



# Sally Starts a Business

With Facts, ~~Not Faith~~

*A Short Story*

**Glyn Davies**

First Edition, November 2019

**DTC**

**Don't Think, Check!® Ltd.**

# Sally Starts a Business – With Facts

A *short story*

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## Cover Photo

*Wishing for St Francis* by Bing Dawe.

## Resources

For corrections, clarifications, and additional material, please use this [link](#)<sup>1</sup>.

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<sup>1</sup><https://www.dontthinkcheck.co.nz/blog/sally-starts-a-business-with-facts-1st-edition-resources/>

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## **Dedication**

To Caroline, Danielle, and Dominique.

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## About The Cover Picture

Bing Dawe was awarded the Stoneleigh People's Choice Award for his work from the series, *A landscape with too many holes*, 'Wishing for St Francis' on 14 February 2010.

Bing Dawe's sculpture is made from laser-cut steel and native birds crafted from bronze. It reflects Dawes' ongoing concern for New Zealand's native flora and fauna with birds swirling and posturing around a stylised tree trunk. *Stoneleigh People's Choice Award goes to Bing Dawe*, 12/02/2010, Scoop.co.nz, accessed 2/11/2019.

Much like Dawe's sculpture, our knowledge when it comes to many fields of endeavour, and especially for the topic of this book has many *gaps*. And as for swirling and posturing, perhaps we should instead focus on providing value to our fellow inhabitants of this planet we call home.

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## Foreword

People learn and retain more information and knowledge from stories than they do from dry textbooks. We love a good story, with quests, villains, and conquering heroes. The story format seems almost tailor-made to program, reprogram, as well as entertain us.

In an attempt to help people to start their own business, I wrote the story of Sally, and her quest to start her own business. But the story of Sally does not follow the typical narrative arc of the [hero's journey](#), Sally's story is, I'm sorry to say, much more pedestrian than that.

This story is a work of fiction based on other stories of fact. The places, names, and conversations are all figments of my imagination, based on composite stories I have heard, read, and seen unfold. Any resemblance to specific people, places, or events is coincidental.

The purpose of this book is to illustrate that there is a repeatable process for starting a business and that starting a business need not be a gamble. A challenging and risky undertaking? Yes! A gamble? No need for it!

Maybe by following loosely in Sally's footsteps, you too might be able to start your own business. Then again, perhaps not, or not now or with your current resources and ideas. Attempting to start a business by following an evidence-based process but finding out that starting a business is not for you or not the right time, or that you haven't got a solution people value and want to pay for, is not a crime, and is nothing to feel ashamed about. Starting a business is not for everyone; there are vastly more reasons for a person not to start a business than there are compelling reasons for doing so. *Giving it a go*, as we say in New Zealand, and learning why you should, or shouldn't start a business is the purpose of this book.

In contrast to Sally's journey, I have also written a story called *Sam Starts a Business - With Faith*. Maybe Sam's story will be informative as a contrast to how Sally approaches and embarks on her journey.

I hope that you enjoy Sally's journey and that you obtain some benefit from this story.

Best regards,

Glyn Davies

November 2019

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## In The Beginning

In a parallel universe to Sam's, Sally was born in the Waikato town of Paeroa New Zealand, and at a young age, her family moved to Auckland. At the time of this account, Sally was twenty-five, still living in Auckland, and married to Robert, twenty-six, and together they had a young daughter of three years called Aroha.

They lived as harmonious as could reasonably be expected, for a household with two working parents and an active three-year-old. They were happy. They had settled into a routine, and Robert and Sally were starting to think about a kitten or puppy for Aroha.

In her job as an Electrician with BMR Electrical, the routine of taking a new house and pre-wiring it, returning later for fitting off of sockets, light switches, and appliances, ..., rinse and repeat, in all weathers and almost always under extreme time-pressure, can get to a person after a few years. And it had been a few years for Sally. It all started with a four-year apprenticeship, followed by five years to date as a qualified Electrician. It was steady, if not repetitive work, but the pay was good, allowing the family to live a comfortable but not extravagant lifestyle.

Robert and Sally looked forward to the day they could move into their own home, but until then, the rental would have to do, and they had to keep up their savings plan to build their deposit. And hope that their car, or anything else for that matter, would not break down any time soon.

So even though life was comfortable and she was happy, Sally was becoming increasingly dissatisfied. She had been working in the profession now for nine years, and she didn't relish continuing on the path on which she had set out. With the current retirement age being 65, Sally had another 40 years stretched out before her in an unbroken, repetitive, and indeed tedious path. She wasn't looking forward to it at all.

From time to time, Sally revisited an idea that she had been toying with for a while, she wanted to go out on her own, to start her own company. For Sally, it made sense; as a registered tradesperson, she was paid \$35 per hour whereas BMR Electrical charged her out at \$75. "Wouldn't it be great to get all of that?" she thought, and getting paid more would certainly make the long stretch to retirement a little easier to tolerate.



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## Out Fishing

Sally spoke to several of her friends while out on a boat fishing.

There was Jock, also an Electrician, with five years as a tradesperson. There was Shayne the Carpenter who had recently completed her apprenticeship and whose certification party they had all attended the previous weekend, and finally, there was Antoinette (Toni) the Plumber, the boat's owner and seven years a tradesperson.

Bobbing about in the bay at their favourite fishing spot, in the sun, and quenching their thirsts with a few beers, the conversation drifted between the merits of frozen versus live bait to the Tall Blacks' last game and then to whining about work. It was a safe environment out on the water, and they could moan all day without anyone eavesdropping, telling them to "harden up" or popping their delusional rants with inconvenient truths.

Noticing that Sally had been a bit quieter than usual, Toni asked, "Hey Sally, what's up? You're unusually quiet today. Normally we can't get a word in edge-ways!"

Sally cleared her throat, "well I've been doing some thinking," she started.

"Well there's your problem for a start, you don't want to start that nonsense, you might burst something," quipped Jock to roars of laughter from the others.

"Yeah yeah, I know, hilarious, but seriously, you all know I'm making \$35 per hour, plus overtime, so life's not too hard, but BMR Electrical is charging me out at \$75. Imagine what I could do with all that! They're creaming it. I could even buy me a boat like Toni's here. And even buy my own Toyota Landcruiser to tow it around with."

"Yeah mate, good point, well made," said Jock.

And Shayne added, "that would be almost double your wages! Sure there'd a bit of paperwork, that's where Robert could pitch in, but it's probably worth a go."

"Well, in my experience, there are probably a few details you'd need to look at before leaping," suggested Toni. "The devil is in the details! Or so I've been told."

Before the *clowns* could make their typical witty retorts, Sally quickly asked, "what do you mean Toni, have you got any examples?"

"For a start, we humanoids tend to be over-optimistic, and we also tend to underestimate the downsides," said Toni. "For example, when you go out and get a quote on a vehicle, you'll believe that that's its final cost for a year or two, but you'll need tyres, servicing, and you'll probably bang it up on a construction site - you know how rough those places can be. And then," Toni continued, "you'll be expecting all the cards to fall your way, that you won't have any mishaps, that in short, you won't have any problems. Most people tend to underestimate what can go wrong, don't budget for it adequately, and all that is compounded by an over-abundance of self-confidence. A deadly mix mate."

"Tell us more" added Jock, "I've had similar thoughts. And here's some more truth-serum to help you along."

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Toni took another gulp of beer and continued, “there’s more to starting and running a business than meets the eye. We all have seen those smart-alecks with their smiley faces driving their new and shiny Rangers, and it looks like they have made it. But the truth is probably not quite so flattering. The truth is, their job isn’t being a peacock displaying their shiny toys. Being a peacock doesn’t pay much the last time I checked. I read somewhere that customers buy what *they* value. From what I can make out, peacocking doesn’t have much value and it certainly doesn’t pay the bills.”

“Another excellent point, well made,” laughed Jock.

The conversation continued for a while on the merits and the mechanisms for starting a business, but Toni, not one to suffer any amount of prolonged wild speculation and guessing, finally blurted out in frustration, “you know what guys, hands up who’s started their own business.” No one raised a hand. “Just as I thought. Listen, Sally, we could go on dribbling nonsense and guessing until we have fed all our bait to the fish, or, you could go start tracking down some experts who know. The blind leading the blind will not find that path to success.”

“Great idea, thanks, Toni,” said Sally.

And just as quickly, the conversations returned to the standard topics, more truth-serum was drunk, and more fish were fattened up.

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## The Homework - Assignment One

After the weekend, the thought of going out on her own kept creeping into Sally's mind. "Surely it can't be that hard," she thought, after all, she knew the job as she did it every day and often managed a team and whole projects herself.

Then Sally caught herself. She knew Toni wasn't one to lecture, but she had been quietly successful, after all, they had all been out on her boat, she had a big Nissan to haul it around with, and she knew that Toni didn't have any more debt. "She usually knows what she is talking about," remembered Sally.

Sally wasn't sure where to start on her quest, but respecting Toni's advice decided to call her. "Hi Toni, I've been doing more thinking about starting a business, can you give me a hint where to start please?" "Sure," said Toni, "but you know I haven't got much experience either, right? But where I would start is with the government [business website](#)<sup>2</sup>. They have loads of interesting stuff for free. I had a look there a few times myself. Also, I've heard that the local Chamber of Commerce has resources on its website and also has a free business mentoring programme. Well, it's not completely free as it costs about \$250 to sign up, but then you have an *all you can eat* mentor for 12-months. A great deal if you ask me! But wait, there's more. I've also found some interesting templates and info on the [New Zealand Trade and Enterprise](#)<sup>3</sup> (NZTE) website as well. There's bound to be more resources too; you'll need to dig for them."

"Thanks, Toni," said Sally, "again, you have been a great help. My shout next time."

Sally visited the websites that Toni had recommended, "a boatload of useful stuff," thought Sally, "I'll be reading this for years!"

Sally started to feel overwhelmed. There was so much information to *take on board*. But then she remembered some things Toni had told her, "ignoring something doesn't make it go away or reduce its impact. Furthermore, there will be a heap of things for you to learn, so remember the parable about eating an elephant, you do it one mouthful at a time. It's called chunking, where you break a large challenge into smaller and manageable chunks and sort out one chunk at a time. If you persist, you'll eventually get through all the chunks and complete the whole. And a final thing, you can't do it all by yourself, you're going to have to reach out for help, and that includes getting Robert's buy-in." Sally nodded to herself and resolved to tackle it all and do a thorough job. It was just going to take a while.

Before committing to looking into it further, Sally and Robert had many conversations over the following week, taking their time to explore the concept as far as they could, as well as exploring the inevitable disruptions to their current lives.

"Let's do it," said Robert, "let's commit to finding out what starting a business is all about, and if the risks are manageable, we'll leap. I'll look after Aroha and the chores while you're focused on researching. If there's anything you want me to do or check, let me know."

They decided to take things one step at a time, by expanding the limits of their existing knowledge before taking the next step to extend their knowledge even further. There was plenty of material to

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<sup>2</sup> <https://www.business.govt.nz/>

<sup>3</sup> <https://www.nzte.govt.nz/>

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study, but they made a point of seeking out evidence-based materials and avoided the evangelical *three simple steps to nirvana in only three easy payments* as they would the plague.

Sally called the Local Chamber of Commerce, where she talked to the friendly and helpful Jill. Jill told Sally what their Mentoring Programme was all about, and Sally signed up on the spot.

Mike, the Mentor, called Sally a few days later, and they arranged to meet at a nearby café.

