the future.

Very importantly take a look at the value of sales that you intend to make in the period. Then calculate into how many units that equates. There is no point in believing that you need to sell 10 000 units when you cannot stock more than 1 000 at a time, or your supply chain can't import that many units in a year. This is a very important step and it's a trap I personally fell into.

In a past business life I decided, along with a very good friend and excellent entrepreneur, that opening a bakery would be a profitable business venture. Applying all my management consulting skills, I went ahead and built a budget that made most spreadsheet enthusiasts green with envy. I listed all the costs: rent, salaries, flour mix, yeast, etc. I then, using a host of complicated tables, built a sales budget which covered every imaginable cost and returned a handsome profit for my partner and I. The budget was a real work of art. The only problem which I had not foreseen, was that neither the oven nor the proofer or mixer could manufacture 40 dozen rolls per day. Furthermore, the fact that the anticipated feet count past our door could never consume this amount of bread products, even if they were all vegans, never even dawned on me. My enthusiasm could not be stemmed as I rolled ahead into the land of "entrepreneurial Fantasy Bliss".

Sadly my best conceived plans were doomed to failure before I'd even signed my lease and all because I failed to practically equate the volume of items that needed to be sold with the actual situation.

So now our budget should look something like this:

Budgetof Entrepreneurs' Inc
For the year ended Dec 2013

	Jan 2013	Feb 2013	Mar 2013 …	Total
Income	65,000	78,000	42,000	720,000
Cost of Sales 40 %	29,250	35,100	18,900	324,000
Gross Profit	35,750	42,900	23,100	396,000
Expenses	20,278	21,325	19,221	273,346
Who Knows?				
Accounting Fees	350	440	280	4,280
Donations		2,000		2,000
Advertising Costs	1,200			9,500
Printing and Stationary	350		440	5,510
Golf Lessens				8,000
Travel and Accommodation				15,000
Semi-Unpredictable				
Bank Charges	1,123	1,465	906	13,976
Cell Phone Costs	405	650	245	5,200
Motor Vehicles Expenses	850	770	350	7,880
I know 'em!				
Rental	5,000	5,000	5,000	60,000
Salaries -				
Employee 1	8,000	8,000	8,000	96,000
Employee 2	3,000	3,000	4,000	46,000
Net Surplus / Loss	15,472	21,575	3,879	122,654

Now let's take a step back and review our actual masterpiece. It has generated a reasonable and an attainable prediction of the future. It shows a handsome profit based on a moderate overhead structure with an average turnover of 60 000 per month. Let's take note of a couple of things at this stage.

In January and February we expect to make a profit. This is on the assumption that our sales will be 65 000 and 78 000 respectively. March will be a lean time as we expect things to be tough and expected revenues to be down. Overall by the end of the year we should be in the money.

What could be wrong? What can go wrong? Well any seasoned entrepreneur will tell you. Everything can and will go wrong!

There is one fundamental error with our budget. This is a vital element that we have inadvertently omitted at this stage. We have not considered a realistic salary for the owner. Me. I must also eat. To have the idea that I can live on love and brown bread is ludicrous. You need to build in a realistic salary. There are monthly expenses that you as an individual need to cover. To have the view that you will simply live off the profits as and when they are available makes no sense at all. Practically what happens is that you strip the profits out of your business, and when times are tough there are no reserves on which you can rely in order to survive.

Build into your budget a realistic salary which will cover your monthly overheads and give you some spending money on which to live. It should also be comparable with the salary you're currently earning working for "the Master" who naturally pays you 20% less than you need to make ends meet, thereby ensuring your ever obedience and loyalty. Let's assume that 10 000 will be the number we're looking at. Now your budget has changed somewhat. See below:

Budget of Entrepreneurs' Inc
For the year ended Dec 2013

	Jan 2031	Feb 2013	Mar 2013…	Total
Income	65,000	78,000	42,000	720,000
Cost of Sales 40 %	29,250	35,100	18,900	324,000
Gross Profit	35,750	42,900	23,100	396,000
Expenses	30,278	31,325	29,221	393,346
Who Knows?				
Accounting Fees	350	440	280	4,280
Donations		2,000		2,000
Advertising Costs	1,200			9,500
Printing and Stationary	350		440	5,510
Golf Lessens				8,000
Travel and Accommodation				15,000
Semi-Unpredictable				
Bank Charges	1,123	1,465	906	13,976
Cell Phone Costs	405	650	245	5,200
Motor Vehicles Expenses	850	770	350	7,880
I know 'em!				
Rental	5,000	5,000	5,000	60,000
Salaries -				
Employee 1	8,000	8,000	8,000	96,000
Employee 2	3,000	3,000	4,000	46,000
Owner's Earnings	10,000	10,000	10,000	120,000
Net Surplus / Loss	5,472	11,575	-6,121	2,654

Suddenly our amazingly bright forecast with profits abounding is slashed to the bone and our budget shows that after covering all our overheads, including a fair remuneration for the entrepreneur, we show an almost break-even situation.

The Magic

Now this number, the 2 654 that we have calculated, is the absolute essence of our exercise. This is the expected net profit; income less all expenses. This is what I like to call the "magical number". It ideally needs to calculate to a minimum of zero, but preferably it should calculate to a positive number. Should the budget calculate this number to be a negative, then you should have a very clear plan on how it will be financed. In other words, if you believe that in the first year you will spend more than you earn, you must have your financing plans secured.

The theory is dependent on the premise that the entrepreneur can finance week-to-week deficits by delaying creditors, squeezing debtors, and any other trick he can think of. However, one needs to consider the reality of your particular situation and if that's not profitable, you need to know how any monthly deficit will be financed.

Earlier I explained that in the big corporate the yumpies are compelled to ensure that the "actual" results comply fully with the pre-approved budget, to hell with what actually took place in the financial year. Moving up the corporate ladder is entirely dependent on how closely you can mirror the budget. As an entrepreneur, these things turn around 180 degrees.

The meat and potatoes of the magic

Now this is where our entrepreneur makes the difference. Our informed entrepreneur allows the actual results to reflect the real trading results for the period. Let the numbers fall where they fall. Don't go manipulating the period results. Don't go using accrual accounts, provision accounts and a host of other cleverly named accounts designed specifically to manipulate the results. The entrepreneur will diligently compare, line for line, the actual results of the period's trading against the anticipated budget line items as soon as possible after each period's end. When identifying the difference on each line item, our entrepreneur only needs to know two things:

First, he needs to identify the nature of the difference? What caused this difference, e.g. the accountant charged double fees in the first month, (in keeping with Generally Accepted Accounting Practice, or whatever other clever reason he could conjure up), or an unhelpful banker charged you a little start-up fee for applying for the overdraft facility, yep, the one he probably won't grant you.

Knowing the reason for each variance will give you a good insight into understanding whether or not it will reoccur. If it is not likely to reoccur then you should simply calculate the impact on the magic number. Should the cost be expected to reoccur then the entrepreneur must establish the expected impact and the most likely timing of the repeated cost. To illustrate, after you commenced the excitement of your entrepreneurial adventure you establish that you underestimated the full quantum of rental. Now it turns out that the Landlord never mentioned that operating costs were not included in his quotation of rental which you used when preparing your initial budget. The effect is that you will need to increase your monthly rental cost and modify your budget.

Secondly, once the entrepreneur has understood the reason for the variance, he needs to fully calculate the impact on the magic number. We should consider in the example above that adding a higher rental will undoubtedly change the "magic number" and could even place that number into negative territory. Put it into your budget and perhaps you should rethink some of those "discretionary costs" or find a new source of finance for the immediate year's expected deficit. The truth is: take heed of the impact of this increased cost so that you are aware of it and its impact on the magic number.

By comparing the actual results to our budget we now understand why the variance has occurred and what the impact is on the magic number.

From this we can see why manipulating the actual results with a load of fictitious figures and clutter simply interferes with identifying the actual variances. Interfering with the variances hides issues that require management involvement and could result in the enterprise delivering an actual deficit yet with the help of some corporate voodoo; it has managed to show a happy profit.

So to summarize, let the numbers go where they may, but understand the nature of the variances and their impact on our magic number.

Asset financing

I have dealt with the evils contained in a Balance Sheet elsewhere in this book but when considering the Budget the following should be considered:

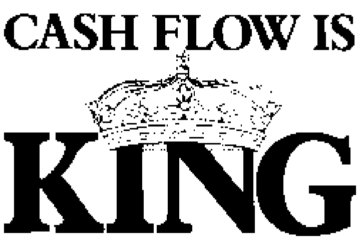
- Smaller items that may be used by the entrepreneur to deliver his products or service should be placed into the Budget to understand their impact on the trading activities.

- If the enterprise acquires a capital item which cost a bomb to purchase, the acquisition and financing of the item should not be included in the budget, save in so far as the monthly payments to the finance house. On this point one would ask whether or not the payment should be split between the capital and interest components. Theoretically, one should only reflect the interest component, however I am of the opinion that the effort used to split the two components are not worth the value of knowing the difference. I believe that the monthly payment realistically reflects the monthly cost and that the income should be sufficient to cover the payment. So, my advice is to include the full payment in the Monthly Budget and let that overpaid accountant earn his fee by splitting the total payment between interest and capital in the Balance Sheet.

CHAPTER 4

"In God we trust, all other pay cash"

– Anonymous



CASH FLOW

This is undoubtedly the most important part of this book. I have seen too many profitable entities go insolvent because of insufficient cash flow. It's quite tragic how a profitable entity can see its boots because of poor cash management. The real tragedy here is that in most instances cash flow can easily be managed.

This method is not a guarantee that your cash flow woes will vaporize, but it is designed to assist the entrepreneur predict where his cash position is going to lead him. It also does not detract from your responsibility to hassle, plead, threaten and do anything you can to get your debtors to make payments. With many debtors you need all the powers of the Wizard of

Oz on your side to threaten those resilient and persistent non-payers. But none-the-less you need to be as determined as the King's White Knights to ensure that your well deserved credit appears in your account, as punctually as it should.

Preparing a cash flow projection is actually very easy. Basic understanding of a spreadsheet is required as the projection continually changes, and due to the size of the spreadsheet, manual recalculation becomes burdensome and the whole idea is quickly abandoned.

Set up the spreadsheet in the following way. Choose a day of the week where you run the cash flow. Pick a day of the week, a day that you ordinarily take stock of where you are and where your business is going. Friday should be a great day. You have just lived the week, dealt with that tough customer and fought the good fight. You have probably the best understanding of where you are and what you need to do to take things to the next level. But Friday is too often the "long lunch" day and after a couple of scotches or two glasses of Merlot, it's probably the worst day for a cash flow.

Pick a day that is the most suitable, for our example let's use Thursday. Then at the top of each column put the dates of every Thursday for the next three months.

If we open a spreadsheet, take a landscape view, divide it into thirds. At the top left put in your opening cash balance, that is the actual balance on your bank account right now. Don't look at the bank reconciliation. For those who have seen the light and are not accountants, this is the reconciliation between what we show in the General Ledger Account and the actual amount reflected in the Bank Statement. Take the actual balance because at this moment that is all you have to work with.

