SUCCESS IN BUSINESS:
a guide to financial management and marketing for small businesses
SUCCESS IN BUSINESS: A guide to financial management and marketing for small businesses

FOREWORD

This book offers a practical approach to financial management and marketing techniques for small businesses. If you can apply the contents of this book you could be a success in business.

If you are a market trader, own a small shop or supply a service to people in your local area, the following pages will equip you with the basic information that you need to ensure that your finances are in order.

This book also examines the marketing strategies that can help you to develop your business. There are useful insights into how small businesses could benefit from spotting new market opportunities.

As there is a wealth of other information and advice available about financial management and marketing, there is also a list of resources that you might like to explore.

The tools, techniques and examples in this publication, and its companion volume, Success in Business: Street Market Case Studies, will help you to develop a thriving business.

Councillor Paul McGlone
Chair of Cross River Partnership Board

KEY

- Key principle
- Be aware
- Exercise
- Case study
- Links or resources
- Next action

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1. FINANCE: THE BASICS

THE BASIC PRINCIPLES OF FINANCE

The basic principles behind financial management are very simple, but jargon often makes the subject appear complex. If you are running a small market stall or a global business, financial management is essentially about controlling your business using numbers.

Why have accounts?
Accounts provide a reliable measure of the performance of your business, which it is important to know.

Who looks at accounts?
Apart from yourself and Companies House, other people who may want to look at your accounts are:

- Directors, shareholders or investors
- Traders, such as your suppliers and customers
- Banks and other lenders
- Government departments, such as the Department of Trade and Industry or HM Revenue & Customs

Measuring and recording
To control your finances, you must measure and record all of your transactions. You need to know what you spend money on, what money you get in, and when all of this happens. Once you have all of this information you can begin to understand the flow of money through your business. A summary of these records is the basis of your accounts.

Legal requirements
There is a statutory duty to maintain accounting records, or 'books', by all traders, including sole traders (also called the self-employed). Sole traders or partnerships need only produce accounts for HM Revenue & Customs. All other entities that are incorporated or regulated, i.e. companies limited by shares, or guarantee, charities and co-operatives, have to file accounts that can be accessed by the public. These accounts must be presented in a recognised format and be a true and fair statement of your business’ operations. If your business is incorporated, you must file your accounts with Companies House every year. These accounts must include:

- The trading account – showing profit and loss
- The balance sheet, a list of what you owe (liabilities) and own (assets)
- A cash flow statement
- A director’s report, notes, explanation and clarification on your accounts

You must pay your bills. Even if you do not have enough money in the bank, you must have the justifiable expectation that your business will be able to generate sufficient income to enable bills to be paid as they become due or that you can raise the required amounts.

If you are an incorporated business or a registered charity of a certain size you must have your accounts audited annually by a licensed practitioner, which will provide independent confirmation of your accounts. A company can be exempted if it is 'small', that is it has a turnover of not more than £5.6 million and a balance sheet total of not more than £2.8 million. A charitable organisation will generally be exempted by the Charity Commission if it has a gross income of less than £250,000 in the relevant year, although there are exceptions. Visit www.charity-commission.gov.uk for further details.

ACCOUNTING CONVENTIONS

A well-established accounting method is the 'double entry bookkeeping system'. This is how accounting errors were prevented in the days before computerised systems. Everything is entered twice, once as a source (positive value) and once as a sink (negative value). Underlying this is the principle that any cash transaction will affect two aspects of a company. For example, you might buy stock which would be recorded as a decrease in the amount of cash you have and also as a corresponding increase in the value of stock you hold by the same amount. If this is correctly done the accounts should balance, if they don’t you know there is an error. Reconciling credits and debits on a regular basis is where the phrase ‘balancing the books’ comes from.
The system of entries in books is with: on the left hand side the **debits**, i.e. money due or received (positive entries); on the right the **credits**, i.e. money paid or owed (negative entries).

A set of business accounts is made up of a variety of elements. Figure 1 shows the relationship between a typical set of business accounts and the flow of transactions between them.

**Double-entry system: example of how sales are accounted for**

Simple rule: if you increase a **debit** then you must either increase a **credit** or decrease another **debit** by the same amount. Similarly increasing a **credit** either requires an increased **debit** or a reduction to another **credit**. This ensures that all the **debits** in total always equal all the **credits** in total.

Computerised accounting packages copy the manual system of creating accounts. Every transaction is entered twice, a debit entry and a credit entry. This ensures that if an error is made the accounts will not balance, i.e. the debits will not equal the credits. Every time you record a transaction, therefore, you need to make an equal and opposite entry – to ‘balance the books’.

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**Figure 1**

The relationship between a typical set of business accounts

- Capital
- Drawings/money withdrawn
- Trade and other debtors
- Cash and bank balances
- Trade and other creditors
- Stock and assets
- Purchases
- Sales and other income

**Figure 2**

Name of account: debtor account/trade receivables

<table>
<thead>
<tr>
<th>First entry</th>
<th>Second entry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong> In Profit and Loss account</td>
<td><strong>Cash received</strong> To balance sheet</td>
</tr>
<tr>
<td>1,000</td>
<td>500</td>
</tr>
<tr>
<td><strong>Difference</strong> Debtor on balance sheet</td>
<td><strong>Debtor on balance sheet</strong></td>
</tr>
<tr>
<td>1,000</td>
<td>500</td>
</tr>
<tr>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>
FINANCIAL STATEMENTS
Even if you’ve never put together a set of accounts, there may be some terms to do with accounting that you’ve heard before. These may include:

- profit and loss account
- balance sheet
- cash flow statement

These various financial statements are all different elements of the complete set of business accounts.