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## Mike the Mentor - Meeting One

Sally told Mike what she was thinking about, and all the research she had already undertaken. Sally also expressed her concern that she suspected people were making the whole starting a business thing a bigger deal than what it was. “After all,” Sally told Mike, “I know the job, I’ve got all the tools, and all I need is a work truck, and I’m away!”

“I understand the sentiment” replied Mike, “but starting a business *is* a big deal, there are a large number of moving parts, and there are many details to get right. Despite all the peacocking you might have seen by smiley people in shiny vehicles, peacocking doesn’t pay the bills.”

“For a start, who is your first customer?

And when you’re busy with the first one, from where are you getting the second?

And then the third and so on?

You also said that you needed a Landcruiser. Are you sure?

Why won’t a cheaper Safari do the job, and again are you sure, have you checked?

And where are you going to get the money to buy the vehicle, buy any extra tools, ladders, pay an accountant, and pay your suppliers by the due date?

The bank? What plausible story are you going to tell them?

You know there’s often a time-gap between you needing to pay your suppliers and when you get paid, if ever. Have you got enough money to cover such gaps?”

Mike was laying *it* on really thick but felt he needed to. He’d seen that wide-eyed delusional look before. He needed to get Sally to appreciate the size and difficulty of the quest before her.

Mike concluded, “what you need is a Business Model that works for you.”

“There’s that term again, what the heck is a Business Model that works?” thought Sally.

Mike continued, “there’s more to business than peacocking to impress people. Customers only buy value, not products and services. For instance, nobody honestly wants a light on the ceiling that collects fly poop. What they want is the value that the light provides them; they want to be able to see at night and not shin the coffee table.”

“A Business Model that works is the secret sauce to any successful business. With the way people go about starting businesses and peacocking, you’d be forgiven for thinking that the information needed for starting a business was a state secret, but it’s not. Essentially a [Business Model](#) is a money-making, or to be a little more generic, a value-exchanging machine. Not a machine as in a drill or an egg beater, but a machine as in a system with inputs, processes, and some outputs ([solutions](#)).

In summary, a Business Model is essentially a system:

1. That creates benefits (something of value) for customers, AND
2. Where those customers are prepared to pay you money (something you value) to receive those benefits (something they value), AND
3. Where an essential component of this fair exchange of value between willing participants is that you sell the benefits for more than it cost to create them, plus profit, AND
4. Where in the process of delivering the benefits, you do not remove or erode value by frustrating or annoying your customers.”

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Mike took a sip of coffee and took a deep breath, that had been quite a speech, but it was essential to lay out the reality, then he continued.

“So that list defined what the essence of a Business Model is. But an essential component of a Business Model *that works* is attracting enough customers, so to that list, we need to add:

5. Where there are sufficient prospective customers and repeat customers available to sustain your Business Model.

You haven’t got a Business Model that works if you need ten customers a week but will never likely get more than five on a good week.”

“I have a Mentor colleague who has created a company called Don’t Think, Check!® Limited. (DTC), and has a website <https://www.DontThinkCheck.co.nz/> dedicated to helping people in business, including start-ups. The material on the website is free to use. He puts a slightly different spin on the material compared to others, he calls it *evidence-based*, as opposed to *wishful thinking-based* or *it must work because I thought of it based*. As an example, he puts the boot into those who peddle the *follow your passion down the yellow brick road* dribble; you need more than passion, and I agree. He’s also written a book, [Starting a Business - With Facts, Not Faith](#); there’s a free sample available.”

“Look,” Mike said, “there’s a large amount of material out there, with much of it of the *follow your passion* variety, but if you want a place to start to put things in order in your mind, begin with that website. In particular, start with the post [Starting a Business - See a need, fill a need](#), it’s mercifully short. Then you can move onto [The 1-Page Business Model](#), that with its handbook is only five pages in total.

Also, take a look at the government websites <https://www.business.govt.nz/> and <https://www.nzte.govt.nz/>, they too have loads of free resources as well.

Just be cautious of the material that you study; it should both be evidence-based and suitable for your context.

If you need any help, call me at any time.”

## Homework

“Well, we’ve covered a large amount of ground in this short meeting,” said Mike, “I need you to do some homework:

- Begin by reading the post [Episode 1: Starting a Business - Introduction](#). The post is an introduction to the eBook *Starting a Business - With Facts, Not Faith*. Follow and read all of the episodes; there’s only five in all.
- Visit the <https://www.business.govt.nz/> website. Follow the links and read the material to get a feel for the depth and breadth of what you ultimately need to know. If nothing else, try to remember what they have for future reference.
- Visit <https://www.nzte.govt.nz/> for the same purpose. They too have some informative materials, especially useful are their templates such as:
  - [Break-even Calculator](#).
  - [Your Business Plan Template](#).
  - [Planning for Success Workbook](#) - workbook to the Business Plan

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- Also, for comparison, read the post [Business Plans - When are they needed?](#) And then take a look at the Business Plan Template and Handbook on the DTC website:
  - [Business Plan Template and Handbook](#).
- Read the post [Starting a Business - See a need, fill a need](#).
- Also, download and read as much of the eBook [Starting a Business - With Facts, Not Faith](#) as you can. It may be a little abstract for you initially, but it delves into what works, why it works and provides loads of references for further reading for you to confirm things for yourself.
- But most important, work through [The 1-Page Business Model](#). When working through it, carefully consider the question about [Unique Value Proposition](#) (UVP), it's in Factor three, I think. A UVP answers the questions, "why you and why your solution? Why will people exchange money for your solution?" As an example, go and study why Southwest Airlines has been so successful.
- I don't want or need you to go out and do or buy anything. Just work through the material as far as you can as a *paper-only* exercise.

When you have completed the homework, get in contact, and we can meet again to discuss."

Sally's head was spinning, "so much to learn, so little time" she whined to herself. "And Mike's the second person to recommend those government websites. I must have a closer look."

After she arrived home and Aroha had been put to bed for the night, Sally made time with Robert to discuss the meeting with Mike.

"So far so good then?" asked Robert.

"Yeah," replied Sally, "but there are loads to learn and do. There's more to successfully starting a business than meets the eye. I'm glad we didn't just dive into it. There's a small chance that we might have been successful, but an even greater chance that it would have been a disaster. I'm glad I talked to and listened to Toni, and Mike is a fountain of information. There's still a chance that going out on my own is not right for me and us, but by working through a process, we'll have a better understanding of if it is or if it isn't and why."

"Sounds great to me," said Robert, "I'll take on even more of the Aroha and housework load to free you up. It seems like there's a large amount of work with all this research and study. If there's anything you need me to do, yell out. I'll be right here on the couch."

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## The Homework - Assignment Two

Over the next 2-weeks, Sally revisited the government websites, and then she visited the website of DTC.

Sally downloaded a sample copy of [\*Starting a Business - With Facts, Not Faith\*](#), and just like Mike had said, she found that it was a little abstract. “Why can’t it just tell me what I need to do?” she complained, “it would be so much easier.” However, reflecting on the title of the book, Sally realised that it was a general-purpose book, not a book specifically about how to start an electrical business.

“Damn,” she thought, “it’s not a recipe, but a description of a generalised process. It turns out that I can’t simply outsource the thinking and the caring!”



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Sally downloaded the 1-Page Business Model and found it comprised of 6 Factors (F):

## F1 - Job To Be Done

There has to exist a Job To Be Done (see a need, fill a need).

Write down here all the Jobs To Be Done that you have identified.

Choose the most important job on which to work.

## F2 - A Complete Solution

You need to develop a complete Solution (a product, service, and experience bundle) for that Job To Be Done.

Develop and describe here a complete solution for the chosen job.

## F3 - Prospective Customers Agree

Prospective Customers need to recognise that they have a Job To Be Done and agree that your Solution is the best alternative that they are aware of (doing nothing is an alternative).

Ask your target customers if they accept that the job you have identified is important to them and whether your solution satisfies that need.

What percentage of the total customer segment agree?

## F4 - Prospective Customers Are Prepared To Pay

Prospective customers must be prepared to pay the price that you need to both ensure your business's success and to achieve your goals (sell price covers all costs, plus profit). You have a Business Model viability issue if you get to this point having satisfied all the above only to find that prospective customers don't value your solution enough to want to pay for it.

Try to sell your Minimum Viable Solution (or complete solution).

How many sales did you get?

## F5 - Prospective Customers Exist

Prospective Customers must exist in enough numbers (if you need 100 per week but in all likelihood will only ever have 50 during a good week, then you have a Business Model sustainability issue). Have you determined the number with a Break-even Analysis?

With F3 and F4, you are likely working with a sample of the target customer segment population. The number of customers who agree in F3 is going to be less than the population, and in F4 the number is going to reduce again.

Are there enough customers left?

## F6 - Customers Advocate

Customers must be so pleased with your Solution, that they are prepared to advocate on your behalf, to in effect, sell your Solution for you – satisfied customers are not necessarily loyal and nor are they sufficient, you need advocates. Advocacy is all about once having made initial sales (gained traction), you maintain and grow that traction with word-of-mouth evangelism.

Advocacy is a longer-term goal; the foundations for advocacy are laid when developing the solution.

Do your customers advocate?

“That doesn't look too bad,” thought Sally, but she noticed that there were links within the model to more information and that the model came with a 4-page handbook. “Damn again,” she thought, “this rabbit hole of information search has no end it seems, but I suppose it must be important.”

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Sally started to fill out the model:

### F1 - Job To Be Done

There has to exist a Job To Be Done (see a need, fill a need).

People want their houses, businesses, factories etc. supplied with electric power.

People need electric power for their devices to achieve their goals.

People want the electric power to be safe, convenient, economical to install and run, and efficient.

### F2 - A Complete Solution

You need to develop a complete Solution (a product, service, and experience bundle) for that Job To Be Done.

People want to achieve their goals, and devices connected to electricity are a means to an end.

Provide complete and 'painless' electrical solutions - a consistent superior bundle of products, services, and experiences.

### F3 - Prospective Customers Agree

Prospective Customers need to recognise that they have a Job To Be Done and agree that your Solution is the best alternative that they are aware of (doing nothing is an alternative).

The need for electricity is well understood and accepted; that's the industry aspect.

My business will need to be at least as good as the best alternatives, but then I will need to find ways to differentiate.

Quality is not a differentiator; high quality is the minimum that customers expect.

My UVP will be to develop and consistently deliver a bundle of benefits that customers value and want to pay for.

### F4 - Prospective Customers Are Prepared To Pay

Prospective customers must be prepared to pay the price that you need to both ensure your business's success and to achieve your goals (sell price covers all costs, plus profit). You have a Business Model viability issue if you get to this point having satisfied all the above only to find that prospective customers don't value your solution enough to want to pay for it.

Electricity and the devices that use it are no longer novel; in this case, I will not need to create a Minimum Viable Solution (MVS). Maybe my MVS could be a small component of a larger job as a trial. If pleased, the customer may then release the whole job to me?

Customers are prepared to pay as evidenced by the new houses being built, and when something breaks down, they have few options but to get their devices, which they are now dependent on, repaired or replaced.

### F5 - Prospective Customers Exist

Prospective Customers must exist in enough numbers (if you need 100 per week but in all likelihood will only ever have 50 during a good week, then you have a Business Model sustainability issue). Have you determined the number with a Break-even Analysis?

Many new houses are being built, and many are being renovated. I will need to check on the numbers compared to the number of Electricians available to do the work.

This could be a case of supply (Electricians) versus demand (customers).

### F6 - Customers Advocate

Customers must be so pleased with your Solution, that they are prepared to advocate on your behalf, to in effect, sell your Solution for you – satisfied customers are not necessarily loyal and nor are they sufficient, you need advocates. Advocacy is all about once having made initial sales (gained traction), you maintain and grow that traction with word-of-mouth evangelism.