Cash Flow Projection

	5-Jan-2013	12-Jan-2013	19-Jan-2013	26-Jan-2013	....	16-Mar-2013
Opening Balance	10,552					

Split the spreadsheet into three portions, the first listing all your current debtors, the second listing all your current creditors, and lastly listing all your monthly overhead expenses.

Cash Flow Projection

	19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	……	16-Mar-2013
Opening Balance	10,552					
Debtors						
AAA Ltd						
BBB Ltd						
CCC Ltd						
DDD Ltd						
Mr E						
Ms F						
Creditors						
EEE Ltd						
FFF Ltd						
GGG Ltd						
Ms H						
Mr J						
Overheads						
Rental						
Telephone						
Salaries						
Payroll Tax						
VAT						

The first third are the Debtors, those beautiful people who comprise your customers. The ones you need to be firm with to pay, yet not so firm as to see them running to your competitors. Try to understand each and every debtor's character. You find that each debtor fits into one or other category. There is the category of debtor who pays strictly on receipt of your statement, at the end of the month after which they were invoiced. There exists the category that pays as they are invoiced and the category that pays strictly 30 days after Summons, and naturally everything in between. Please don't ignore the category which never pays. Regrettably not a very rare species but deadly effective, and they always avoid the grim reaper and his evil witch by shear brilliant talent. Take him out of the picture, trying to get money out of him is as effective as a dog trying to pee on the wheel of a racing Ferrari. Hang his picture on your dart board to remember the villain's face. To pursue this rascal is normally a complete waste of time. If you followed my 10% rule, the pain will go away without too many dire consequences.

The point of this part of the exercise is to try to predict the week when each Debtor will pay you. Enter the amount on the Debtor's Age Analysis, per invoice, and place them in the column – the week - in which you believe it's most likely that you will receive the cash.

Cash Flow Projection

	19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	……	16-Mar-2013
Opening Balance	10,552					
Debtors						
AAA Ltd			30,000			
BBB Ltd		35,000				
CCC Ltd						25,000
DDD Ltd				35,000		
Mr E	5,000					
Ms F		3,000				
Creditors						
EEE Ltd						
FFF Ltd						
GGG Ltd						
Ms H						
Mr J						
Overheads						
Rental						
Telephone						
Salaries						
Payroll Tax						
VAT						

The next logical step that you need to consider is when you should pay your suppliers. Take into consideration early payment discounts, COD suppliers and those big enough to latch onto your privates and get your mommy to apologize on your behalf for your bad behaviour. It makes perfect sense to try to avoid the COD brigade as it means pulling cash out of your pocket and investing in your customer. If one can, in every instance, perfectly time the receipt from your customer to the payment of your supplier, then you know that there are some serious businessmen worldwide who would want to shake your hand. Nevertheless consider the week when you intend to pay your dear Supplier and why that week is appropriate. It's not cast in stone, but rather a guideline as to when it would suit you to settle your supplier.

The third category is normally one of the easiest to predict and the least negotiable. Salaries are due on the 25th of each month. Nice and easy but threaten to pay the employees a day two late and you will experience a riot. The collector of taxes wants his payroll taxes paid by the 7th of the following month. Unless one is slightly unclear on this matter the 7th means exactly that. It does not mean the 8th or the 9th! The law clearly says the 7th and under threat of summary execution the 7th is fixed.

Your cash flow projection should take on the following shape:

Cash Flow Projection

		19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	……	16-Mar-2013
Opening Balance		10,552					
Debtors							
	AAA Ltd			30,000			
	BBB Ltd		35,000				
	CCC Ltd						25,000
	DDD Ltd				35,000		
	Mr E	5,000					
	Ms F		3,000				
Creditors							
	EEE Ltd			25,000			
	FFF Ltd			15,000			
	GGG Ltd						
	Ms H				5,000		
	Mr J						8,000
Overheads							
	Rental			10,000			
	Telephone	3,000					
	Salaries		25,000				
	Payroll Tax				3,000		
	VAT		18,000				

Great, now that you have put your wizardry fortune telling skills to good use and have accurately determined when each item of cash flow will take place, all that you now need to do is add all the calculations into your wicked brew and you should have something similar to this:

Cash Flow Projection

	19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	......	16-Mar-2013
Opening Balance	10,552	12,552	7,552	-12,448		4,115
Debtors	5,000	38,000	30,000	35,000		25,000
AAA Ltd			30,000			
BBB Ltd		35,000				
CCC Ltd						25,000
DDD Ltd				35,000		
Mr E	5,000					
Ms F		3,000				
Creditors	-	-	40,000	5,000		8,000
EEE Ltd			25,000			
FFF Ltd			15,000			
GGG Ltd						
Ms H				5,000		
Mr J						8,000
Overheads	3,000	43,000	10,000	3,000		-
Rental			10,000			
Telephone	3,000					
Salaries		25,000				
Payroll Tax				3,000		
VAT		18,000				
Closing Balance	12,552	7,552	-12,448	14,552		21,115

Take note that we started with an opening cash balance just below the first date. We've added all the Debtors' receipts and deducted both the Creditors' and the Overheads. Our closing balance for the first week is the opening balance for the next week, and so on. Hence our bottom line shows a prediction of what we believe our cash will look like each week into the reasonably foreseeable future.

At the beginning of each week you take your cash flow prediction and reconfigure for the next twelve weeks.

There are however a few golden rules that you need to stick to, like any decent wizardry, they should be kept to a minimum and kept simple.

The first golden rule is that one should only adjust the history if the cash item has actually gone through the bank. Don't have bank reconciliation and try to account for items that have not been paid. If one of our soon to be ex-customers, who has faithfully promised to settle his debt – albeit under threat of forming the integral part of Madam Medusa's next cure for evil spirits – does not pay in the week we predicted, then you must move the debt over to the next column to where you believe that the debt will be settled. The same would apply to paying a supplier by cheque. Should we hand over a cheque to the supplier in the first week and believe full well that it will be promptly presented to your Bankers; we will correctly enter that payment in this very week. Should we find that the clerk at your suppliers is tardy and has not presented the cheque we should then move that payment – the outflow of funds – into the next week. So, the opening balance for the week in which we find ourselves will always agree exactly to what is reflected in the bank account.

The subsequent rules are actually quite easy. We now look at the bottom line which suggests what our cash balance is supposed to look like in the near future. If we have no overdraft facility we know that the "hard bottom" will be nil. If you review the illustration above you will note that in the third week it is predicted that the enterprise will be in a negative position. Obviously we are left with a few options, detailed as follows:

- We at least know in advance that an overdraft facility will be most welcome. From my experience bankers are often far more free with granting overdraft faculties if you approach the bank long before you require the funding. Those instances where client charges into the bank five minutes before closing time demanding to see the bank manager, credit manager, tea girl and CEO of the bank, and need the facility granted today in order to pay the monthly salaries, will almost definitely find themselves disappointed in the end. So the sooner you approach the bank the better. The chances of securing extra faculties are far greater with a month or more lead time.
- The chances are that when the bank hears that you need an overdraft facility, they will be completely reluctant to provide the required facility. One option you are left with is to bring some of the debtors forward. Moving the debtors forward will solve your problem completely, see below:

Cash Flow Projection

	19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	……	16-Mar-2013
Opening Balance	10,552	12,552	7,552	22,552		4,115
Debtors	5,000	38,000	65,000	-		25,000
AAA Ltd			30,000			
BBB Ltd		35,000				
CCC Ltd						25,000
DDD Ltd			35,000			
Mr E	5,000					
Ms F		3,000				
Creditors	-	-	40,000	5,000		8,000
EEE Ltd			25,000			
FFF Ltd			15,000			
GGG Ltd						
Ms H				5,000		
Mr J						8,000
Overheads	3,000	43,000	10,000	3,000		-
Rental			10,000			
Telephone	3,000					
Salaries		25,000				
Payroll Tax				3,000		
VAT		18,000				
Closing Balance	12,552	7,552	22,552	14,552		21,115

Bringing Debtor DDD Ltd forward by a week solves your problem and keeps you out of the jam that you could have found yourself in had you not tried to peek under the veil of the future. Getting debtor DDD Ltd pay a week earlier should not present a daunting task. Allowing an additional early settlement discount or by providing some other kind of incentive will more than likely result in early settlement.

- Another option would be to push some creditors into another week. This methodology will no doubt annoy the heck out your Suppliers. Expect threats, pleads, promises and just about any trick under the sun to coerce your timely payment, but look at the resultant effect:

Cash Flow Projection

	19-Jan-2013	26-Jan-2013	2-Feb-2013	9-Feb-2013	……	16-Mar-2013
Opening Balance	10,552	12,552	7,552	2,552		4,115
Debtors	5,000	38,000	30,000	35,000		25,000
AAA Ltd			30,000			
BBB Ltd		35,000				
CCC Ltd						25,000
DDD Ltd				35,000		
Mr E	5,000					
Ms F		3,000				
Creditors	-	-	25,000	20,000		8,000
EEE Ltd			25,000			
FFF Ltd				15,000		
GGG Ltd						
Ms H				5,000		
Mr J						8,000
Overheads	3,000	43,000	10,000	3,000		-
Rental			10,000			
Telephone	3,000					
Salaries		25,000				
Payroll Tax				3,000		
VAT		18,000				
Closing Balance	12,552	7,552	2,552	14,552		21,115

It is quite probably a lot cheaper to pay creditor FFF Ltd one week later than to entice debtor DDD Ltd to pay a week earlier.

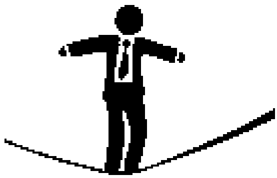
The point here is that by either pulling the Debtors a bit forward or by pushing the Creditors out by a few days, should almost certainly solve your immediate cash flow problems. The crux is that by having some kind of insight into the future gives you an inkling as to what to expect and who should be targeted in order to ensure that your cash flow remains under control. The Overheads component is also a factor to be considered, but unfortunately for our luckless entrepreneur it is probably very difficult for him to manipulate the timing as to when the cash cost will take effect.

Now that you know my secrets for managing a successful cash flow, there is no reason for an entrepreneur to go out of business due to poor cash management again.

CHAPTER 5

"An entrepreneur tends to bite off a little more than he can chew hoping he'll quickly learn how to chew it.

- Roy Ash, co-founder of Litton Industries



CONCLUSION

Let's be honest none of what I have discussed in the preceding chapters is actually rocket science. It's actually quite simple and supposed to be so. The greatest pity of all is that so many entrepreneurs fail to put together a business plan. You wouldn't dare try building a house without a plan so why attempt to make a success of your business without a plan. You are going up against other successful entrepreneurs and large corporate companies who believe it's in their interest to ensure that you remain out of their area of business. So then why go fight the biggest battle of your financial life with no plan?

As I have intimated so far, the business plan need not be the neatest and brightest document to have hit these shores. The fact that you have pieced together what your product is, who your clients will be and what your competitive advantage is, already sets a clear diagram in your mind of how to skin the financial cat.

Without a budget I am perplexed as to how the entrepreneur could make a financial decision? How do you know if you are financially able to incur this unexpected cost? If you do incur this cost, how much do you need to increase you gross profit per month in order to pay for the cost?

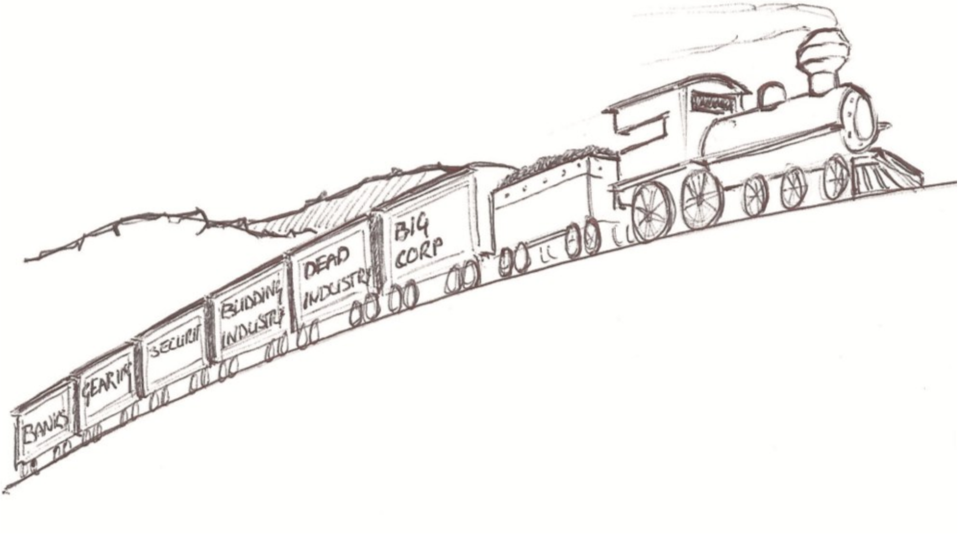
I personally do not consult on entities that have been placed into insolvency. Personally I find it far too emotionally draining. Seeing a person who has worked and saved his whole life, then gamble his pension on a dream? To see it all go up in smoke! See this intelligent, experienced person now realising that he will not retire, will probably not own his own house again and will have some snot nosed kid boss him around for the rest of his days, does not fill me with enthusiasm. Yet these same people have never prepared their business plan, never had “time” to build a budget. The very tools that may have put him in a position to tell the entrepreneur that it is time change his tact, time to identify what problems require his attention and possibly time to quit the entrepreneurial venture. Quitting at the right time is not always clear to a person without a plan or a budget.

My ideas are not prescriptive and definitely not comprehensive. These are simply ideas, pointers or building blocks that the entrepreneur should use to effectively manage his venture. Make all the changes you want as long as you are looking and thinking about the issues raised in the book should provide you with some competitive advantage.

Good luck, keep it simple and practical.

Remember common sense is more valuable than rocket science when in the entrepreneurial trenches.

THANK YOU


BANKS
BUILDING INDUSTRY
DEAD INDUSTRY
BIG CORP

PART 2

"I find that the harder I work the more luck I seem to have."

- Thomas Jefferson

INTRODUCTION

In this part of the book, I take a bit of a journey around the periphery of the enterprise itself. Looking at the environment in which the entrepreneur finds himself is almost as important as the enterprise itself.

External influences can have a profound influence on the entrepreneur and how they react to circumstances.

Sickeningly, the entrepreneur usually finds himself helpless to change this environment, and seems unable to amend his approach in order to gain competitive advantage. The entrepreneur's approach needs to be based on the proper understanding of their environment. Understanding how various influences impact on business, and why, can give the entrepreneur a substantial advantage attain their goals.

CHAPTER 1

"Let me issue and control a nation's money and I care not who writes the laws."

Mayer Amschel Rothschild, founder of the House of Rothschild.

BANKS

The most important thing to know about banks is that they are not your friend. I have often heard that the Banks will only give you an umbrella when the sun is shining. Believe me that is indeed the truth.

When you have your back to the wall then the banks are the very ones that see you as a "high risk" client. Don't for a second think that because you have banked with them for nearly 30 years it makes the slightest impact on your application for a loan. The cute Customer Relations Manager you're dealing with is maybe the most beautiful honey in the bank, but she regrettably is not the person who makes the decisions. Don't be fooled into believing that when you see the Customer Relations Manager (who incidentally was a lead actress on Baywatch) or when things get tough, her Manager, who says to you "take a seat" and you reply "thanks but I'm comfortable on my knees" will influence your chances of getting the loan.

The person who makes that decision is normally in the Credit Department. This elusive departmental employee is prohibited from speaking to mere mortals like you and me. So, the problem is that you spend countless hours building your Business Plan, paying some over-qualified Accountant to build you a sparkling Budget and then present this to the Bank Manager who ultimately cannot make the decision. It's like selling the concept of a new movie to the theatre clerk. He may love your idea and think it's the most fantastic and artistic creation he has ever heard of, but he is not in a position to do anything about it, (other than steal your idea and sell it to the decision maker himself). You need to sell the concept to the right person. But, with the banks you are restricted to making sure that you sell your ideas, hopes, dreams and financial future to the man with the fancy hair cut and cuff links. Other than that, he is completely useless.

The person who decides whether you financially survive, or not, hides away in an ivory tower. These people in "credit" make unchallengeable decisions by only looking at parts of the paperwork and perhaps a small motivation from the man with the haircut and cufflinks. I have naturally never met this elusive credit person, being a mere mortal myself, so I don't really know who they are or how they think, but I have seen the frustration on clients faces when they have gone to great lengths to show why this loan is a sure bet, only to be turned down anyway.

In spite of this, the banks are a necessary evil. They are the one institution which is highly sophisticated and well-run, but remember: they are not there for you.

The following incident was brought to my attention a number of years ago. A new bank manager was appointed to a small town branch. His mandate from Head Office was to reduce the bank's risk. He reviewed the client accounts and saw a trend in the way in which the local entrepreneurs conducted their business. Throughout the month they would deposit cheques into their accounts; shortly before month-end they would usuallyhave positive balances. At month end however, salaries and debit orders would be paid, thus placing our hapless entrepreneurs into overdraft. What did our brown nosing Corporate Banker do? He closed down the overdraft facilities just before month end. Debts could not be covered, businesses went into decline, debit order contracts were suspended, employees went without salaries and the entrepreneur was placed in a very precarious position.

Sure the bank had reduced its risk but to the detriment of their supposed "clients" - the local entrepreneurs, not to mention, the local economy. If we treated our clients this way – we would be out of business in no time.

So what's the remedy? How can our lone crusader beat the system and scratch out a living by using the banks?

My suggestion is not to go back to a barter type system, nor to store your hard earned loot under your mattress. In today's modern economy it is vital that one uses every tool available to you. The crux is to use it smartly. As I said earlier the bank is

NOT your friend. They have no allegiance to you or your business whatsoever.

A banker will always tell you that you should place all your business with him so that the bank has a full history of your financial affairs. Supposedly with them knowing your complete financial picture they are best placed to assist you when the chips are down. That's absolute BULL. The real truth is that by having all your business the bank has the opportunity to take all the bank charges, commissions and other sweet rewards provided by the financial institutions and reinsurers, etc.

The remedy is to establish a healthy relationship with several banks, more than two. Yes, there are a few more fees involved, but the cost is negligible when compared to the cost of losing your business. Most entrepreneurs have one Current Account with Bank A, but nothing stops them from going to Bank B and even Banks C and D and opening Current Accounts with each. Don't ask for any overdraft facility, run the accounts like a model citizen. Pop some cash in every month and make one or two payments. Do this to keep the account ticking over merrily from month to month. Ensure that you never go into overdraft. After a while, say a year, the Bank will see you as a Type A client. Then you can approach them for a very small overdraft. Naturally the bank will want to know your pedigree from top to bottom. They will insist that you disclose things like your mother's maiden name and where you were born, and they might even want you to put the bank's current management and its shareholders into your last will and testament. *Try not to sign any Sureties, pledge an asset instead*.

Sometimes it's better to place a sum of money into a fixed deposit account and to use that as collateral for the overdraft facility. Then you can carry on in the same way as you did before. Use the overdraft facility but never over-step the mark. Show the banks what a model citizen you are. After a while they will think that you truly believe that they are your friend and they will want to expand their relationship with you. This may be in the form of other bank products or in some kind of unsecured facility. If it is an unsecured type of facility TAKE IT. Don't take out loans that need collateral, but rather, if the bank wishes to give you the facility to use when required, take it. If you must use the facility, dip into the overdraft and immediately repay it the following day, just so as the bank always sees activity. It's a kind of appreciation, a 'thank you for giving me the facility'. The cost is normally low but the value of it may be priceless when you're in a jam. Don't now go and use the facility, as all loans must be repaid! The quickest way to get a bank all grumpy is to not repay your loan as promised. All your hard work can go down the drain in one fell swoop.

A really easy area where one can obtain a facility is via a credit card. Now I don't advocate going into debt, but the banks are often very quick to send you credit cards. Take them. The credit card company will also give you a "limit", a short term facility and a budget facility with the credit card.

Take them. Take them. Take them!!!!

The relative cost of having a credit card is minuscule compared to the amount of facility one can obtain. Again, like with the current accounts, rotate the use of the credit cards. Use one in month one, and the next month use the other. Always pay the card off the very next month. At one stage I added up all my credit card limits and budget facilities and found that I had access to enough cash with the various banks that I was able to buy a Porsche. That's a great feeling; just don't give in to the impulse to buy expensive motor cars on credit just because you can. My point is rather that if somehow all systems had failed and I had landed up in a problem position with my business, unable to meet my responsibilities, I would have a substantial amount of credit available immediately to use totally at my own discretion to get me out of trouble. If I had to go to the bank and ask them for that kind of facility they would again want to know my entire pedigree, including how often I thought about their bank whilst in the shower!

In this manner, unwittingly, the Banks have cumulatively given me a fortune to use whenever I need it and the beauty is that I don't have to go down on my knees to get it.

CHAPTER 2

"Credit is a system whereby a person who can't pay

gets another person who can't pay to guarantee that he can pay".

- Charles Dickens

SURETIES

When you enter into any loan agreement, you can be sure that the bank will try to get you to sign a Surety. This document can really be a problem. Whenever one hears the word "Surety", be very cautious indeed.

There are various types of Sureties. The best one for the Bank is an “Unlimited Surety” (be aware that the Banks are prone to changing the name for marketing purposes, but the crux of this document is always the same). These wonderful documents never die. In other words, once you have signed the darned thing it will always be in force. Also it will bear no relation to the value of the loan to which you are committed, and indeed often they don’t relate merely to the loan that you have just entered into. These menaces will bind you to the Bank for any reason, in any way, for any amount, forever. When a bank has an account that’s gone bad, it looks around to find anyone from whom it can recover the outstanding debt. Basically the Bank will shake any tree to see what falls from it. Banks have been known to go after Company Directors’ in their personal capacity; they have even been known to go after the Company Auditor because he did not write in red letters on the Financial Statements, “BEWARE THESE SUCKERS ARE GOING DOWN”, and I suppose if the auditor had written that on the front page, the Bank would argue that it should have been on every page, and in blood.