Advocacy is a longer-term goal; the foundations for advocacy are laid when developing the solution.

Do your customers advocate?

This factor is longer-term, but I'm going to develop a UVP comprised of an integrated bundle of benefits that customers value and want to pay for, and I'm going to deliver that bundle of benefits to a high standard consistently.

## Sally Starts a Business – With Facts

A *short story*

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Sally reflected on the model she had filled out. She suspected that there was still a large amount of information to understand, but she realised that if the first five of the six Factors on the model are not sorted, then you really haven't got a Business Model, let alone one that works, and you, therefore, have no basis for a viable business.

In particular, Sally thought long and hard about what her UVP was going to be. As per Mike's urging, Sally found information on Southwest Airlines and learnt that their UVP is not a single attribute or even a couple of attributes. Their UVP is a bundle of integrated attributes that suits their customers, namely, low prices, convenience - pick your own seat, check-in online with your mobile phone, only one class of seating, no-frills but pleasant experience, happy and even humourous staff, on-time departure, good website, and convenient policies. She also learnt that any of those attributes can be emulated by Southwest's competition, but what that competition finds hard to *consistently copy* is the whole bundle of attributes, also known as customer benefits or customer value.

Sally realised that in the electrical industry, much like the airline industry, the services and products were mostly undifferentiated commodities. Sally realised that her UVP would have to be the consistent delivery of a bundle of benefits that customers find valuable and are willing to pay for, just like Southwest Airlines.

Sally called Mike, and they arranged to meet the following week at the food hall in the local mall at 10 am. It was quiet at the mall at that time, and the acoustics were better than in the typically cramped cafés.

# Sally Starts a Business – With Facts

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## Mike the Mentor - Meeting Two

Mike began, “so how did you get on with your homework?”

“Great!” replied Sally. “There was a large amount to read and absorb, but I’m beginning to see that there is more to being a successful peacock than meets the untrained eye.” They both laughed.

“Good,” said Mike, “but did you notice that the [business.govt.nz](http://business.govt.nz) website advocated creating a Business Plan as one of your first activities?”

“Yeah, I did” replied Sally.

“And what did you think about that advice?” asked Mike.

“Well, I’m not sure. I mean I had a look at their template, and although the electrical industry is fairly well understood, it appears that a Business Plan would be more useful if you had an existing business, product, or service, which I haven’t got. In reality, even though I know my job, it’s not that clear to me what the Business Plan would be based on. I’d have to do quite a bit of guessing,” said Sally.

“Good that you noticed, and that is one of the reasons for recommending my colleague at DTC. He believes that Business Plans are valuable, but they’re not necessarily the first document that you should create. For instance, with your limited understanding of what a Business Plan is, what value would there be in filling one out if that 1-Page Business Model indicated that there was no or little chance of creating a Business Model that works for you?”

“Well,” started Sally, “I’d get some research and typing practice in, but that’s about it!”

“Yes, quite futile creating a document for an idea that has no hope, or as [Peter Drucker](#) once said, *There is nothing so useless as doing efficiently that which should not be done at all.*”

“I downloaded a sample of that book [Starting a Business - With Facts, Not Faith](#), and as you said, it is a little abstract,” Sally remarked, “but I get it, it is explaining and building the conceptual foundations on which a business will stand.”

“Very observant,” said Mike, “just like that metaphor about building a house on sand, meaning dubious foundations, that book does stress the point about clearly understanding what works and why. Moreover, the material is evidence-based and repeatable.”

Then Mike added, “I had a look at the 1-Page Business Model that you filled out. You did well. What in particular did you learn from the exercise?”

“Well, all the factors or questions were great. And it would be particularly useful for someone wanting or needing to invent something, so some of the questions seemed a bit irrelevant for me at first, or at least for my industry they didn’t have the impact they could have on others, but all the factors were valuable and helped to clarify my thinking.

Two Factors stood out in particular for me. One was Factor 3 - Prospective Customers Agree, and the other was Factor-5 Prospective Customers Exist.

With Factor 3, I had to think hard about what my UVP is going to be. I’ve decided that much like Southwest Airlines, I’m going to develop an integrated bundle of benefits that customers value and want to pay for, and I’m going to deliver that bundle of benefits to a high standard consistently.

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Whereas with Factor-5, you could have everything else sorted, but if you haven't got enough customers passing through, then you're not going to be earning enough."

"Great insight, my thoughts exactly. Do you have any questions?" inquired Mike.

"No, that's about all for now. What's next?" asked Sally.

"Well, I want to go over and reinforce the basics, otherwise known as foundational concepts. Firstly, you're working in an established industry where the products, or as I prefer to call them, [solutions](#) as it's a more inclusive term, are known, understood, and accepted. What this means is that you don't have to invent anything as such and that you don't have to go about educating your potential customers. All this is a big load off your shoulders."

"Do you follow me and agree?" asked Mike.

"Yeah, I follow. I need to have a strong foundational understanding of the industry I want to work in. Got it!" replied Sally, rather pleased with herself.

"Good," said Mike.

"The next step is for you to determine if there is a place for you in the industry as a separate business entity. I'll explain what I mean by getting a little abstract on you. But it's important to understand how things work, and conversely why they don't, and under what conditions, also known as contexts, that they do or don't as the case may be."

"If you remember that DTC colleague I talked about previously, well on his blog he's got some articles that delve into the nitty-gritty. One post is about a concept regarding something called business [structural attractiveness](#), and this refers to the reasonable chance of you making a profit. In any industry, there are rivals, buyers, suppliers, new entrants, and substitutes and all compete with you to maximise their welfare, that means their profit in most cases or the amount of money left in their pocket in the case of buyers. As you have observed, the housing market seems to be booming, but have you thought about how easy it is for others like you, known as rivals, to start their businesses as well? If there are many rivals, their presence will not only make it harder to win work, but they can put downward pressure on charge-out rates because there will be too many Electricians chasing too few jobs. If there is a demand for materials and supply is restricted, then this can put upward pressure on prices. This is the so-called economic law of supply and demand in action. Taking this further, once you get established, there will likely always be potential new entrants sniffing around looking to make their fame and fortune. I'm not sure how substitutes feature in your industry, as other than battery-powered devices, you're not going to see gas-powered computers anytime soon. Maybe the next innovations will be in radical efficiency? Who knows, nothing on the horizon that I know of. So all of that brings me, finally, to my point." Mike took a breath and another sip of his coffee and checked that Sally hadn't slipped into a coma from his monologue.

"Still with me?" Mike asked.

"Yep, deep and meaningful stuff. But it's good as it's opening my mind a bit wider to aspects of industry and business of which I wasn't aware. I didn't realise I had blinkers. It's great. Next dose, please!" replied Sally.

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“Still the same dose I’m afraid, but I’m finally bringing in the conceptual plane to land on my point,” said Mike, “and the point is this, you have the makings of a Business Model that works. I know all I’ve done is restate the blindingly obvious, but of the 6-Factors, everything is fine until you get to Factor-5 Prospective Customers Exist. Don’t worry about Factor-6 at the moment as that only becomes important once you’re in business. I mean, you pointed this out yourself. If you don’t have enough customers, then even if everything else was fine, all you’ll have is a Business Model, you won’t have a *Business Model that works*. And that there are the cold hard facts, the indifferent business universe does not care if you succeed or fail.”

“It’s all starting to sink in. So what’s my homework then?” asked Sally eagerly.

### Homework

“You need to verify Factor-5,” Mike replied quickly. “You need to understand how many customers, or customers’ dollars, your Business Model needs for it to work. Furthermore, there are some other activities you need to work through:

1. Find out how much you have in savings. You’ll need a financial buffer in case of business short-falls, either to pay your bills or to prop up your business. Your bank will likely be more comfortable with any loan proposal if you have some of your own money at risk, what people call, *having skin in the game*. How much can you risk on your business?
2. Create a Loan Budget. You’ll need to buy things as well as having a buffer, called working capital, between when you have to pay your bills and when you finally get paid.
3. Create a Cash Flow Forecast; it’s often abbreviated to CFF. Some business concepts are quite simple, and people think that they can sometimes skip the CFF, but I don’t recommend that. A CFF is a prediction or projection of future cash flows in and out of a business. Cash can be thought of as the life-blood of a business, as without cash, otherwise called working capital, to pay your bills when they fall due, you are technically trading while insolvent. Trading while insolvent is a status that the government takes a very dim view of, and you won’t be in business for long. See DTC’s [Cash Flow Forecasts and Statements Explained](#) post. And don’t forget about the effect of our Christmas holiday period on cash flow - New Zealand just about closes down over this period so workflows and therefore cash inflow can be severely affected, but your bills will still need to be paid on time. Many people starting a business don’t take holiday periods into consideration.  
(From the author: also see Appendix - Cash Flow Forecast Explained).
4. Perform a Break-even Analysis with the information from the CFF. A Break-even Analysis determines the level of sales that just covers all your costs, and when you exceed that level, you start making a profit. Having established the sales volume required, you can then directly or indirectly work out how many customers you need.  
(From the author: also see Appendix - Break-even Analysis Calculations Explained).
5. Determine how many customers there are available or likely to be available. Can you secure any? Are there likely to be enough customers available in both the short-term and long-term to reliably provide you with the sales volume that you need, to support you when you risk *giving it a go*?
6. With all that you have worked out above, you need to compare the benefits of working for yourself to that of working for someone else. In some cases, when all the risks, extra time, and stress is taken into account, many people would be better off both financially and

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mentally just staying in their current job. You need to answer the question, is this for my family and me?

7. And while you're at it, create a [RealMe](#)® login. A RealMe® login is an authenticated account that allows you access to government services, such as creating a company and checking on your taxes. It's free to create. You may not need it for a while, but since it takes a few days to become fully authenticated, it's better to create one as soon as you can.
8. Lastly, think about the marketing you need to do. Marketing has been called "the company's customer manufacturing department," and by now you won't be surprised to find posts on the topic on [DTC's website](#) as well. Almost all businesses need a website these days; they're like the Yellow Pages® of old, but much better. However, if you can use your existing contacts to get started, then you may not need one on your first day."

"For the CFF, I recommend the one provided by [NZTE](#). I also recommend their [Break-even Analysis Calculator](#). When filling out the CFF, be realistic about your prospects, being neither overoptimistic or for that matter too pessimistic. We can always subject the CFF to tests later. What you're trying to avoid is unbridled optimism feeding on optimism, but also you don't want to go down into a pessimistic feedback cycle either. There are opportunities out there, but again, it all has to do with that Business Model that works for you," finished Mike.

"Well, you have given me a great deal to think about and do. I'll get right onto it over the next few weeks, and I'll be in touch when I have completed my assignment. Just like being back in school," remarked Sally.

"Yes it is, but now it's real money, and the consequences are very real as well!" Said Mike.

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## The Homework - Assignment Three

### Savings

Sally checked on their savings. They had managed to squirrel away about \$25,000. “I’d hate to lose it all,” she said to Robert, “but if needed, I think we could comfortably risk about \$10,000 max.”

Robert agreed, and added, “I’d hate to blow our savings, but if we do our homework carefully and only take calculated risks, as opposed to wide-eyed irresponsible gambles, then I think it’s worth having a go.”

### The Loan Budget

Sally thought about the purpose of the Loan Budget; it was an estimate of money she needed to start her business, and it was intended only to cover the first two months, after which, she should be receiving revenue. Sally also realised that many assumptions were being made, such as the fuel cost per week, and the final cost of the vehicle, and that some of these original budgetary figures would be modified when the same entries were made in the CFF.

Sally also thought about her supposed *need* for a Landcruiser, one would be nice, but on reflection thought that a Hilux would be not only cheaper to buy and run, but she also didn’t need such a powerful truck. “Damn,” she thought, “this reality is harsh, but if things go really well, then maybe that Landcruiser will be an option in the future.” She drafted the following loan budget from what she knew and from some informal prices she had received:

## Loan Budget

Description	Rate	Cost	
Toyota Hilux		\$	23,500
Insurance		\$	2,500
Misc Tools		\$	2,500
Site Shed		\$	1,000
Accountant	\$ 100	\$	200 rate x 2m
My wages + expenses	\$ 47	\$	15,040 rate x 40hrs x 4w x 2m
Apprentice wages +expenses	\$ 27	\$	8,640 rate x 40hrs x 4w x 2m
Register Company		\$	150
Fuel for 2 months	\$ 200	\$	1,600 rate x 4w x 2m
Mobile phone	\$ 100	\$	200 rate x 2m
		<u>\$</u>	<u>55,330</u>

Sally sent out requests for quotes to firm up the prices. She was sure she was close, but if this quest was to get real, she wanted to reduce the surprises.

### The Cash Flow Forecast

Next Sally used the NZTE CFF as the basis for her own CFF, but modified it slightly so that as much information as possible was on *one page*, and so that numbers, such as wage rates would only



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appear in one place, and not be embedded, also known as hard-coded, everywhere making updating and corrections harder. The following is the first 7-months.

(From the author: only 7-months is shown below as that is all that will fit on one page and still be readable. Sally's whole CFF can be found [here](#)<sup>4</sup>).

### Cash Flow Forecast (CFF)

Employee	Hourly Rate	EEP/hour	Total	Charge out
Sally	\$ 35	\$ 12	\$ 47	\$ 75
Apprentice	\$ 20	\$ 7	\$ 27	\$ 50
Employee Expense Percent (EEP)	33%			

Holiday days	20
Stat holidays	10
Sick days	5
Anniversaries	1
Total non-working days	36 <sup>d</sup>

Labour Utilisation percentage 90%<sup>f</sup>  
 Target Annual Profit \$ 10,000

Work hours per year	2080	a (52wx40h)
Week days per year	260	b (52wx5d)
Avail work days per year	224	c = b-d
Max Billable weeks/year	44.8	e = c÷5days
Max Billable Hrs/Month	149.3	g = c×8+12
Util Billable Hrs/Month	134.4	h = g×f

			Oct	Nov	Dec	Jan	Feb	Mar	Apr
			Month-1	Month-2	Month-3	Month-4	Month-5	Month-6	Month-7
<b>Receipts</b>	Details	Rate							
Sales Labour	Sally	\$ 75	\$ -	\$ 10,080	\$ 10,080	\$ 10,080	\$ 10,080	\$ 10,080	\$ 10,080
	Apprentice	\$ 50	\$ -	\$ 6,720	\$ 6,720	\$ 6,720	\$ 6,720	\$ 6,720	\$ 6,720
Materials			\$ -	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Materials Margin		5%	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
<b>Total Receipts</b>			\$ -	\$ 37,800	\$ 37,800	\$ 37,800	\$ 37,800	\$ 37,800	\$ 37,800
<b>Less Payments</b>									
<b>Direct costs</b>									
Materials - 1 month in arrears	In Scope		\$ -	\$ -	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Other			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Direct Costs</b>			\$ -	\$ -	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
<b>Overheads</b>									
Accountant			\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Advertising, Website, Social Media	Estimate		\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ACC - Accident Compensation Commission	Sally	0.0092	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74
ACC - Accident Compensation Commission	Apprentice	0.0092	\$ 42	\$ 42	\$ 42	\$ 42	\$ 42	\$ 42	\$ 42
Kiwi Saver	Sally	3%	\$ 242	\$ 242	\$ 242	\$ 242	\$ 242	\$ 242	\$ 242
Kiwi Saver	Apprentice	3%	\$ 138	\$ 138	\$ 138	\$ 138	\$ 138	\$ 138	\$ 138
Lawyer	Estimate		\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounting Software Package			\$ -	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50
Contractor Management Package			\$ -	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35
Health and Safety Management Contract			\$ -	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65
Bank Fees			\$ -	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
Debt repayments over 5 years	Loan		\$ -	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833	\$ 833
Interest - flat rate on initial loan value		10%	\$ -	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417	\$ 417
Insurance - liability and indemnity		\$ 2,500	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor vehicle Fuel			\$ 200	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Power			\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
Rent		\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Repairs and maintenance			\$ -	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50
Telephone		\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Wages and employee expenses	Sally	\$ 47	\$ 8,068.67	\$ 8,068.67	\$ 8,068.67	\$ 8,068.67	\$ 8,068.67	\$ 8,068.67	\$ 8,068.67
Wages and employee expenses	Apprentice	\$ 27	\$ 4,610.67	\$ 4,610.67	\$ 4,610.67	\$ 4,610.67	\$ 4,610.67	\$ 4,610.67	\$ 4,610.67
<b>Total Overheads</b>			\$ 21,696	\$ 15,471	\$ 15,471	\$ 15,471	\$ 15,471	\$ 15,471	\$ 15,471
<b>Total Cash Payments</b>			\$ 21,696	\$ 15,471	\$ 35,471	\$ 35,471	\$ 35,471	\$ 35,471	\$ 35,471
<b>Net Cash Flow</b>			\$ (21,696)	\$ 22,329	\$ 2,329	\$ 2,329	\$ 2,329	\$ 2,329	\$ 2,329
Opening Bank Balance - starts with total financing less long-term assets			\$ 30,500	\$ 8,804	\$ 31,132	\$ 33,461	\$ 35,790	\$ 38,118	\$ 40,447
Closing Bank Balance			\$ 8,804	\$ 31,132	\$ 33,461	\$ 35,790	\$ 38,118	\$ 40,447	\$ 42,775
Overdraft Fee		20%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Final Closing Balance (FCB)</b>			\$ 8,804	\$ 31,132	\$ 33,461	\$ 35,790	\$ 38,118	\$ 40,447	\$ 42,775
Loan remaining owed to Bank (LR)			\$ 50,000	\$ 49,167	\$ 48,333	\$ 47,500	\$ 46,667	\$ 45,833	\$ 45,000
Bank Covenant - Balance of debt (FCB - LR)			\$ 75,000	\$ 26,838	\$ 23,676	\$ 20,514	\$ 17,352	\$ 14,190	\$ 11,028

<sup>4</sup> <https://www.dontthinkcheck.co.nz/wp-content/uploads/Sally-Starts-a-Business-With-Facts.xlsx>

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Sally made some notes, both for her records and for Robert and Mike to read:

1. I hadn't put too much thought into it before, but of the 52-weeks in the year, only around 45-weeks are available for work. This difference is made up of 4-weeks holiday, ten-days statutory holidays, a one-day regional anniversary, and one week's sick pay. That makes the total number of weeks not available for work to be around 7, leaving 45-workweeks remaining to earn enough to pay 52-weeks of wages and overheads. What an eye-opener!
2. To be slightly more accurate, I used workdays and not workweeks:
  - a. Weekdays per year = **260** (52-weeks x 5-days).
  - b. Non-working days = **36** (20-days annual leave + 10-days statutory holidays + 1-day regional holiday + 5-days sick leave).
  - c. Workdays per year = **224** (260 - 36).
  - d. Annual labour hours per employee = **2,080** (260 x 8). This figure multiplied by the employee's hourly rate is the base cost per employee per year.
  - e. Annual billable hours per employee = **1,792** (224 x 8).
3. But there will be a utilisation factor where not all those 224-days can be worked and then billed. I assumed the utilisation would be 90%:
  - a. Available billable days = **201.6** (224-days x 90%).
  - b. Available billable hours per month = **134.4** (201.6-days x 8 hours ÷ 12months)
4. The CFF could be compiled based on 4-week months. But in reality, there are 4.33-weeks per month based on 52-weeks ÷ 12-months. There are too many approximations using this.
5. Out of curiosity, the 2019 calendar has the following:

Weeks/Days per Month	Workdays per Month	Applies to Months
3w/4d	19	Feb, Apr, Jun
4w/0d	20	Jan, Dec
4w/1d	21	Mar, Sep, Nov
4w/2d	22	Aug, Oct
4w/3d	23	May, July

6. Useful information found here [Public Holidays and Anniversary Dates](#) and [Visual Calendar](#).
7. The CFF does not show/consider that some months are longer than others and therefore have more billable hours.
8. The CFF shows consistent workflow, costs, and revenue. This is unlikely to occur often in reality, but without specific and detailed information, this approximation will have to do.
9. Working during weekends or holidays has not been considered. Concerning available working hours, this could be regarded as a contingency.
10. The CFF does not show when employees will take holidays, that is when revenue will not be earned or accrued, but bills will still need to be paid, as will wages and holiday pay. Will need to make sure that I have enough cash available to cover.
11. The CFF does not show the effect of non-work days such as holidays and other reasons for non-work on revenue and the ability to pay off debts. But, I can simulate the effect of say not getting paid at all in February, which would occur if no work took place in January, and assuming that all other costs stay the same - the total of all loans would peak at around \$56,000, which is well below the \$75,000 covenant. Other scenarios can be tested with the CFF.
12. Employee costs for leave and sick pay is around 14% (1-(224-days ÷ 260-days)) of the maximum billable hours. Some web sites claim that the total cost of employees can vary

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- between 125% and 140% of base salary. I will use 133%. I will try to confirm this rule of thumb. Hopefully, I am erring on the safe side.
13. Employee training has not been explicitly allowed for. I need to check that the employee expenses allowance of 133% above will cover the direct company costs. I'll need to confirm that apprentice training takes place outside of regular working hours. If it doesn't, I'll need to adjust the CFF such as by changing the utilisation percentage or by reducing the available working weeks per year.
  14. The CFF does not reveal when cash enters and leaves the business. If more cash enters as revenue on the 20<sup>th</sup> of the month than leaves as payments after the 20<sup>th</sup>, then there will not be a deficit as a result. But if the amount leaving is higher than that being received, such as because costs are higher than revenue or because of, for example, 7-day payment terms, then cash exits the business before payments are received, and then deficits can occur. There must be working capital either as cash in the bank or a banking facility to cater for such (hopefully) short-term cash shortfalls.
  15. The quote for the truck came back. It's higher due to needing tyres and some repairs.
  16. Tools cost more. Increased from \$2,500 to \$3,000.
  17. I entered my full wages to make the CFF realistic from the start. I have resolved not to spend more than absolutely necessary until the business is well established. What remains of what I don't spend creates a financial buffer.
  18. I put the employee's wages as a full cost during the first month to simplify the spreadsheet, but I only anticipate about 2-weeks being used. Another financial buffer.
  19. Assumed not accruing revenue in the first month because of resigning, collecting tools and vehicle, and other preparations.
  20. Some fees, such as insurance are payable in advance.
  21. Some companies offer a first month grace period such as for computer application packages and bank loan repayments - nothing is free, ultimately paying for it somewhere.
  22. I had an informal conversation with bank manager Julia. Julia said that pending a review of the paperwork that a loan of around \$50,000 should be available but warned that the bank had a strict covenant of maximum total borrowings not exceeding 150%, so that meant, on a loan of \$50,000 say, the absolute maximum would be \$75,000. I took this warning seriously and added the last row, which automatically turns red should the total amount borrowed exceed the covenant.
  23. Julia also said that I needed to provide investor equity or "skin in the game" by providing 20% of the loan amount. So on a loan of \$50,000, I would need to provide at least \$10,000 cash, as well as providing tangible collateral for the loan, such as real estate - I'll go and ask Mum and Dad.
  24. I added a row to calculate any overdraft fees should any occur.
  25. It looks like I'll need to create several accounts at the bank for the likes of PAYE and company tax, ACC, depreciation, etc.  
(From the author: also see Appendix - Sally's Check List).
  26. I'm not manufacturing anything, so no inventory and Cost of Goods Sold (COGS) etc. I am mainly selling labour and a bit of margin on materials supplied.
  27. I assumed that the maximum margin I can achieve on supplying material is 5%. There is a tendency for customers to be able to receive near-trade prices themselves. I'll review this and adjust as appropriate, on a contract by contract basis.