The one real consequence is that a Surety automatically circumvents any protection the law provides the borrower in the event of a business failure. Once the Surety is signed, I am essentially giving the bank permission to ignore the Company and go after me personally; go after my life savings, take the roof over my children’s heads, and take away my Granny’s pearl necklace which she left to my wife when she died. All this to make sure that the Bank, is not out of pocket.

And remember, these Sureties do not die.

Bad Dream?

Let’s create a scary scenario. After 20 years of successful trading and making a living, avoiding all the business death traps, you decide that it’s time to retire. You’ve paid off the bond on your house, paid your car and the kids are all grown up, you’ve saved a couple of bucks and believe that it’s time to enjoy a relaxed and less stressful existence. So you look to sell the business that you’ve created. First you look at your employees. The Factory Manager, loyal and faithful, knows your products backwards, knows your customers and they know him and like him. He seems to be the most obvious choice. You, after much wrangling, come to a suitable agreement and sell the business to him. This sale often comprises a partly cash, partly financed arrangement. Your faithful employee goes forth into the big bad world to conquer and plunder. What you forget, in the heat of the negotiations, is that twenty years ago when you started out, the Bank got you to sign a never-ending, Unlimited Surety. The Bank has never mentioned it again indeed they’ve never had reason to, but merely kept it safely in their records. Retirement is great, you move off to the coast and enjoy endless games of golf, rounded off with dry martinis – shaken not stirred – watching the sun go down. Lovely!!

At this point the bank meets the new owner to congratulate him on his new business as the employee now has to sign the cheques, deliver the Financial Statements and make all the important decisions. This is also the stage where the Bank would have slipped a little Surety to the new owner, citing that all new owners need to sign these “insignificant documents” when they start in business, and now that the pesky paperwork is out of the way, they are in a position to give him some beautiful cuff links with the banks logo proudly displayed on the front.

Regrettably your employee is at heart an Employee and not Employer Entrepreneur and it's not too long before he has maxed out the overdraft, pushed the suppliers past their breaking point and the debtors are paying slower than ever. One day, the Bank decides to pull the plug and find they have a hefty overdraft which needs repaying. Obviously the first port of call is the new owner who they shake, rattle and roll to see how much they can squeeze out him, his wife and maybe even a kindly uncle who has a little bit of boodle put aside for a rainy day. Then it's off to the auctioneers who gladly put everything under the hammer for a "little" commission and for any price that they can get (no consideration given for the fact that, with a little bit of wheeling and dealing, one could have received double the price).

Then the vultures come out to see what bargains they can extract, purchase your hard earned assets for a song and immediately sell them to the next person for a handsome profit. These blood suckers exist on the verge of humanity and see how they can line their pockets with someone else's misfortune.

Once all is said and done, the Bank is probably not completely repaid. They now do a little soul searching, or should I say a little record searching and lo and behold they discover a Surety Document. Yes, it is somewhat dusty and the ink is fading, but after twenty years it still holds good. On the 9th fairway dark clouds appear on the horizon and before you know it you land up having to pay that portion which has not been recovered. You tell the Bank that it's nonsense, you haven't been running the business for three years and these were not your losses.

But unfortunately at this junction you don't meet Mr. Teflon who opened your new account. You know the one with the fancy hairstyle and gold cufflinks? Nope you meet that mean and nasty Attorney; the bastard type; the one who has been disowned by his own mother. He now proceeds to read to you chapter and verse about a section of the Act which you have never even heard of.

The short end of the deal is that if you dig deep enough into your pockets then he will go away. No amount of explaining to Beelzebub that twenty three years ago you signed that surety for an overdraft of R1 000 and now the Bank is attempting to recover R2 million from you. He simply retorts that if you do not pay, Lucifer himself will be on your doorstep to recover the debt. The fact that this little incident not only caused you not to be paid by your former employee, but it has also whipped you right out of retirement and back into business, to start all over again. This does not raise one ounce of sympathy from the evil alliance.

The moral of the story is that Sureties don't just die.

The first prize is not to sign any Sureties at all. However that's probably not going to be possible. So, if you do sign Sureties, read and understand them first. Understand what they mean. It's actually no problem to take the Surety Document to a friend and ask him to explain it to you. If someone tells you that "everyone" signs it, then you must be even more suspicious of this document as it is designed purely for your demise. Always keep a register of every Surety that you sign. Keep this register in a safe place; protect it better than the family history. When you sign a Surety always keep a copy and try to note down as many details of all your Sureties as you can. Also, these documents are changeable. Don't be lead down the garden path with the story that "you may not change anything on a Surety", that's simply an incompetent employee trying to get you to sign something that they don't understand but with a signature on the document their job is done, and we can all sit down and drink some tea.

I have on more than one occasion bought a property and have a conveyances assistant tell me that I may not amend the Surety Document as presented to me. The truth is that the conveyances assistant (the only person you are able to speak to) actually does not have the slightest clue what these documents mean. Conveyancing is an area where Attorneys generate huge fees, but the work can easily be done by a clerical individual who is not normally as highly paid. The Conveyancer prepares a check list of the requirements and a schedule of what must be collected from whom and sent to whom. The Unlimited Surety is a Surety which the Bank will definitely accept hence the Conveyancer makes it mandatory. The moment the purchaser starts to amend the Surety document it means that the Attorney himself will need to go through the document and ensure that it meets the banks minimum standard. It's a lot easier and more time efficient to tell the person seeking to take out a bond to sign the Unlimited Surety. No thought has been given to protect all the parties involved, rather they try to ensure that the deals are sausage-machined through the system.

When changing the Surety Document the Conveyancer's assistant ordinarily has a nervous breakdown explaining (poorly) how the Bank / Conveyancer / Beelzebub won't accept this document if it has been modified. Be strong and insist that it should be changed, in fact better still cross out the unlimited portions yourself, change the wording appropriately and initial all the amendments. Look the assistant in the eye and politely instruct her to give it to the Conveyancer for review.

Another area where one can wield a huge amount of influence is with the sales people who are around the transaction. Don't get me wrong: I love sales people. They are normally intelligent, highly motivated and hard working. Motivated by sales commission, they live in the sweet spot of Capitalism. Sales people often go far beyond the minimum required and are definitely not corporate animals who clock-watch and drink coffee all day long. They represent the one small element of entrepreneurship that big corporates have left. When buying a property there is always an Estate Agent on the fringes who can earn a substantial amount of money acting as the Property Agent. In good times an Agent will earn a fortune and in bad times he'll sweat like a Sumo Wrestler in a vice grip. But one thing is for certain; before the Estate Agent has sold the property he will already - in his mind - have spent the sales commission. If the deal could go South and it looks as though he won't get his commission, in his mind he'll have to give back the jetski that he's already metaphorically purchased. Hence, he becomes a great source of influence.

Any good sales person will try to ensure that some bureaucratic idiot does not do anything to make the deal go sour. So if the buyer/bond taker wants an amended Surety then give him an amended Surety. All that the Estate Agent would be concerned about is whether it costs money and whether his percentage commission will be negatively affected. The Conveyancer, who is busy supervising the cleaning of his new Porsche, now gets roped in by the Estate Agent to spend a little time on amending the Surety to suit. He'll appeal to the Attorney's ethical side, go straight to his moral fibre and either remind the Conveyancer of all the deals that he has brought in the past and/or of the deals he will bring in the future. The reaction is normally positive and it's fairly encouraging to see how swiftly a Surety can be modified to suit the buyer, much to the annoyance of the Conveyancer's assistant who mumbles quietly to herself that she was only doing her job. The sad truth is that she, and more importantly the Conveyancer, were actually not doing their jobs. They were simply trying to push clients through the process and trying not to look at each transaction individually and they were not ensuring that all parties are properly treated and protected.

So, again, when you agree to sign a Surety **always** keep a register of each one that you've signed. In the register, the minimum and obvious information you should note is: The name of the institution; the date of signing; and the amount of the loan. Also note down the not so obvious information, like: The expiry date (if any), Co-surety holders, the purpose of the loan and the retrieval date.

A surety is a wonderful document for the Bank to hold over a person. So ask yourself this, what is the one thing that the Bank is most unlikely to do? They are unlikely to reduce their rights, by this I mean they are unlikely to limit the surety, they are unlikely to want to give it an expiry date and they will definitely not remember to give it back to you when the deal, that the Surety was used for, has come to an end.

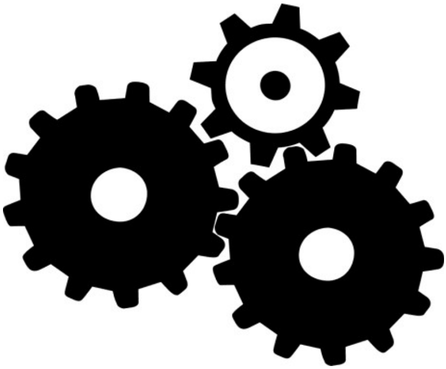
That's why you need to keep a register so you know what you've signed for and when you signed it and you also know when you need to retrieve it. When the deal is all said and done, go to the bank and demand to have the Surety document given back to you. I have been given the excuse by Bank employees that they will give me a letter absolving me from the surety. This is, with all due respect, the biggest load of bull under the sun. You see, when the clouds grow dark and Beelzebub is after your blood, then he (in the form of the Bank Manager) will argue that the employee had no right to issue such a letter. Then the letter simply becomes another doughnut in the bun fight; whereas, if you physically obtain the original Surety Document and destroy the evil thing, he has absolutely nothing with which to commence the argument. Don't be caught out with the story "the Surety is owned by the Bank" that's absolute rubbish. When the deal is done, the deal is done and each party has got what they wanted out of it and the Surety must be returned. I have, in the past, had some of my best fights with Bank employees to get back my Sureties. You are entitled to receive it back and you should demand that you get it.

In some kind of cynical way I have, over the years, adopted the idea that one should tell the Banks what they want to hear, should this coincide with the truth, then so much the better. I know that a whole bunch of Bankers will probably turn grey at my statement and start grabbing the antacids, but they should take a look at things from the other side. Here you have the under-capitalized entrepreneur who is fighting for his financial life. Now he gets a big order which will definitely make a huge difference to his business. The bank on the other hand looks at the client and says, "How much does the entrepreneur owe us? What sureties and guarantees do we have? What assets do we have a lien over, and what is their value; oh, and to hell with any other creditors, they are not as important as the Bank, and finally, does our hapless entrepreneur have the income stream to repay the debt? Nowhere in that entire assessment do they actually look at the entrepreneur and consider the individual.

CHAPTER 3

"Never interrupt your enemy when he is making a mistake."

- Napoleon Bonaparte



GEARING FINANCE AND DEBT

Gearing: I am sure that most people have heard this word before, but most people would probably not know what it is and very few people will actually understand the full implications of Gearing.