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## The Break-even Analysis

The next thing Sally did was to create a Break-even Analysis, modelled on the one provided by NZTE. In keeping with her *everything on the one-page* approach, Sally inserted a Break-even calculator at the bottom of the CFF statement, and it directly made use of some of the values the CFF calculated. To be sure her calculations were correct, Sally compared her calculator with NZTE’s.

Break-even Analysis			Calculations
Work weeks per year			
100%	90%	Utilisation percentage	
44.8	40.32	Weeks per year	a
\$ 39,729	\$ 39,729	Overhead costs	b
\$ 24,024	\$ 24,024	Sally annual costs	c
\$ 13,728	\$ 13,728	Apprentice annual costs	d
\$ 77,481	\$ 77,481	Total overhead costs	e = b+c+d
\$ 10,000	\$ 10,000	Add target Profit	f
\$ 87,481	\$ 87,481	Total target budget	g = e+f
\$ 26	\$ 26	Gross margin \$/hr	h = per unit(price-costs)
<b>To achieve break even</b>			
67	74	Invoice hrs per week	i = e÷a÷h
33	37	Invoice hrs per employee	j = i÷2      2 employees
<b>To achieve target profit</b>			
75	84	Invoice hrs per week	k = g÷a÷h
38	42	Invoice hrs per employee	l = k÷2      2 employees

(From the author: for an explanation of the Break-even Analysis results in the table above, please refer to Appendix - Cash Flow Forecast Explained).

The Break-even Calculator shows that with only 44.8-weeks available for work each year, Sally will only have to invoice for 33-hours for each employee to break even and 38-hours to achieve target profit. If the utilisation of those 44.8-weeks is only 90%, then 37-hours will need to be invoiced for each employee to break even and 42-hours per week to achieve target profit.

There is some flexibility to achieve the profit goals, such as working during weekends if the work is available or reducing the profit expectations.

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## Enough Customers

Sally made a list of the people she needed to consult about the state of the market, and whether there is a niche she could carve out for herself:

Source	Purpose of Discussion
Electricians	Talk to other Electricians I know, maybe they know what the market trends are?
Real Estate broker	Talk to a broker that I know. There might be distinct trends in the house-building market.
Carpenters	I know some carpenters. Talk to them about their pipeline of work.
Electrical wholesalers	Are any of the wholesalers seeing any trends?
Business economic reports	What is the overall economic sentiment? If it is negative, there is likely to be less work available.
House construction permits	Find the number of construction permits issued by the Council. Is the rate of issuance decreasing, steady, or increasing?

Before starting her interviews, Sally had realised that none of her sources would have complete information and therefore, a comprehensive and accurate view of what is happening in the market. Furthermore, some of the sources might have optimistic or pessimistic views based on their performance in their market. In such cases, this might have less to do with the building industry as a whole and more to do with the respective personal and performance attributes of the specific sources, which would, therefore, affect the work that they could attract.

Despite the limitations of the survey, Sally pressed ahead and met with as many as were available, and did as much cross-checking of targets as possible. What Sally found was that the overall view of the market was not negative, and therefore the market was likely not declining. But neither was the market *on the boil*. The market it seemed was cruising along, with a common thread being that reliable people who do great work and charge fairly seemed to get more work than others without any difficulty.

“Great!” thought Sally, “new work is becoming available, and those who are great at what they do are securing more of it. I can do that!”

# Sally Starts a Business – With Facts

A *short* story

## Advantages and Disadvantages of Going Into Business

Sally created a household budget for her family:

### Household Budget

Costs per Year		Income per Year		Less 30% Tax	Take Home
Health Insurance	\$ 500	Sally	\$ 70,000	\$ 21,000.0	\$ 49,000.0
House Electricity	\$ 1,937	Robert	\$ 60,000	\$ 18,000.0	\$ 42,000.0
House Rates (\$0 - renting)	\$ -				<u>\$ 91,000</u>
House Water	\$ 660				
House Insurance (\$0 - renting)	\$ -				
House Content Insurance	\$ 500				
Sally Mobile	\$ 720				
Robert Mobile	\$ 720				
Internet	\$ 840				
Microsoft Office	\$ 192				
Netflix	\$ 180				
Rubbish	\$ 210				
AA	\$ 89				
Food	\$ 12,000				
Haircut	\$ 540				
Eyebrows and lashes	\$ 400				
World vision	\$ 500				
Fuel Sally	\$ 2,340				
Fuel Robert	\$ 2,340				
Car Ins Sally	\$ 585				
Car Ins Robert	\$ 772				
Car reg Sally	\$ 102				
Car reg Robert	\$ 77				
Car WoF Sally	\$ 60				
Car WoF Robert	\$ 50				
Trailer reg	\$ 36				
Trailer WoF	\$ 100				
Entertainment (\$100/w)	\$ 5,200				
Clothing (\$100/w)	\$ 5,200				
School fees and expenses	\$ 500				
Rent (\$550/w)	\$ 28,600				
<b>Total Costs</b>	<u>\$ 65,950</u>				
Total Take Home Pay	\$ 91,000				
<b>Remaining Cash Available</b>	<u>\$ 25,050</u>				

NOTE: The above is indicative only and is likely to change with each household.

The household budget clearly revealed that with total costs of around \$65,950 per year, that the household could not survive on its current rate of expenditure on either of their salaries alone, but that their pay taken together, enabled them to *in theory* have a surplus of around \$25,000 at the end of the year. “Never quite works out the same in reality,” Sally noted, “there’s *always something* to spend our money on.”

# Sally Starts a Business – With Facts

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However, Sally also noted that if business went as well as she had conservatively estimated, then not only would she be able to maintain her current personal income, but that the business would also have a net cash flow of approximately \$1,660 per month, and that if things went well, that is also the amount by which her debt to the bank would also be reduced by each month as well.

A surplus of \$1,660 per month is not a large amount, but if things did not go as well as planned, there were contingencies built-in, such as:

- Sally could reduce her wages without affecting the household too greatly.
- She didn't anticipate spending the whole marketing budget initially.
- Apart from the first month, the opening balances during the first 12-months is predicted to always be above \$30,000, meaning there will be a cash buffer there as well.

Sally and Robert reviewed their household budget as well as the CFF. They decided that financially they could make it work, that it was worth the risk, but only provided that the other aspects of creating a business fell into place as well.

Sally and Robert created a list of the advantages and disadvantages of starting a business:

Starting a Business	
Advantages (benefits)	Disadvantages (risks)
Build and own a business - potential to ultimately become wealthier.	<ul style="list-style-type: none"><li>• Increased financial risk and stress; not a nine to five job.</li></ul>
More freedom and Independence.	<ul style="list-style-type: none"><li>• May not have the freedom expected if cash flow is tight.</li></ul>
Some flexibility to choose working hours.	<ul style="list-style-type: none"><li>• Will have to work extra hours winning work and doing the books.</li><li>• Health and safety responsibilities.</li><li>• Profit and loss responsibility.</li><li>• Human resource responsibilities.</li><li>• Possible liability for the actions of employees.</li><li>• Less family time.</li></ul>

They looked at the list; there seemed to be more disadvantages than advantages and this concerned them. They discussed their concerns. Why were there so many disadvantages compared to advantages, and that being the case, why do so many people still try to start businesses?

After a lengthy discussion, Sally and Robert summarised their thoughts and intentions:

- Starting a business has risks as well as benefits. Remaining as an employee also carries risks, but for a business the risks are larger and the consequences likely to be more dire.
- The benefits of starting a business will only be realised if the business is structured and managed well.
- The disadvantages are real, but business owners manage these every day, so there must be a way. We:
  - Will develop a compelling UVP - a bundle of benefits worth paying for.
  - Won't compete on price, we will compete on UVP.
  - We will manage the business properly.

# Sally Starts a Business – With Facts

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- We will use [What Really Works – the 4+2 formula for sustained business success](#):
  - **Strategy:** Devise and maintain a clearly stated, focused strategy.
  - **Execution:** Develop and maintain flawless operational execution.
  - **Culture:** Develop and maintain a performance-oriented culture.
  - **Structure:** Build and maintain a fast, flexible, flat organisation.
  - **Talent:** Hold on to talented employees and find more.
  - **Leadership:** Keep leaders and directors committed to the business.

Sally and Robert looked at their household budget, CFF, and lists. After a while, Sally said, “sure there are risks, but we know what most of them are and with careful management, we will reduce both their likelihoods and if any eventuate, their impacts. I think we should go ahead. What do you think Robert?”

“Let’s do it!” Robert replied.

## Marketing and Social Media

Sally also thought about her need for a business website. She had already created a personal one for her and the family, but the business would need to obtain a better service provider along with a business email account.

Sally read of a concept called *Social Media Magnetism*, the idea that some markets and businesses are inherently more appealing and therefore attract more customers than others. For example, McDonald’s is likely to have more appeal than a business that sells composting toilets. Similarly, the electrical industry is likely to have more social media magnetism than composting toilets but is likely to have much less than McDonald’s.

Mulling over the social media magnetism concept, Sally realised that to bubble to the top of the social media attention pool, that she would have to spend a large amount of money on promoting herself and her business with no guarantee of sales. With little initial credibility and little initial tangible solution differentiation, Sally resolved to:

1. Build the UVP, modelled on Southwest Airlines, meaning, create and be prepared to deliver a complete and valuable bundle of benefits (solution) worth paying and advocating for.
2. Try word of mouth first using contacts to solicit work, and to start this before resigning from BMR Electrical.
3. If soliciting does not work, look at advertising and marketing on social media.
4. When work is secured, take before, during, and after photos and video sequences to build social media collateral and credibility, as well as having context for testimonials earned. Ask for testimonials after each job is completed.
5. Create video advice clips.
6. After the first year, if it hasn’t already been done, create a website and become more active on social media to build clientele and therefore the business.

## So What Does This All Mean?

In the Break-even Calculator, the profit or margin on sales has not been factored in. It is one of the shortcomings of Break-even analysis in that it is great for determining how many of a *single saleable item*, such as shoes or labour hours you need to sell, but it gets more complicated when you sell a number of *items*, such as labour and materials, or labour, shoes, laces, and shoe-polish. When there are multiple items for sale, the question becomes, what ratio of specific items will you sell? Perhaps



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in cases of numerous items for sale, an assumption needs to be made on the likely mix of items sold, the average item margins, and then the analysis could become finding the break-even revenue required per week.

Sally looked over what she had done. It seemed plausible. The CFF showed that in just over a year she may be able to pay off her bank loan (see full 12-months), if that's what she wanted to do, though she wouldn't as that would reduce her working capital, still it was a comforting fleeting thought.

Sally remembered something she had read that around [9 out of 10 spreadsheets contain errors](#). Sally made sure to recheck<sup>5</sup> her spreadsheet and got Robert as well as an Accountant friend to check it as well.

Sally sat back and reflected on what she had done and learnt. "Seems plausible," she thought and made another appointment with Mike for the following week.

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<sup>5</sup> One way to check spreadsheets is to insert small numbers such as '1' into cells. Operations involving small numbers are easier to observe. When you are happy with your spreadsheet, but before you commit to using it for decision-making, make a copy of it and insert small numbers into the cells, such that the results will be easy to validate by inspection.

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## Mike the Mentor - Meeting Three

“I see that you appear to have been conservative in your approach, and I commend you. The world looks great through rose-tinted glasses, but reality has a way of not aligning itself with our wishful thinking,” started Mike. “Furthermore, there is a common phenomenon called *reversion to the mean*. This phenomenon occurs in sports, other performance activities such as playing musical instruments, and it seems to appear in business as well. What happens is that when an outcome, such as sports or business performance is much better than what is usual, or we expect, we unconsciously assume that a new standard has been achieved and we hope for more of the same. Then, when subsequent outcomes are less than the new expectations, we get upset, which is understandable. But it turns out that all that has happened is that the outcome or performance, which was an aberration in the first place, has simply reverted to the mean, also known as the average performance. Incremental performance increases can be expected and do happen, but step-change improvements in performance often revert to the mean. The converse is true with a performance that is much worse than the mean.

So, after all that, what does it mean, no pun intended? What it means is this. Because of effects such as learning, as in the learning curve, as well as economic growth, we can expect incremental improvements from the mean. An example might be that your business picks up two new customers a month and only loses one customer per month. All things being equal, you are unlikely to pick up five customers per month and lose none. Equally, you’re unlikely to lose two customers per month and pick up one.

So, being conservative means that you can take advantage of any upsides, but it also means that to a certain extent, you are also protected from the downsides.

“I understand,” said Sally.

“So let’s look at each spreadsheet you completed,” said Mike.

## Savings

“Good,” said Mike, “I see that you and Robert have managed to save money. Your bank manager will be comfortable with this. Being prepared to risk \$10,000 of your savings is also good, it’s called alignment of incentives, or having skin in the game. Investors such as banks are more confident with risk-taking when the borrower has some of their cash invested or at risk as well.”

## The Loan Budget

“So with the Loan Budget, I haven’t got much to say apart from trying to be as accurate as possible. You will be at a big disadvantage if you start with an inaccurate Loan Budget and have missed any expensive items. If that happens, you may be undercapitalised from the start and will then have trouble paying your bills when they fall due. Double and triple check this, it’s critical.”

“Got it!” said Sally.

## The Cash Flow Forecast

“Now, with the CFF. I see that you have accounted for the timing differences between when revenue is received and when bills fall due. This is important. You need extra cash available, called *working capital* to be able to pay your bills when they fall due, irrespective of when *you* get paid.

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It is also commendable that you accounted for the actual working days available and then applied a utilisation factor. Another way of thinking about utilisation is to call it a probability, as in, what is the probability that you can work every available hour. The answer in this universe is unlikely to be 100%.

What I also think is excellent is that you have not embedded or hardcoded values into cells, which means that if for example, wage rates were to increase, you only have to change one cell and the effects of that change will propagate automatically throughout your spreadsheet. You'll find it quite illuminating, for instance, to increase your employee's wage rate but leave her charge-out rate unchanged. This situation could occur if contracts you are working on contain hard limits on what you can charge, but your employees demand or deserve a raise. The same exercise is instructive with employee expense calculations. What if expenses are higher or lower than you anticipated?

I see that you have made provision for an Accountant. That's great. Another little gem is the myth of the self-made man or woman for that matter. It's just that, a myth. No one knows and can do everything, and even if such a person did exist, there's not enough time in the day. This means that we all have to reach out for help. The sooner people accept this, the better off they will be.

I also see that you have made provision for a lawyer, which is excellent. There may be contracts to check and sign.

You also have made provision for ACC payments. Excellent! A large number of people forget about this. In your case, the ACC fees will come to around \$1,400 per year. It all adds up.

And then there's Kiwi Saver, yet another cost that needs to be accounted for. You could think of it as an investment in your employees, but regardless, it's still cash that needs to be found from somewhere.

You have made provision for various software packages, that's great. You're ahead of me when it comes to delegating non-core business activities to the specialists - all good.

Insurance, that's really important. You don't want to go bankrupt having to pay for someone's house you get blamed for burning down. Besides, on many contracts, you can't get on-site without 1-5 million in indemnity insurance. It costs a bit, but it's worth the peace of mind.

I'm also pleased to see that you have taken into account the practical reality of the difference between the maximum regular working hours per year and what will be practically workable. This is another detail that people tend to overlook. There are always inefficiencies. We need to cater for reality.

Make sure that you never breach your banking covenants. Financiers are well known for losing their usual good humour when this happens. It's serious. It's a breach of contract. Always keep your bank manager in the loop. Remember the fine print in the loan documents; the bank can recall their loan at their discretion at any time. If that were ever to happen, then the wheels on your business will likely fall off completely.

Your rent appears to be low at \$100. I'm assuming that you're working from home to start with? That's fine, and acceptable to apportion costs as a percentage of household costs, but beware, however, that if you move to different premises with different overhead costs, you'll need to revisit this CFF. I recommend putting in commercial rent values and seeing if the CFF is still viable. You'll

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find market rents will have a significant impact on the Break-even Analysis. I'd recommend working from home for as long as possible, and using a modified CFF, determine when the move from home to more suitable premises is warranted. Maybe if and when you hire more employees? Perhaps with all the people hanging around the house at all hours, Robert will force the issue sooner than later?"

Sally nodded and grinned.

## The Break-even Analysis

"Your break-even analysis looks good," continued Mike, "the hours you need to invoice per week are all within the realms of possibility. It all gets a bit tenuous when your break-even hours are like 50 or 60. A big red flag then! Not enough hours in the day or energy available to make it work!"

"I agree," said Sally.

## Enough Customers

"You surveyed people likely to have a view of the market. That's great! Really!" said Mike, "you won't believe how many people simply don't do this. They dive in based on blind faith and unwarranted optimism. It's so tragic. You'll never have perfect information, but what you're doing, through all these streams of research is, creating a mental picture of the viability, meaning what is the risk, of you starting your business at this time. From what I see you reporting, the overall sentiment is neutral to cautiously positive, and that's fine. At least it's not uniformly negative and bleak. If it were, I would be recommending conducting more analysis to confirm."

## Advantages and Disadvantages of Going Into Business

"It's good to see your attempt to be thorough with this analysis. You might have missed a few items that I can't think of right now, but you seem to have captured the main ones. If only more people would do this before they dive into creating a business. There are tradeoffs in almost everything we do, and there are always risks," said Mike.

## Marketing and Social Media

"A cautious approach to social media," said Mike, "I like it. I know of people who were enticed by the siren call from social media promoters, spent a large amount of money, increased their followers, but didn't increase their sales. And sales, and more important, lifetime Return on Investment (ROI) is what it is all about. It is probably the case that every business nowadays needs some form of social media presence and marketing activity, but in every case, the social media campaign needs tailoring to the needs of the business within the specific details of the market and industry within which the business is operating. One size does not suit all. I would only use reputable social media promoters and also demand a money-back guarantee. See what they say then."

## Employees

"Before we get onto your homework, I need to say something about hiring employees," said Mike.

"Hiring employees is a serious undertaking. I recommend not rushing into it. Check references, perform a police check, perform a drug test, conceive of an activity or test that prospects can perform that will demonstrate their skills, experience, intelligence, and initiative. Don't take risks here. If there is no one available, then consider seriously waiting until someone is available."

"I understand," said Sally, "I've got no intention of taking risks with employees. A bad employee could easily undermine if not destroy completely all that Robert and I have worked for."

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## Homework

“Well, that looks good to me,” said Mike, “even looks plausible. Your homework now is to:

1. Contact your bank manager. You had an informal chat with Julia over the phone, but I think you need to confirm what she wants to see from you before she will approve a loan, and then you need to sit down with her and go over the details.
2. You’ll need to talk to your parents as well about that collateral for the loan.
3. You might find that Julia expects you to complete one of those Business Plans we talked about earlier. And that will be appropriate because in your specific case, you have satisfied factors 1 through 4 on the 1-Page Business Plan. You have shown that to an extent, that you have a Business Model. Satisfying factor 5 will determine if *you* have a Business Model that works for *you*. So you will use the Business Plan to convince both yourself and Julia that you are worth backing. I recommend the [Business Plan Template and Handbook](#) from DTC.
4. Also, assuming that you get your loan approved, you’ll need to think about a company structure and name. A limited liability company is an effective way to protect your assets should your business fail. It’s not a *get out of jail free card*, but if you act responsibly, it does provide protection. To incorporate, that is to create a company, go to the companies office <https://companies-register.companiesoffice.govt.nz/>. They also have a useful tool called OneCheck, <https://www.business.govt.nz/onecheck/>, that enables you to check in one step, based on your chosen business name, the availability of that business name, trademark, web domains, and social media accounts. It’s probably not perfect, but it’s really good to cull out names that are non-starters quickly.”

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## The Homework - Assignment Four

### Call Bank Manager

Sally rang Julia again and updated Julia on the progress she had made, and asked to arrange an appointment. Sally also asked what she should do to prepare for the meeting. Julia said, “what you have told me sounds great. What I need to see is:

- Your banking and savings history,
- Some testimonials,
- A Business Plan,
- Your investor equity amount,
- Security, meaning collateral for the loan.
- Your pipeline of work for at least 3-months, and
- Your company details, but this last item can be done quickly after everything else fits into place.

As far as investor equity goes, I need to know how much of your own money you are planning on investing; we call this *skin in the game*. It’s one thing to take risks with other people’s money; it’s quite another to risk your own. As mentioned previously, the bank is typically looking for around 20% equity investment. With the Business Plan, the general business models for the electrical industry are well understood, but what I am looking for is that *you* thoroughly understand your business model and that *you* will be able to create and manage your Business Model such that it works. And for collateral for the loan, download the form from our website. Lastly, I want to see your pipeline of work, preferably in the form of contracts, or signed letters of understanding. The pipeline needs to be for at least 3-months.”

“Thanks for your time Julia, I’ll get right on to it,” Sally said, “and I’ll see you in 4-weeks.”

Sally made a list of candidates whom she thought would provide her testimonials. The list included:

- Two former employers.
- Three electrical wholesalers where she had accounts.
- A Justice of the Peace that had known Sally and her family for a long time.

Over the next few days, Sally contacted the people on her list. Sally realised that it is a bit of a chore and imposition on busy people to request testimonials. It takes time, people are busy, and they may not be able to remember dates or details.

To assist people in providing the testimonials, Sally provided a template document and key respective dates and details that the people could use as a memory jogger and starting-prompt if they needed one.

### Call Parents

Sally called her Mum, “Hi Mum; you know how I talked about going out on my own, well it’s starting to get real. I had a meeting with my bank manager, and she said that she could provide a loan of \$50,000 providing I had, amongst other items such as a Business Plan, collateral. Robert and I will be putting in \$10,000 of our savings. Are you and Dad able to vouch for me please?”

“Well, as it turns out,” Sally’s mother said, “your father and I have talked about it and what we decided was this. Since we worked long and hard for our little farm here, we can’t afford to take wild

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risks, not even for you, and as such we will need to see that Business Plan of yours. If it looks doable to us, then we will vouch for you. Let's talk about it more when you all come for lunch next. How does that sound?"