I must admit that even I don't truly understand all the nuances surrounding Gearing but, simply put, it's the ratio of owner's funds to that of the funds lent to them from a financial institution. The crux of this concept lies in the premise that an investor in an enterprise would demand a higher rate of return on his capital than what he would do if he simply invested his money in a Bank. The rational is that the investor is assuming a higher level of risk investing in the enterprise than he would by depositing the money with a reputable Bank, and after the 2008 Banking scare, even that may need to be revised. So the idea was born that it is actually cheaper to lend money from a Bank than it is to obtain money from an investor. This would probably have some shadow of truth in the big corporate world. What the entire pack of gearing gurus fail to understand is that our entrepreneur does not have access to a whole bunch of ready investors. When one of the top 40 listed companies needs to raise capital it simply has to make a decision whether or not they should issue more shares on the stock exchange or have the Bank Manager visit them. These choices are not the same for the entrepreneur. He can either go to the Bank and assume the kneeling position, or find a family member or friend who will be able to either invest in his business or lend him the required capital. No readily accessible market exists for the equity in his Business.

At the end of the day the entrepreneur is required to repay this debt. Very few entrepreneurs have the luxury of the Greek Government who is able to lend to their hearts content and then get the Germans to repay their debt. When our hapless entrepreneur does not repay his debt the banks and other creditors all queue up to tear up his financial innards.

Don’t be conned by the whole idea that one needs to properly gear your business. If you don’t need debt, don’t incur it. Only incur debt that you must have in order to obtain some or other income producing asset. At the end of the day the debt must be repaid, bringing the need to increase cash resources to repay the debt. So the assets that require the finance must be in a position to generate extra cash to pay its debt and make a profit to the entrepreneur for incurring the increased risk. So, unless you have a White Knight standing in the wings, your only option is to borrow money from a Bank.

Now that we have been through the pitfalls, and you know what to expect and what the Bank is going to do, then you can negotiate a square deal, provided you are willing to put up a fight. Also, now that you know that the Bank has every intention of squeezing blood out of a stone, something they do with remarkable ease, then you better understand what to expect. So play the game intelligently. When the converse is true, i.e. you don't need to borrow any more from the Bank and you have surplus cash; then pay back your debt. Get rid of it in leaps and bounds.

Idea for cheaper Short Term Asset Finance

Remember that you pay interest on the entire month's borrowings. As discussed earlier in this book, entrepreneurs normally have a reasonably predictable cash flow pattern. Money is evenly deposited into their account throughout the month, then from about the 25th of the month money flows out of the account in huge tranches. Salaries, rentals and debit orders to name but a few, all happen at the end of the month. That's when need for borrowed funds is the greatest.

Buying photo copiers, PABX machines and other office automation are often packaged in the form of rental arrangements. (More on this later in the Chapter.) The truth is that it is a standard three- or five-year financing arrangement. On day one you borrow the full amount for the asset; the loan attracts interest from the day the funds are forwarded to the asset vendor. At the end of the month you make a payment and the capital outstanding is reduced by a fraction and interest then accrues from the new outstanding balance, and so on until the full debt is extinguished.

Due to the cash flow pattern of the enterprise it is highly likely that somewhere in the first or second week of the month the enterprise will reflect surplus cash in its account. The cash attracts very little interest, if any interest at all.

When buying this kind of office automation, instead of applying for a fixed term loan, apply for a revolving credit facility for roughly the same value as the asset you are acquiring. Once approved, pay for the asset in cash and use the facility over the two weeks that large amounts of cash are required. In the second week when sufficient deposits have been received, repay all amounts used from the revolving credit facility. This way you, in effect, only borrow the funds for two weeks of the four in a month. Interest is only levied when funds are borrowed and thus the interest rate that you pay is halved. Naturally, in the big cash flow months you may not be required to dip into the revolving credit and hence the effective interest rate may head towards a third of the current advertised market related interest rate.

By reviewing the bank statements of the revolving credit facility, monitor the maximum outstanding balance on the revolving credit for the entire year and ensure that it never exceeds the balance that would be owed to the bank had you made use of standard financing arrangement.

Principally there is no difference between a revolving credit facility and a standard overdraft facility other than the overdraft is normally at a higher cost and the maximum outstanding value is difficult to determine on the asset financed.

Parasites of debt

There are a number of "Private Equity Financiers" out there, but the ones I have met have generally been the worst business partners you could ever want. Once you unravel the deal you find that your new equity partner has a majority stake in your enterprise; is charging interest at a much higher rate than the accepted norm; has only invested half of what you actually require; holds onto the purse strings and, finally, when you have sweated steel rods to make the business successful, you land up having to buy your own shares back at a huge premium. Hence, the private equity financier profits from the increase in equity value, which is actually the result of YOUR hard labour.

A traditional pitfall

Now, back to Rental Agreements. The idea that you should finance the photocopier or the PABX system because of gearing is absolute rubbish. If the salesman suggests gearing at this stage you know he's a liar and best pack him on his way before his mouth can do too much talking. Also be aware that all too often the office automation guys will tell you about a rental. This is no rental arrangement at all. The company who is selling the photocopier is doing exactly that. They sell you the hardware. If you like they will arrange with a bank of their choice, in return for a healthy commission, a "rental" deal where you only pay *X* amount per month for five years. How is that amount derived? Quite simply, take the capital cost of the equipment multiply it by an unacceptably high interest rate over the required period and divide it by the number of months to calculate the monthly rental amount. This is no rental agreement this is purely a finance arrangement.

Certain Asset finance Banks have a fantastic money-making arrangement. It is truly the most despicable arrangement I have ever come across. These Banks have a contract which they fondly refer to as the “**Evergreen Contract”.**

This contract, hidden in layers of small print, has a couple of really delightful clauses. The one most notably disgusting clause is that at the end of five years the debit order happily continues. It is your responsibility to notify the Bank that the five year period has run its course and that they should stop the debit order. This must be done three months ahead of time. Remember that the “rental” amount was based on the original capital purchase price, interest rate and the period. So at the end of the period you don’t actually owe the bank anything as the full debt was repaid. So to charge further amounts after the end of the contract period is, in my opinion, theft.

The second real cracker is that, should you decide to settle the outstanding debt, you need to pay ALL the outstanding rentals. The way any loan agreement works is that with the first payment there is an element of capital and a large element of interest. The second payment that is made has a slightly higher amount of capital and a smaller amount of interest. So after the second payment you owe the bank slightly less than you did the month before. The final payment includes a large portion of capital and a small portion of interest. At this stage the debt is fully settled. All the way throughout the loan period the capital amount outstanding is reduced. So when you come along halfway through the contract and wish to settle with the asset finance Bank they then want all the remaining payments. The problem is that you are now paying interest on money that you don't or will never actually owe. The bank officers happily sing chapter and verse about that the clause was in the contract etc., which, in my opinion, is completely amoral and unacceptable.

CHAPTER 4

"The first rule of business is: Do to other men before they would do you"

- Charles Dickens

THE BIG CORPORATE

It is absolutely no secret that I am not a fan of the Big Corporate. The modern corporate executive must at all times ensure that he does not fall foul of being racist, sexist or any other common politically-incorrect trap. He can be sure that a conniving colleague will always be hanging in the wings, vigilantly watching, to ensure that those colleagues who are suspected of being politically-incorrect are immediately exposed and appropriately beheaded and de-careered. The truth is that the back stabbing colleague does not harbour any real personal ill, he is simply eliminating one more competitor at promotion time. You see these lethargic beasts as a nest of back stabbing opportunists. They spring into efficient action when looking after themselves. The corporate mission statement is definitely a distant second. No doubt the corporate players have their career ending sabres in hand ready and waiting, for any dare-devil competitor who should slip up so that their road to improvement will be less fiercely fought.

The problem is that no thought is spared for what is best for the company. Entrepreneurial ideas are overlooked and often scoffed at because taking a risk with a new business idea may result in it being labelled a failure which will definitely result in you being shoved out of the corporate promotion race. Often these corporate players are either very skilled at extracting another’s best ideas and then go to great lengths at shooting them to shreds; or, alternately they will feed you enough rope to follow the idea and at the first stumble in the road will announce to anyone who cares to listen “I told you it wouldn’t work.” Never would they offer a positive input to assist in finding solutions to potential problems. Positive input could too easily be construed as compliance in the idea, so when the sabres are unsheathed, they may find themselves at the very sharp end of the other “I told you so” group who will be never come close to exposing their failings.

"Political correctness is tyranny with manners."

- Charlton Heston

During my own short stint in the corporate world, I learnt a very valuable lesson about how the game is played. As a young clerk at Coopers & Lybrand I did the sums and realized that their meagre salary would not take me very far in a month. The one way I could improve on my income was to make use of the travel allowance that was paid to clerks as a reimbursement for using your own vehicle to audit at the clients' premises. This allowance was particularly attractive to me as I drove an inexpensive car which I maintained myself. Being particularly easy on the accelerator I was able to make a handsome profit on what I was paid per kilometre, resulting in a suitable increase in my disposable income. My charge out rate (the amount of hours charged to a client versus the total amount of hours available in a month) was still well above the acceptable level. In fact I often charged every hour of the month to various clients. This charge out rate was used, or claimed to be used, by the powers that be, as one of the indicators of each clerk's efficiency. This was claimed to have been a major factor in determining annual increases and promotions.

As I was always at clients, increasing my billable hours, and increasing fees for the firm, I was never at the office. By not being in the office I was only observed by a few audit managers who were happy to report that their overall charge out rate for their section was always above the average. Very few partners had any interaction with me as the work done at the client was, in accordance with the training policies of the firm, given to the audit managers to review who already knew my efficiency. A fellow clerk, I will call him R.E., was far smarter at this corporate game than I. He stayed in the office and was always at hand to assist any partner who needed some small certificate completed. The result was the RE had a far lower charge out rate, claimed a fraction of the travel claims but was noticed by a bevy of partners who had used him for these odd jobs. The net result was that at the end of the year I got a zero increase and RE was rewarded with a percentage in double figures. The crux was that when the increases were discussed between partners they all knew RE but few had ever heard of me. Your income-producing clerk took a back seat to the golden boy who was known to the other partners and who had survived the back stabbing jungle.

Grumbling in the corner was my solace for the next year, through I had realized that leaving this corporate was high on my agenda the moment my Articles were complete.

Forgive my detour into my personal experiences. The crux of the matter is that in any corporate environment it’s very important not to make any decision. If you don’t make a decision then it is impossible to make the “wrong” decision. As I have explained, making the wrong decision is a sure fire way to career doom. Your competitors for the end of year promotion will definitely point out your failings, repeatedly, to anyone who listens, until they are sure your name is not on that promotion short list.

CHAPTER 5

"Only two things are infinite, the universe and human stupidity, and I'm not sure about the former."

- Albert Einstein

DEAD INDUSTRIES

Much has been written about the “product life cycle” and the effects and symptoms of that life cycle. The theory was born, presumably after much observation of the following life of a product. A new product brought into the market will typically find consumer resistance and scepticism about the product. The producer/distributor will ordinarily spend a lot of resources on marketing the product. The product then goes into a growth phase where it is accepted by the consumer, yet the supplier finds that more resources are spent on distributing the product. The next phase - the “cash cow” phase is the part which we all want to reach. The product typically finds widespread consumer support, distribution channels are properly stocked and paid for and the product makes the proprietor a healthy profit. Sadly, eventually, the decline phase kicks in and the product is seen as old hat. With nothing to entice the consumer to support the product, it fades away just like the Yo-Yo and other trendy items did.

It is my contention that any industry will ultimately face a similar life cycle.

Look around you. Do you remember what Grandpa used to say about when he rode a horse to school? The truth is before old Henry Ford went and messed up the horse industry there was good trade to be had by furriers, blacksmiths and the like. In a quick wave of the magic wand all of that went out of the window. It’s not to say that there is no one who rides horses or that the art of the furrier has been lost into the annals of history. It’s just that the quantum of economic activity left in the industry will hardly warrant the attention of our entrepreneur. Recently I heard the term that that these industries are regarded as “twilight industries”

It is common sense that when an entrepreneur decides to enter a trade he should consider which industry he wishes to enter into. During the process of developing his business plan, he should consider, inter alia, his ability to cope in that industry, his experience and overall knowledge of that industry. The entrepreneur should be considering everything that will give him the edge and that will set him apart from his competitors.

This is an aspect that is too often ignored. Take a hard look at the longevity of the industry in which you wish to make your mark. Where do you believe the industry is going? Has it already outlived its useful life? Sometimes you need to consider whether the industry is hanging on by a thread. Often industries that are well past their real sell-by date are being propped up by large corporates and even by governments.

I want to look at some industries that I believe have outlived their real economic life. That's not to say that there is no money to be made in those industries, but rather that because the industry is in decline, the interested parties with the big bucks are the ones who stand to lose the most and would certainly be inclined to look after themselves first. In other words if you're trying to break into that industry, it will almost certainly be more difficult to find your own bit of the river where you don't stand on the alligators tail. The competition will probably be far more intense, the battle harder to fight, and when the sharks come out to eat their prey, you will be first in line.

Thus, it is critical that one should consider the industry and exactly where it is in its industrial life cycle.

One obvious culprit I have already touched on is the horse industry. This industry no longer finds itself to be a commercially reality, other than selected areas of agriculture and sport. That would include things like show jumping, horse racing and a few other recreational uses. The truth is we do not ride our horses to work we do not move huge amounts of freight through the use of horse muscle power. So naturally all the auxiliary industries surrounding our equine friends have also no longer found themselves in a bustling economic environment.

I suppose we could also look at the sword and shield industry, bows and arrows, which must have been quite the industry to be in when the Romans, Greeks and other nations were running around and making a nuisance of themselves.

Somewhere between the middles ages and around the Napoleonic wars, the military viability of these items took a back seat to machine guns, tanks and rockets. Being a blacksmith, manufacturing the best swords no longer holds that mystical attraction it did before.

Below, I discuss a few industries that I believe are going nowhere. Once they were the biggest hit since sliced bread, but sadly they're fading away. I know that there are a number of people, particularly those who are heavily embroiled in those industries, who may not agree with me. May I suggest that to some extent their point of view could be influenced by the hand that feeds them? I may remark, tongue-in-cheek on a few industries which you may find surprising but please keep an open mind and consider the issues I have raised. Enjoy!!

Postal Service

Now this is an industry which absolutely fascinates me. This industry was invented long before the winds of change which blew down Africa, was just a gentle breeze. I have no idea where it all began but centuries ago what with pigeons; people with forked sticks; and postal riders this was a great way to communicate with people from a long distance. The writing down of a message accurately depicts exactly what the writer wants to say. Much better than some of the North American Indians who used smoke signals or the Turks who had auditors who would listen to the messages from the far flung corners of the empire and travel many miles to repeat that to the king.

However it is said that the only constant is CHANGE. And the only ones who like change are babies with wet diapers!! However with change, came the telephone, radio and then -

the big revelation – telexes (how amazing were they?); computers, the internet, faxes and e-mails. Not to mention, of course, skype, tweets, sms's, and the like.

Somehow the postal industry has shown a reluctance to lie down and die but is fighting a losing battle. The idea that a person takes a piece of paper, writes down a message then acquires an envelope and a stamp, transports this piece of paper to a drop-off point where this letter is later collected by another person; this then is quickly (relatively speaking) transported to a central sorting centre where millions of similar envelopes and paper are then dispatched to a multitude of drop-off points, whether they be at the recipient's home or a P.O. Box.

The plain and simple idea and the logistics of moving tons of paper all over the world is in today's computer/internet economy, is just crazy.

If I want to say something to a person in another town, city or even up the road it's easier to simply to get your friend on the phone, skype, sms or send the person an e-mail. Nowadays, bank statements, invoices, adverts and just about any form of social or business communication is sent via electronic mail. So what's the point of sending your message via the postal service when you can send it electronically which is infinitely quicker and more reliable?

Some years ago I heard a news report on one of the big news channels that the US postal services wanted to have a fee levied for every e-mail sent. This money was presumably to be paid over to them to subsidize the losses due to the masses of paper not logistically passed from one geographical location to another. I suspect that the proposers of this notion had not quite worked out how they intend to police the system and finally collect their intended loot. But the fact remains that the global postal authorities have taken note that there is a movement away from the carting of paper messages to electronic messages. I am sure there are a load of third world postal services who would plead poverty from the highest mountains but when the money finally gets paid over it winds up in the Swiss bank account of some well deserving politician who may well find retirement immanent. Just ask Robert Mugabe – who would probably go to great lengths to tell you why the Mugabe Retirement Fund is such a highly deserving charity.

I digress. Electronic messages are just so much more accurate, cheaper and quicker, that a postal type service can no longer be viewed as the industrial future of the economy.

I suspect the only reason that worldwide postal services have remained as long as they have is due to the incredible efficiency of certain countries' postal services. The United Kingdom has often boasted that if you drop a letter in the mailbox before 10h00 in the morning it will get to its destination, provided the destination is in the United Kingdom, the next day. Now that is an incredible logistical feat. To pick up a letter in London by 10h00 take it to a sorting depot, sort the address into county's burrows and cities then have that same document dispatched and reach the recipient address in Glasgow with in twenty four hours is absolutely remarkable. So sending a Christmas card on the 24th of December and reaching granny by Christmas is now immanently possible. North America and parts of Europe have equally impressive résumés. But, sadly in the third world, which incidentally takes up probably two thirds of the earth's surface; do not have the same track record. A letter or a parcel ordinarily has a much less than 100% chance of making it to its destination. If it is delivered to its destination within the same week of despatch, the third world would generally find this to be completely acceptable (if not remarkable). Valuables contained in parcels, cheques and other items of interest might succumb to redistribution of wealth and never reach their intended recipient.

This has left many business people and entrepreneurs around the world to rely much less on this method of communication. Important documents and valuables are sent via courier companies and general communication is left to e-mails. The crux is that there are fewer and fewer documents, letters, invoices, etc., sent via snail-mail.

If I was employed in that industry I would do everything in my power to try and keep the industry as healthy as possible. Use all means possible to ensure the longevity of that industry. When I see postal workers striking I shudder in my boots. Do these people not see the reality? Can they not see that their very industry is under attack? Yet they happily continue to push their employer into a more and more difficult position. I would expect to see these postal service workers sitting on paint tins, chewing a match stick and complaining how hard life is because their employer no longer exists. I am sure the only comment you can expect from our hapless unemployed is "I'M SUFFERING"

This Industry has not, however attempted to find an alternate source of income via an offshoot industry which may be the logical way to move – they are frozen and fixed on a sinking ship. Bon Voyage, I say.

Photo Industry

Do you remember when the family were all preparing for their annual vacation? Mom, Dad and all the kids would get themselves all worked up months before the start of this happy time. The tents were taken out of the closet, cleaned and mended to ensure the smooth erection thereof at the camping site. The camping gear was all neatly laid out, compared to the inventory listing and new items acquired. New batteries were acquired for all the torches and they were all routinely checked.

Then most important of all dad would dust off the family camera; acquire some new spools of film – ensuring that they are all kept in a cool dark place to ensure maximum colour and clarity on exposure. Said Camera’s batteries were changed and the flash bulb tested to ensure that no mishaps would occur on vacation.

And then they’re off. The family Studebaker was packed and the caravan’s lights were checked to ensure safe driving to their favourite seaside destination. As the holiday progressed, carefully posed photographs of family, friends, and casual acquaintances were happily snapped. The beautiful scenery also deserved recording. End of the vacation!

Dad goes off to the local family pharmacy and hands in the exposed reels. A few days later he goes back and pays a small fortune and obtains the treasured holiday photographs. With a sense of mixed feelings he returns home to show the excited family the last remembrances of the holiday, ever mindful of just how he has been ripped off, to a lesser extent, by the film merchant and most appropriately the developer of the exposures. The pictures are then relegated to a picture album, most likely never to be looked at again.

In a very short period of time the world has changed. Nowadays the film exposure industry has almost completely died. How quickly it happened is quite a surprise to us all; but none-the-less; it’s doornail dead. I am not sure where one would even go to buy a roll of film these days; I can’t think when last I saw a film-utilizing camera at any local electronic store. Digital cameras are the norm now. These little devices can take hundreds of pictures and store them on a memory stick. The price of these cameras has reduced significantly over the last ten years. I can remember at the turn of this century acquiring a digital camera which used the old 3.25 inch stiffy disks. This camera cost me at that time, eight times what a very basic introductory camera would cost now. The introductory camera of today has an amazing memory and a host of features that would dazzle the most avid photographer of the 1980’s. But this wonderful new technology, where daddy is able to encourage his children to take more photo’s, just in case there are a few amongst the hundreds that are useful, has basically spelt the end of the film industry.

Now looking at this side of the vacation it is easy to see that when the person tries to sell us the photography shop it will be a no go long before he shows you the last number of years “actual” results and the sunshine projections. The industry has simply doomed the use of film.

I am not suggesting that photography is dead. On the contrary, the taking of photos now being so much cheaper than before and the storage of the data is easier and more convenient than before – just look at the new tablet and mobile phones –

which certainly encourages more amateur photographers to take to the streets in the quest for that “special moment” captured in time.

Printing Media

In its time the printing press was really quite an engineering marvel. As far as my limited research could find the earliest dated printed book known is the "Diamond Sutra", printed in China in 868 AC. As with anything that happened buckets of years ago it is suspected that book printing may have occurred long before this date.

Johannes Gutenberg, a goldsmith and business man from the mining town of Mainz in Southern Germany, borrowed money to create and develop a technology that changed the world of printing. Johannes Gutenberg invented the printing press with replaceable or moveable wooden or metal letters in 1436; and completed by it in 1440. Yes, he was not in a roaring hurry, and perhaps influenced me in the way I took my time in writing this book. Gutenberg’s method of printing was a revolution in the production of books; making them easier to print, plentiful and CHEAPER. Naturally that is always a great hit, and it seems that some things don’t change over time.