"That sounds great and reasonable to me," replied Sally, "you're not the first people to ask to see my Business Plan. Thank you. I'll bring over the Business Plan and collateral paperwork on Sunday fortnight. Thanks again and we'll all see you and Dad for lunch then. Bye, Mum."

## The Business Plan

Sally downloaded the [Business Plan template and handbook](#) that Mike had recommended.

Sally read the handbook and noticed that it was quite comprehensive, and perhaps a bit more than she needed. But she also realised that all the questions and points raised needed to be addressed, but that depending on the context and the specific business proposal, the answers could either be short and simple or essays in themselves. "It just depends," she thought to herself, "I'll need to tailor it to suit my circumstances."

Sally made time over the following days to complete the Business Plan template in time for Sunday lunch with her Mum and Dad. She was pleased to learn that with Mike's suggestion, she had already completed the Cash Flow Forecast Section, so she wasn't starting from scratch.

## Visit the Parents

Sally, Robert, and Aroha went to Sally's parents' lifestyle block for lunch as they did around every two weeks or so. After lunch, while Aroha was having a nap, all four of them sat down and discussed Sally's proposal and they went through her Business Plan.

After much discussion and many probing questions from her mum and dad, Sally's mother finally said, "we're happy with your proposal, we understand that you appreciate the risks that you are exposing yourselves and us to and we know that you are determined and will work hard to make it all work. Where's the collateral document, we'll read it later and take it to Larry's to sign tomorrow; makes it easier when we're all using the same lawyer."

Sally and Robert were ecstatic, and after all the hugging and handshakes were over, the topics of conversation drifted off into the usual familial matters.

## Serendipity - Opportunity Favours the Prepared Mind

The weekend following the visit to her parents, as luck would have it, Sally and Robert had been invited to the wedding of a cousin and while attending the reception, bumped into Uncle Trevor. It turned out that Trevor was in the process of subdividing some land he had. Trevor had obtained funding and needed an Electrical contractor for around 18-months. Also, there was some non-time-critical electrical renovation work he needed doing in one of his factories. He even knew of another developer who was also looking for a competent and trustworthy electrical company.

Sally excitedly told Trevor about her proposal, and Trevor listened patiently. Trevor had been in business for a long time, and he knew to be cautious of youthful and unbridled optimism. Trevor said, "I've heard great things about you from the rest of the family and some other people around town, and I'd like to consider you for this work. But mixing business and family is fraught. I will only take you seriously on several conditions:

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1. We will enter a business arrangement; there'll be no favours for family. If the numbers don't work out, then family or not, I won't give you the work.
2. I'm not going to do you any favours by being lenient as by doing so, I will be supporting an unviable business, and that will ultimately not be beneficial for either of us.
3. I want you to supply some non-family and independent referees I can talk to who will tell me about the real you.
4. I want to see your Business Plan. The reason I want to see it is not to find out where to squeeze you on pricing, I mean market prices are within a narrow range, it's to reinforce my confidence that it is worth giving you a chance. It gets messy when suppliers go broke. It's just not worth my time.
5. We'll sign a proper contract so that there are no surprises and no ambiguity. I want this to work well for both of us.
6. If you work out well with me, then I'll recommend you to Fred who is also working on a subdivision."

Sally smiled and said, "that's completely reasonable, and there, I've just emailed you my Business Plan and my testimonials. Also, I'm seeing my bank manager in the coming weeks about a business loan."

Trevor looked a little surprised, yet pleased with her preparedness, he smiled. They shook hands, and Trevor promised to review Sally's Business Plan and testimonials in the next few days. Trevor excused himself and made his way to the salad bar.

Sally couldn't believe her luck. She tracked down Robert and excitedly told him about the conversation.

Robert said cautiously, "that's great! Maybe I can retire now?" Sally frowned. "I take that as a no then," he laughed. "But seriously, that's great news, but don't get too excited, it still may not work out, but you have to *be in to win*."

Sally reflected on the conversation with Trevor. She had a good idea of what the work involved and confirmed that if the contract with Trevor went ahead, that the CFF was *about right*. Sally thought to herself, "My CFF is quite conservative, so if the workflow from Trevor's projects is only below-average to average, then the CFF works comfortably without me having to work 24/7. If the workflow turns out to be above-average, then I'll comfortably start making some good money. Then I could start thinking about expansion and get another employee. But first things first, I shouldn't get carried away."

### Meeting With Julia the Bank Manager

Sally met Julia in Julia's office.

Sally presented:

- Their banking and savings history,
- Her testimonials,
- The Business Plan,
- Evidence of the investor equity sum of \$10,000, and
- The loan collateral document.



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Sally said, “I’m still working on the pipeline of work, and I’ll leave the registering of my company until the loan is approved.”

The meeting went well. Julia was impressed with the thoroughness of Sally’s Business Plan as well as with her general preparedness.

Julia said, “based on what you have provided me, your history, and our discussions so far, I’m happy to continue the preparations for setting you up with a business loan for \$50,000. I’ll provide final approval for the loan and release the funds once you provide evidence of your pipeline of work for your first three months and you provide me with your company details. Do that, and I’ll then be able to finalise and then approve your loan.”

Sally was wrapt, “thank you. I understand your caution, and I also understand that it’s for our mutual benefit. I’ll let you know how I get on.”

## The Call From Trevor

A day after the meeting with Julia, Sally was still ecstatic. Then Trevor called. “Hi, Trevor,” Sally said, “how can I help?”

“Well I checked up with your referees, they were all great. You have some real advocates out there. Well done. Also, I reviewed your Business Plan. I like it. I’m impressed by your professionalism and thoroughness. I like your conservative approach - risk cautious, but ready to take advantage of any upsides. Tell you what I’ll do. I’ll have a contract drawn up. I plan to structure the contract like this. The contract will be in two parts. Part one will be effectively a 1-month trial period with explicit and measurable performance criteria. Part two will be for the remainder of the development, but again with explicit and measurable performance criteria. What do you think?”

“Wow!” exclaimed Sally, “I can hardly believe my luck.”

“We make our own luck,” Trevor quickly added.

“There’s just a small detail,” Sally said, “my bank manager said that she would only release my loan if I had work contracts for at least 3-months. I know this is all strictly business, but is there any chance you would consider extending the probation contract to 3-months, please? I promise not to let you down.”

“I know you won’t,” replied Trevor. “Three months it is then. And also, to show my goodwill after seeing your Business Plan, I’m happy to pay your anticipated charge-out rates. They’re fair in my experience. A good balance of value and incentive for everyone. I’ll have the contract drawn up, and I’ll send it to you by courier.”

“Thanks, Uncle Trevor, I really appreciate the opportunity. I won’t let you down,” said Sally, tears welling up in her eyes. “It might all be falling into place,” she thought.

The contract arrived a few days later. Sally was pleased to see that it was in everyday language, was balanced in terms of objectives, responsibilities, incentives, and performance. “No one is out to screw each other, what a relief,” she thought.

Sally had Larry the lawyer review the contract, and he was also impressed with the approach and with the lack of *fish hooks*. This is not to say that the contract was absent serious consequences; it was merely balanced and even-handed towards the respective parties.

# Sally Starts a Business – With Facts

## A short story

Sally signed the contract at Larry’s office, and the Larry sent copies to Julia and Trevor.

### Loan Approved

Julia called Sally a few days later and said, “Hi Sally, I received your contract for work, and it looks great. All I need now is your company details, and I can then approve your loan and release the funds. As soon as I receive those details, I’ll send you an email confirming that your business account has been set up and that you can start drawing funds. Well done, and best of luck.”

“Thank you,” said Sally ecstatically, “thank you, I really appreciate all you have done, and I won’t let you down.”

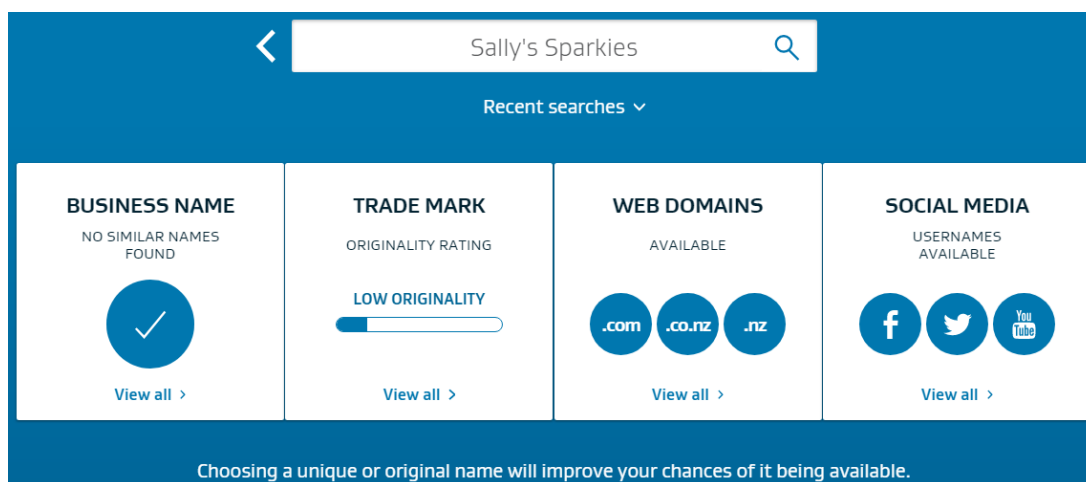
### Create and Register a Company Name

Sally thought hard about her company name. It was hard to be unique, and uniqueness did not infer quality or service. She realised that only industry experience would convey credibility, and that would take time.

Sally settled on *Sally’s Sparkies Limited*, as not only did she want to personalise it, she wanted her credibility to be her brand, and she didn’t want the company name to need any explanation.

### OneCheck

Sally remembered Mike’s advice about [OneCheck](#), as a way to check if company names and website domain names were available with that same name.



Sally noted that in each reported category, there was a *View all* button, so she clicked on all of them and read all the extra information. She also noted that the *TRADE MARK* section reported low originality. Upon further investigation, Sally concluded that the full name might be trademarkable, but that there already existed other trademarks with either “Sally” or “Sparkies” or permutations of both. The trademark check is quite conservative, and a direct approach to the New Zealand Intellectual Property Office ([IPONZ](#)) would be needed if she wanted to pursue trademarks.

Sally went to the Companies Office [website](#) to register her company name:

- Sally used the [RealMe](#)® account created earlier to login.
- Sally clicked on **Registering a company**.
- Sally clicked on **Incorporating your company**.
- Sally followed the instructions.

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- Sally found the [Schedule of fees](#):
  - Company incorporation (registration) fee was \$105.00 exclusive of GST.
  - Annual return fee will be \$36.00 exclusive of GST.

Once Sally had created her company name, she sent a copy of the details to Julia.

Even though she did not need them straight away, she reserved SallysSparkies.co.nz domain and created Facebook and YouTube accounts. “They’re mine, and they’ll be there when I need them,” she thought to herself.

The next day Sally got that email from Julia, the subject line was “Business Loan of \$50,000 Approved.”

“Woo Hoo!” Sally could barely contain herself. Everything so far had fallen into place. She thought about the role of luck in her journey so far, “hmm,” she pondered, “there may be a degree of luck, but under slightly different conditions, such as not having taken making a Business Plan seriously, or even before that, being really careless in paying my bills at the wholesaler, then few would have taken me seriously. No, luck does not have much to do with it. Serendipity, however, that’s another matter - opportunity favours the prepared mind and all that!”

“I’d better check my to-do list,” she thought:

Item Description	Status
Create a RealMe account	✓
Bank loan.	✓
Resign from BMR Electrical when bank loan approved.	✓
Go online and create specific bank accounts, for example, for PAYE.	✓
Create a pipeline of work, min 3 months.	✓
Obtain and sign the contract for work from Uncle Trevor.	✓
Create bank accounts - go online to do it.	✓
Arrange indemnity and liability insurance.	✓
Arrange fire and theft insurance - tools and property	✓
Business email hosting.	✓
Buy Hilux.	✓
Arrange insurance for the Hilux.	✓
Buy extra tools, ladders etc.	✓
Buy site shed (small container).	✓
Register company with Companies Office “Sally’s Sparkies Limited.”	✓
Reserve SallysSparkies.co.nz	✓
Create a Facebook account - Sally’s Sparkies	✓
Create a YouTube account - Sally’s Sparkies	✓
Change plan for mobile phone.	✓
Offer the job to Anne as Apprentice.	✓
Call Accountant to confirm going ahead.	✓
Confirm Accountant is contacting ACC.	✓
Buy and load Accounting Software Package.	✓
Buy and load Contractor Management Package.	✓
Buy Health and Safety Management Contract and load App.	✓

Pleased with her progress, Sally made arrangements to meet with Mike the following week.

## Sally Starts a Business – With Facts

A *short* story

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### Mike the Mentor - Meeting Four

“Well done!” Mike said, “you’ve come a long way in a short time. Based on your skills, work history, and reputation, there are a large number of people expressing their confidence in you.”

“I know,” said Sally, “it’s really scary. I hope I don’t let anyone down.”

“Life is risky and so is business,” said Mike, “so what you need to do is balance risk with creating opportunities for yourself, and you have done that.”

“I don’t know what more I can do for you at present,” reflected Mike, “I mean, if you want to meet again soon to just chat, that’s fine with me, but to make best use of our time together, it’s best if you have something specific you need some advice on. Otherwise, our chats will likely end up being aimless, and neither of us will be certain if any value has been created. How about you just get on with your business and give me an update in around a month? If we need to meet, then that’s great. Otherwise, I’ll leave it up to you. What do you think, Sally?”

“That sounds great to me. Thank you for all your help. I really appreciate all the advice you have provided.”

“You’re most welcome,” replied Mike.

# Sally Starts a Business – With Facts

A *short* story

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## Not The End

... and Sally, Robert, Aroha, and Tiger, the cat, lived happily ever after ...

Well, who knows? They might have ...

The purpose of this *short* story was an attempt to realistically depict a plausible scenario where an aspiring entrepreneur starts a business. Well at least to the point where she registers a company, obtains financing, and is ready to do it. This story was never going to venture into the typical trials and tribulations of building and then running a business - this was supposed to be a short story after all - maybe there will be a sequel?

In attempting to depict a realistic scenario, this story tried to illustrate that there are a large, though not infinite, number of details that one has to attend to and get right to start a business. Each of those details is not too complicated in themselves, but there are simply a large number of them, and it is the quantity and interactions between those details that result in complexity.

The serendipitous meeting with Trevor was a cheap *plot device*, a demonstration of creative license, perhaps even lazy creative license, to firstly make this short story relatively short, but also to suggest that opportunity does indeed favour the prepared; it's happened to me several times. Because if you are not prepared, you are both unlikely to recognise opportunities when you stumble across them, and neither will other people appreciate your potential or capabilities when they need them. To paraphrase [Louise Pasteur](#), discoverer of the principles of vaccination and the inventor of pasteurisation, "opportunity favours the prepared mind."

The fortuitous meeting with Trevor also attempted to illustrate another fact of life - that the majority of work and employment opportunities come through networking, meaning through people who know you and are willing to advocate for you.

I could have made Sally struggle at every step, with a problematic bank manager, a lack of work opportunities, and a divorce to list a few. I could have made Sally's life a living hell as a way to exercise my sadistic creativity. But the purpose was not to revel in sadistic pleasure at her misery. The purpose of the story was to illustrate that there does exist a repeatable process to determine whether or not *you* should create a business.

Being a short story, several essential factors such as parental leave, theft by employees, absenteeism, and project management, to name the barest few, have been either glossed over or omitted altogether. Again, this short story was intended to be short; whole books have been written on such topics, and few of them are short.

# Sally Starts a Business – With Facts

A *short* story

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## Summary and Conclusions

Starting a business is a complex undertaking. There are far more ways to fail than there are to succeed, but fortunately, the means to achieve success are not a state secret. The information and knowledge are out there, somewhere. You have to be proactive about finding it.

To be an entrepreneur, you have to possess the will, the drive, and energy to chase down your dream. People won't do it for you. But since starting a business should be a calculated risk, and not a gamble, a necessary skill an entrepreneur needs to possess or develop is knowing when the risks are too high, and when to walk away.

Even where an entrepreneur does have a successful business, there will be many interlinked factors that allow the Business Model to work, where if you change only one of those factors, it is no longer viable. For example, maybe that business is the only one in the area, and the area can only support one of that type of business. Or, perhaps it is the context. I know of a knifemaker who lives *out in the country* and does not have any close neighbours. This knifemaker sells his knives for close to \$1,000 each and makes around \$50,000 per year. Why is he successful? Skill definitely has a great deal to do with it; his knives are outstanding, works of art even. But so does not having any debt or a mortgage, as well as not having neighbours nearby to complain about the noise and smell. Could someone emulate this knifemaker in Auckland, or anywhere else if they had debt or had to pay market rent? Perhaps not.

Looking at businesses from the outside in, and seeing the carefully curated images of all those happy smiley business owners driving shiny cars, you could be forgiven for thinking that starting a business is easy and that success is assured. But the truth is much bleaker than first appearances.

Firstly, what appears to be overnight success usually takes longer than you expect. Secondly, you don't know all that you need to know and can't do everything that needs to be done. Since overnight success is a myth, you need to be prepared for a marathon, not a sprint; it could take years for your business to be successful and self-perpetuating. And since Super Person is also a myth, if you haven't got the time, inclination, skills, and a host of other clichéd attributes to learn what you need to learn and do what needs doing, and you can't or won't hire anyone to help you, then by definition, you haven't got a *Business Model That Works, for you*. What you have instead is a *black hole* for your time, money, and energy and it won't be long before you are a broke and broken soul.

Think seriously and analyse the situation. Does the neighbourhood, town, city, region, or country really need another pizza shop, laundromat, car sales yard, hardware store, or whatever? By entering a saturated market with your undifferentiated solution, not only do you virtually guarantee your failure, you put at risk the limited success that your competitors are enjoying in their lingering entrepreneurial death spiral.

Lastly, and this is not a shameless plug, it has been said by many people that every business person needs a Mentor. From observation and experience, I agree. As noted previously, superperson is a myth; none of us can know or do everything. We can all do with some help sometimes - bouncing around alone in the echo-chamber of your mind is not the most effective place from which to manage a business.

# Sally Starts a Business – With Facts

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## Appendix - Sally's Check List

Description	Notes	Done?
Bank Loan	Contact manager to learn what I need to prepare and provide	
Bank Loan	Meet manager to secure a loan	
Bank accounts		
General	Revenue to go into here	
ACC		
Employee expenses		
Employee wages		
Kiwi Saver		
Depreciation		
Materials purchased		
Tax	PAYE, company and provisional tax	
Business Plan	Check with the bank manager about form and content	
Cash Flow Forecast		
Break-even Analysis		
Loan budget		
Create a RealMe account		
Create a pipeline of work.		
Arrange indemnity and liability insurance.		
Arrange fire and theft insurance.	Tools and property	
Buy vehicle.		
Arrange insurance for vehicle		
Buy extra tools, ladders etc.		
Register (incorporate) company	Sally's Sparkies Limited	
Reserve web domain name.	SallysSparkies.co.nz	
Business email hosting.		
Create a Facebook account.	Sally's Sparkies	
Create a YouTube account	Sally's Sparkies	
Change plan for mobile phone.		
Hire employee.	Make a formal job offer. Sign an employment contract.	
Accountant.	Sign up with an Accountant. Confirm that the Accountant is contacting ACC.	
Accounting application.	Buy and load Accounting Software Package.	
Contractor Management application.	Buy and load Contractor Management Package.	
Health and Safety application.	Buy Health and Safety Management Contract and load App.	

# Sally Starts a Business – With Facts

A *short* story

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## Appendix - Cash Flow Forecast Explained

A Cash Flow Forecast (CFF) is a forecast or projection of *future* cash performance over a period such as six or twelve months. A Cash Flow Statement is similar to a CFF, except that a Cash Flow Statement is a summary of *past* cash performance.

A CFF can help to answer the questions, “where will my money come from, where will it go, and how much, if any, will I have left?”

As a projection, a CFF is an estimate about how you think the future will unfold with respect to cash flowing into and out of your business. The CFF can inform you of the likely timing and the amount of future cash flows. This information can be used for budgeting. For instance, with a CFF, you might predict that you will run short of cash during the upcoming holiday period when revenue will be lower, but your overhead bills will still need to be paid. Armed with this foresight, you can then approach the bank for a loan before you run out of cash. As a forecast, banks and investors also use the CFF to assess how realistic your plans are and how viable your business is likely to be.

The basic equation for a CFF is:

$$\text{Cash at the end of a period} = \text{Cash received} - \text{Cash spent} + \text{Cash at the start of the period}$$

For more information, refer to:

- [Cash Flow Forecast.](#)
- [Cash Flow Statement.](#)
- [Cash Flow Forecasts and Statements Explained.](#)



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## Appendix - Break-even Analysis Calculations Explained

The Break-even Analysis calculator below has four columns:

1. Calculations using the maximum possible work weeks per year (utilisation 100%).
2. Calculations using the available work weeks per year assuming a utilisation of 90%.
3. A description of the values in the rows of columns one and two.
4. Rows with simple alphabetic descriptors and the calculations used to obtain the values in columns one and two.

Break-even Analysis			
Work weeks per year			Calculations
100%	90%	Utilisation percentage	
44.8	40.32	Weeks per year	a
\$ 39,729	\$ 39,729	Overhead costs	b
\$ 24,024	\$ 24,024	Sally annual costs	c
\$ 13,728	\$ 13,728	Apprentice annual costs	d
\$ 77,481	\$ 77,481	Total overhead costs	e = b+c+d
\$ 10,000	\$ 10,000	Add target Profit	f
\$ 87,481	\$ 87,481	Total target budget	g = e+f
\$ 26	\$ 26	Gross margin \$/hr	h = per unit(price-costs)
<b>To achieve break even</b>			
67	74	Invoice hrs per week	i = e÷a+h
33	37	Invoice hrs per employee	j = i÷2      2 employees
<b>To achieve target profit</b>			
75	84	Invoice hrs per week	k = g÷a+h
38	42	Invoice hrs per employee	l = k÷2      2 employees

The *Gross margin \$/hr* (dollars per hour) is the average charge-out rate per hour for all employees less the average cost per hour to hire those employees. The value of \$26 above is calculated elsewhere on the CFF.

Values other than those calculated above are calculated elsewhere on the CFF.

### In Words

The units we are selling in this example are *billable hours*. This means that in this Break-even Analysis calculator, we are trying to find out how many hours we need to work and therefore invoice per week, both in total and per employee.

#### To achieve Break-even:

Hours per week = Total overhead costs ÷ Weeks per year ÷ Gross margin per hour

$$i = e \div a \div h$$

#### To achieve profit target:

Hours per week = (Total overhead costs + Target Profit) ÷ Weeks per year ÷ Gross margin per hour

$$k = g \div a \div h$$

To work out how many hours we need to invoice per employee per week (in this case, there are two employees), in rows j and l we divide the respective rows i and k by the number of employees.