Prior to this wonderful new invention, the world was reduced to rows of monks sitting on hard benches all reproducing the same document. This labour-intensive process was fraught with problems in terms of time consumption and accuracy in reproduction. In the middle ages, I suppose the Pope and the entire Catholic Church were not able to check each reproduction and so accuracy whilst a requirement, was not easily monitored. Testimony to this would be of Martin Luther; when he made a nuisance of himself insisting that the version of the Bible that he had been given had been modified to suit the reigning Pope and his Catholic peers. Also the Catholic Church had an abundant supply of priests and nuns who flocked to a life of celibacy either through religious observance or through poverty, and had nowhere else to go. However, as things changed and people encountered the Renaissance and the idea of reading more widely, questioning old established ideas became rife.

The religiousness of the middle ages saw to it that Gutenberg started by printing the Bible and other various articles. Now it's not a fact that he printed the exact Bible that got up the Pope's nose, rather the version of the Bible that he printed.

Finding older versions of the Bible which were written by monks that pre-dated his press, revealed several interesting omissions and definitely some Catholic Church advantageous inclusions. Now that some newer ideas could be printed and the average bloke could read it, enabled the man in the street to print and distribute information previously unavailable to the masses. Despite the uprisings and bloodshed, I guess it worked out all well at the end of the day.

Again I digress; the Gutenberg press with its wooden and later metal movable type printing made such documents available to the masses at affordable prices. The significance of this was that when the masses learned to read,they started to ask annoying questions of the average monk and generally became a huge pain to the ruling classes. Admittedly, even for the average Pope, King or Ruler, it was a great invention and remained the proven standard until the 20th century.

Along this path of technological development, came the amazing ability to see events “live”, sit in our living rooms like fixated stunned mullets, and watch – television!

Being able to view clips of what is going on in real time and see the reporter reporting live from the earthquake or civil war area, is both astonishing and frightening. Why wait for some reporter to see what’s going on, then write his report, fax/phone his observation to a colleague who then edits the story, presumably to advance circulation figures, regardless of the truth; has it sent for printing, at which stage the finished produced is then distributed swiftly via a very efficient network of delivery vehicles to that street corner or news stand where you receive your copy of yesterdays news! Whew!

A load of physical and logistical effort going into producing news that, 24 hours later, became irrelevant and sensationalistic but was most useful to wrap up our fish and chips; or to clean up the new puppy’s mistakes in the kitchen.

The crux of the matter is that people have enthusiastically moved over, in the main, to electronic news media. It does not necessarily mean that the major networks spend any less time enhancing the news to improve ratings, or that their video clips are any more accurate reflections of the entire slew of facts at hand. In fact the end user gets the same version of events as he did before, just a lot quicker. There is no way that the printed press or printed books are going to speed things up to beat television; hence ultimately, the printed media is doomed.

As electronic media becomes more accessible and more user-friendly, more people will utilize the electronic form. It is my prediction that some of the larger daily newspapers will not be publishing their creative art within the next few years. The main-stays who have been there since Pa proverbially fell off the bus, will in all likelihood have some longevity but ultimately they will succumb and either publish their articles on-line or join the ranks of history.

Magazines were always Mom's favourite. She would read about the scandals of the rich and famous, psychologically understand the inner feelings of the housewife who caught her husband in bed with the neighbour's wife, and tear out mouth-watering recipes which taught her how to enhance the taste of brussel sprouts. This handy product religiously purchased as mom's little treat, has starting to suffer under the momentum of television and the internet. Mom now gets those cooking gems directly from the naked chef's website. The scandals have surprisingly found their way onto the major news networks and the psycho analysis is now probably procured at the weekly tea parties or on talk radio; all rendering magazines somewhat archaic. Evidence of this can be seen in the amount of "general news" magazines which have slipped into obscurity. The mainstays will in all likelihood be the specialized publications. Those that deal with motor cars, a particular sport or activity, or that which retains a small but loyal band of supporters will have a better chance of surviving into the future.

The “electronic book” was launched and was enthusiastically adopted; just about all the ladies in my wife’s book club either owns one or is talking about convincing their husband’s that this is a suitable gift for any occasion, and one which will be highly appreciated!! With this extraordinary device one is now able to download a book in seconds, and share it with pals. Diminishing are the days of going to a book shop and enquiring about a particular title; or alternatively, browsing the book shelves to find something to your liking. Now you can browse endless amounts of book titles and acquire the one that bestsuits yourmood and get it without moving from your seat. These books come complete with pictures, reviews and a “teaser” for you to read to see if you’ll like it. Some will even read the book to you! The convenience of all!

Gutenberg’s’ invention was brilliant in its time but technology has moved on and I believe that all printed items, magazines, news papers and books form part of this soon-to-be-dead industry.

Petroleum Industry

This is probably one area where all the Middle East Oil Sheik’s, most Texas Oilmen and a handful of North Sea Oil Executives will provide prolific arguments as to why I am totally incorrect; and argue further that the oil industry is still on the climb.

The truth is that anyone who has just a little bit of an open mind and common sense can see that this is probably the biggest industry on the precipice of the greatest fall ever. Interested parties will go to great lengths to point out the many different uses we have for oil and its products. It really is quite amazing that we are able to use oil for heating, making of plastics and as a propellant. Not only does it manage to move the Oil Sheiks many aeroplanes, tanks, stretch limos, etc., but it basically keeps the entire Middle Eastern economy well greased and moving.

The truth is that the motor vehicle is the greatest single user of fossil fuels. One look at a Californian city, or for that matter, any city in the world, and the rows of commuters driving to work in the morning will attest to this fact. We have become totally dependent on driving from one place to another. I must admit that the freedom of having your own vehicle gives you mobility and great peace of mind. To my slightly obsessed mind, motor vehicles are one of the most amazing contraptions that man has invented. They can propel you from a standing position to 60m.p.h in absolutely no time at all. They can keep you cool with air-conditioning, ease the strain on your biceps and shins with the use of power assisted steering and braking. They play pleasant music on a variety of very modern and clear sound systems. The mechanical/electronic devices can even tell you how to get to your destination and how long it will take you. These are standard features when purchasing that luxury SUV. We have become so accustomed to the convenience and luxury that we would be insulted if anyone dared to take it away from us. The result is that men and women have become more and more insistent that we all should have a vehicle. Thanks to Mr. Henry Ford – an American who worked out a way to make these contraptions as quick and efficient as possible, most of us have the privilege of owning one. Even in poorer nations, you see large groups of people with their goods and families, sitting on some kind of moped derivative, moving hurriedly from one geographical place to another. Motor vehicles have become an integral part of society and are a massive consumer of fossil fuels.

It is always surprising to me that many in the Middle East detest the American way of life when in fact their fortunes have been realised on the back of an American invention.

Man's own vanity is also driven by the manufactures ensuring that newer models are available as soon even before you take possession of your new gorgeous pride-inducing- model. And, worse, these newer models come complete with even more toys than before. Resulting in planning how long it must be before you can upgrade your, now - slightly tarnished – less gorgeous model.

Man's ingenuity knows no end. It has ensured that these contraptions are more and more reliable, very comfortable and safe, and in fact, an extension of our egos. The motor vehicle has one little problem which we are more than able to rectify. These contraptions require their petroleum tanks to be regularly replenished, As the use of motor vehicles expand exponentially, their insatiable thirst requires oceans of crude oil to be extracted from the earth and refined into a product which can be used by said contraption.

A quite phenomenal industry was created, in which is oceans of fossil fuels are moved from far flung reaches of the world to where we happily drive from the super market to where the kids play rugby after school to home and repeat the exercise daily..

Massive ships and long pipelines are utilised to move variants of this fossil fuel, great distances, (relatively) safely and efficiently. When the oil is close to our vehicles, massive storage containers have been constructed to house the product. After the refining process, the product is now a usable liquid or gas. It is then trucked to a warren of subterranean tanks. Lastly, with a chirpy smile (or grimace – depending on the cost of the commodity), you swipe your credit card, and voila, your contraption is ready to go. Let's face it, the replenishment exercise certainly takes far less effort than the that of the Bedouin who is required to coax the 'ship of the dessert' to get off his knees, shape up, and ship out for a gruelling trek across the murderous sands of the Arabian desert.

The problem is not that we **can** extract, refine, move and store an ocean of fossil fuel, but that we **have** to. The logistical brilliance is staggering and is stimulated by our endless demand for fuel, required to keep all our various contraptions running smoothly.

The common motor vehicle to which I referred earlier is one of the single biggest users of the fossil fuels. If motor vehicles had to either stop utilizing fossil fuels or even drop their consumption by 75%, we will no doubt see a massive glut of oil on the world market. There have been great strides made to produce motor vehicles that are "emission free" or "low emission" vehicles. It is a pity that politics in the United States of America have such a profound influence on the development of these types of vehicles. When President Clinton was in the White House and carrying on with all kinds of shenanigans with the likes of Monica Lewinski, his Administration's policy was to pursue the technology of emission-free vehicles. Quite early in his tenure the goal was set that by the year 2000 as many as 5% of all motor vehicles in the State of California should be emission free. This lead to various motor vehicle manufacturers pursuing battery powered motor vehicles as a viable alternative.

My late father maintained that the problem with battery powered vehicles was that the traditional lead battery was a very poor storage device for electricity. He said that when the need arises man will rise to the challenge and dramatically improve the battery. Well, the need finally arose when the average Joe Soap wanted a lightweight cell phone with standard features like e-mail, electronic diary, sms, MMS, and Global Positioning Satellite. Oh and I nearly forgot, it must also be a cell phone which needs to be charged only once a week for an hour or so and have at least 8 hours of talk time. Stylish and light weight is the acceptable minimum today, but in 1990, that was just not possible.

Coupled to the cell phone was the essential business tool, the laptop and now the tablet. The first of these machines were neither light nor compact. The battery, in size and delivery was the major obstacle. Man's ingenuity was again tested and he proved he could once again master his shortcomings.

Nowadays the modern cellular telephone and the laptop, palm top or tablet has all the features that are required. The point being that along with the improvement to all these "toys" came improved battery technology. Lightweight batteries which can deliver massive amounts of current, - relatively speaking; represents new opportunities for our motor vehicle manufacturers.

"All truth passes through three stages.

First, it is ridiculed.

Second, it is violently opposed.

Third, it is accepted as being self-evident."

- Arthur Schopenhauer

During the George W Bush years, the world saw very little development in terms of alternately powered motor vehicles. The Texan oilman looking after his daddy's golfing buddy's oil interests saw no benefit in having vehicles reducing their consumption of fossil fuels. In 1997 General Motors launched the EV1 which was one of the first proper attempts to produce and commercially market an alternately powered motor vehicle.

The company launched a number of units all through the use of leases. This was largely in response to the Californian Air Resources Board which had implemented a target that 2% all cars on Californian roads were to be emission free by 1998. A further ambitious target of 10 % by 2003 was set in place. The major manufacturers were understandably appalled. General Motors (GM) was plagued with several technological problems and was eventually forced to recall all their units. GM finally concluded that effective technology was not available at that time and that the program could not be implemented to ensure that it was commercially viable.

This strange conclusion was made despite the total take up of all the units GM could produce, and despite too, the market demanding even more units. Many special interest groups believe that the big oil companies had a major hand in General Motor's decisions to terminate its Electric Vehicle.

Now some fifteen years later with a Democrat in the White House we see federal resources are once again being channelled into alternative-powered motor vehicles. Pressure is being placed on regulatory boards to create new and stricter targets in order to assist the new technological environment.

With the improvement in the technology in battery powered vehicles I am of the opinion that having a battery powered motor vehicle is in fact almost a commercial reality. One of my hobbies is flying radio controlled aircraft. In the eight years that I have pursued this hobby, I have seen a distinct shift of enthusiasts from the traditional gas powered aircraft to the battery powered – electric–aircraft. The only reason more enthusiasts have not moved over to electric aircraft is that many of them invested considerably in gas powered kits. One finds that new entrants, and enthusiasts who need to replace their kits, are happily moving to the electric cousins.

The distinction between motor vehicles and radio controlled aircraft is that motor vehicles are replaced at fairly distinctive intervals. In the United States of America motor vehicles are replaced on average, every four to five years. In Europe they are probably a year or two longer and in Asia it is shorter still as the Japanese driver is unable to get insurance cover on old cars; d in Africa, the average replacement could be as long as long as ten years. This suggests that as soon as commercially viable, electric or emission free vehicles will be made available to the man on the street. In this event, it would take no longer than ten years before the traditional internal combustion motor is reduced to the back streets of Houston Texas and the Smithsonian Museum. Even in today's fast paced economy that is actually an incredibly short space of time.

Motor manufacturers are not really concerned what propels their vehicles rather that the broader public chooses their vehicle as opposed to their competitors' vehicles. Sure it is true that the big Oil Companies will want to protect their interest and retard the development to the best of their ability. But you can't stop the inevitable; merely try to retard its progression.

The wonderful logistical marvel that needs to move oceans of fossil fuel around the globe in order to remain even remotely viable will find that supply has completely outstripped demand. What happens when the demand tappers off suddenly? Where do we put all this fossil fuel whilst we patiently wait for the current stock to be consumed? Who is going to pay for this fuel to be stored? I suppose this free market system, which we diligently congratulate ourselves for inventing, will dictate that we drop the price? Is that not how it works? The price will reduce to where demand increases and we reach a balance. Price elasticity is a model which economists have been teaching in our universities for years. But, in this instance could we not expect to have another outcome? Somehow, to switch off the machinery which works so tirelessly might be slightly more difficult.

The good news is that I believe in man's inherent ability to innovate. Somehow a plan will be devised to use this logistic marvel for some other purpose. Man will figure out a way to re-establish the balance.

I don't predict a total non-reliance on fossil fuels, but I have no doubt that the demand will reduce dramatically, which will have an adverse affect on an industry that has grown exponentially in order to accommodate the provision of huge amounts of fossil fuels.

Tobacco

This is not an area in which I wish to delve in detail. The anti-tobacco lobby has slated tobacco for decades. They have changed our views and pressurized the advertising folk to change their branding. Formula one racing has stopped using Marlboro Brand on the vehicles in certain countries. Big tobacco companies have found it difficult to hand out freebees at the local golf days and conferences. I think there is no doubt that the medical research conducted is accurate and that tobacco can do the average smoker no good at all. It is well proven that this product is carcinogenic and by far the majority of lung cancer sufferers are ex/smokers.

If you read the books of people who headed up tobacco companies they will imply that the addictive nature of tobacco ensures a loyal supporter base throughout the economic bad times. This being said there is no doubt that severe pressure is placed on the providers of tobacco products to curtail their promotional/advertising activities. Again it's not to say that in a few years tobacco won't be given away at the local pub or at the local trade union meeting, but rather that the industry is not seeing increased pressure to support the industry.

Walking around the local mall I strolled into the only tobacconist in the shopping centre only to find that the majority of his merchandise was made up of a range of pub type toys and gifts. Small Airplanes, golf carts, playing cards and dart boards littered the shelves. But where are the smokes? Those Cuban bad boys and Harley Davidson Lighters were all carefully hidden behind the counter. No cubicle to try out this exquisite blend tobacco from the far reaches of the planet. You can smell the ingredients but if you wish to light up you had better head off to the parking lot. If you were making a quality pipe for the discerning pipe smoker, I think that in a short while you could count your clients on your one hand. My father had a range of pipes along with very pretty pipe holders. Even being a smoker for a long time I have never accumulated these kinds of toys. I am not sure why, but cigarettes were for me and the toys never featured.

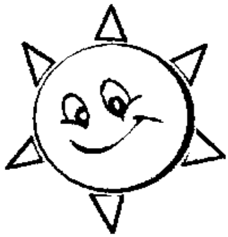
The point is that the makers, distributors and retailers cannot be thinking that their market is still increasing, Even with the new adherents (read: kids) the older users are falling by the wayside for various reasons... No government encouragement to supply an eager and willing consumer. No tough guy, ruggedly handsome, appealing to every woman (and some men) type 'Camel Guy' model to spur our young into a lifestyle they would like to embrace. These tough guys, (those that are still around) are now all clean living, vegetable-eating super hero’s that gets in eight hours of rest per night.

So despite how good that smoke may be after a couple of frosties it still remains a social no-no. Therefore, I certainly don’t see big time opportunities for our willing entrepreneur.

CHAPTER 6

"Don't stay in bed, unless you can make money in bed."

- George Burns



BUDDING INDUSTRIES

In stark contrast to the dead industries, there are industries that are the exact opposite. Industries that I believe are about to really take off. These industries are still in their infancy and are very likely to mushroom in the future. How long and to what extent they will prosper is anyone's guess. All that I am saying is that these industries are where I would want to position a new venture. I have no doubt you could cite several more, but these are but a few that come to my mind.

Solar Power

Renewable energy sources are currently all the rage of the moment. We are all talking about them and the major news networks are screening programmes of ingenious ways various types of natural energy could be harnessed in order to power several thousands of households. The most popular of these energy sources comes from either solar power, wind power or some other kind of renewable energy source found in nature. Several problems do however exist.

An army of engineers is always waiting to tell us that the traditional coal fired power station is most cost effective. These make power at X US cents per megawatt and, solar, they inform us, is many times more. When I challenge these engineers to leave the accounting up to me and go ahead and design something that can make many megawatts of power, they want the money up front. This clearly proves that engineers are NO dummies. The point is though that they spend all day telling non-engineers how stupid they (the aforementioned non-engineers), are, and absolutely no time in trying to solve the problem at hand.

Solar power / wind power / other natural power all have massive potential to offer our entrepreneur; the down-side is that it requires very clever technological advances. In laboratory conditions solar panels harness a maximum of 20% / 30% of the suns energy. In the field the average recovery for a host of panels is around 10%. Now to any practical person that would indicate that there is loads of room for improvement. If these cells were able to obtain 50% in the laboratory and 25% in the field then we would be in the money! Keeping the size the same and more than doubling the energy output will more than half the price!

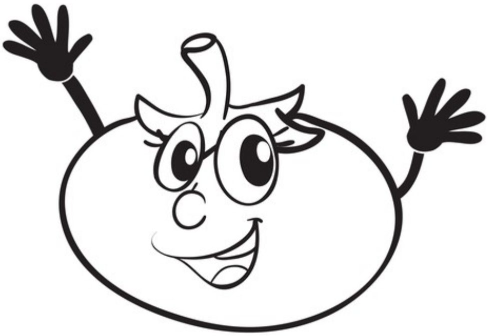
The down-side is that one needs to be a real propeller head to invent something different or significant enough to improve on what's currently available. It's not really like the old days when you could insert the kink in the hair clip and people would have you on popular talk shows. No, improving on this type of technology will require some serious chemical engineering skills. The key issue is that the improvements are already there and it's simply a case wanting to find them. Just like the lead battery, when that suited our needs, the engineers told us that it can't be done. Cell phones and laptops have changed the thinking in battery power so what do we require to change solar / wind / renewable energy?

Just remember that to be effective in your new venture does not mean that you have to be the sole inventor but rather that you are in the mix. If the industry is going to grow, you go find a suitable slot and work your way in.

Alternately powered motor vehicles

Don't see my previous comments surrounding fossil fuels as doom for the motor industry. I am not advocating that people do not need to travel!! It's just what's in the tank that will change. Fossil fuels have been convenient and a massive industry was created. Role players also protected this industry well past its sell-by-date. The truth is that the motor manufacturers actually don't care what goes in the tank; they are more interested in giving satellite TV to the passengers to induce the consumer to purchase new vehicles. With impending changes on the horizon I do believe that this area leaves huge and profitable gaps for our entrepreneur to explore. Along with these changed motor vehicles come all the peripheral items. Meaning: potential for our entrepreneur. Inventing the new fuel cell is, in all likelihood, well out of our hands but selling the mp3 player converter jack that works off a fuel cell car may just be the ticket. The possibilities are endless and no single idea may be the winning ticket but it’s the industry which has a big area in which to expand.

Health foods



This trend is definitely not new. In the 1970’s we were chewing on celery sticks watching Debbie Does Dallas. People have wanted to be more alive and vibrant since the beginning of time. I suppose this area is about the opposite of tobacco industry. The health nuts have heavily supported this area. Even the chain smoking politicians, sipping on their single malts after the budget speech have congratulated the minister of finance on his increase of the “sin taxes” Never did it cross his mind to slap on an extra 20c per kilogram on the price of carrots. No, that would be considered political suicide even, in Zimbabwe with Mr. Robert rigging the elections.

This area has also taken the bull by the horns and really exploited every avenue that is available. These days we can even have milk made from Soya beans or Rice. I would not be surprised if I were to go into a health shop and be offered biltong flavoured seeds. Almost anything is possible. Put silk worm droppings in an environmentally friendly container with a sign that the silk worms were not placed under any duress whilst placing their little gems into the container, and I believe you may have the next hit in health kick circles.

Although it may not be your or my cup of tea, it is certainly an area where things are growing – excuse the pun. I can almost see the next generation walking to school playing the latest game on some kind of hand held device chewing on organically grown chives. These same kids may find the only release is contained in a gram or two to Columbia’s finest export. Our Woodstock veterans would cite these products as being perfectly natural.

The industry is growing and finding more innovative and better ways of re-inventing itself. No natural predators and a sympathetic political ear almost guarantee its success.

CONCLUSION

"If you are going through hell, keep going."

- Sir Winston Churchill

Starting and running your own business is not an easy feat. It requires skill, dedication and a whole heap of luck. Common sense is always a vital component of thinking clearly on your feet, and it's only thinking on your feet, with good information at your finger tips, that will give you the opportunity to make a good decision when required.

Never look back and say that you should have made another/different / better decision. The past is cast in concrete but the future is as malleable as clay. The future is in your hands to shape. Never chastise yourself about a poor decision. It doesn't help and just wastes your time. Looking back can certainly give you guidance as to what indicators helped you make good or bad decisions. What you need to do then is consider how you intend to make better decisions in the future. What can you do not to repeat the mistakes of the past?

Your enterprise is guaranteed to be the most exiting journey of your life. Hard work, steel nerves and good luck are some of the ingredients required to make a success of your enterprise.

"It's kind of fun to do the impossible."

- Walt Disney

Good Luck and may good fortune smile on you.