These are all useful tools that can help small businesses keep track of where money is and what it is doing.

The profit and loss account
The profit and loss account shows the income you have earned against the costs incurred over a stated time period, usually a year.

The Companies Act requires that you show your different sources of income and categorise what you spend.

If you are using double entry bookkeeping you can calculate your profit or loss by looking at the difference between your purchase account (costs or expenditure) and your sales account. If you have spent more than you have earned you have made a loss. If you have earned more than you have spent you have made a profit.

An example profit and loss statement
Every debit and every credit will appear in the profit and loss account or the balance sheet (Figure 3).

Note that the profit and loss account takes the same basic form as the accounts we looked at in the double entry bookkeeping section, with debits on the left and credits on the right.

Figure 3  Profit and Loss Account

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold (all goods for resale minus any stock left at the end of the period)</td>
<td>Sales (invoices raised or cash received)</td>
</tr>
<tr>
<td>Expenses (all costs including salaries/wages)</td>
<td></td>
</tr>
<tr>
<td>Profit or loss (always a balancing figure)</td>
<td></td>
</tr>
</tbody>
</table>

Balance sheet
The balance sheet is a ‘snapshot’ of the difference between your assets and your liabilities on a particular date, which is usually the end of the financial year.

The difference between the assets and liabilities is either the profit or losses accumulated ever since you started your business. Your assets are all the things you own and the money due to you, whereas your liabilities are what you owe other people.

An example balance sheet
You will notice in Figure 4 that all debits are placed on the left and all credits are placed on the right of the sheet. You must list everything you owe or own on a specific date. This is unlike your profit and loss account, which is a record of money in and out over a period of time.

The profit and loss account versus the balance sheet
The difference between profit and loss account and the balance sheet include:

- Loans and loan repayments are shown on the balance sheet and not the profit and loss account
- VAT is a liability and shown in the balance sheet; whereas all costs in the profit and loss account exclude VAT
- There is a time difference between when a transaction is created and when the transaction is completed, e.g. if you sell some goods in January and issue an invoice to the purchaser the sales invoice is recorded in the profit and loss account as a sale. You will probably receive the cash for the sale about a month later. In the balance sheet a debtor is created, i.e. when you receive an invoice but it is likely that you will not pay the amount immediately. The liability, i.e. what you owe, is shown in the balance sheet as a creditor

Figure 4  Balance Sheet

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets (e.g. lease, property, computers, cars etc.)</td>
<td>Creditors (people you owe money to)</td>
</tr>
<tr>
<td>Debtors (people who owe you money)</td>
<td>Loans (banks or other parties that you owe money to)</td>
</tr>
<tr>
<td>Stock (goods for resale)</td>
<td>Capital (the money you/investors put in)</td>
</tr>
<tr>
<td>Bank (assuming a positive balance)</td>
<td>Retained Profit (the profit made to date)</td>
</tr>
</tbody>
</table>
**FINANCIAL PROJECTIONS — FORECASTS AND BUDGETS**

Forecasts are predictions about the future and are used to plan ahead. Budgets are financial plans for specific time periods, based on forecasts.

Budgets are often done as a **rolling budget**, e.g. predicting the next year by monthly results.

**Profit forecast**
The profit forecast is simply a profit and loss account looking into the future. This is a forecast based on what you expect sales and expenses to be in the future, e.g. in one to five years.

**Cash-flow forecast**
This reflects the actual cash movements expected over your time period. This is normally one to five years.

The statement will show:
- Actual cash movement, e.g. a sale in January may only generate cash for the business in February or March
- Loans
- Capital purchases
- VAT
- Balance sheet

To download templates for cash-flow statements, balance sheets and profit and loss accounts visit www.redochre.org.uk/crp.php.

**Figure 5** Differences between the profit forecast and cash-flow statement

<table>
<thead>
<tr>
<th>Profit Forecast</th>
<th>Cash-flow Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell in month 1</td>
<td>Receive the cash in month 2</td>
</tr>
<tr>
<td>Purchase in month 1</td>
<td>Pay for it in month 2</td>
</tr>
<tr>
<td>Depreciate it over 3 years</td>
<td>Buy a computer</td>
</tr>
<tr>
<td>No impact</td>
<td>Loan and loan repayments</td>
</tr>
<tr>
<td>PAYE and NIC month 1</td>
<td>Pay IR in month 2</td>
</tr>
<tr>
<td>No impact</td>
<td>VAT and payments/receipts from HM Revenue &amp; Customs</td>
</tr>
<tr>
<td>Utilities in month 1</td>
<td>Pay at end of quarter i.e. month 4</td>
</tr>
<tr>
<td>Insurance in month 1 (1/12th of total charge)</td>
<td>Full amount paid in month 1</td>
</tr>
<tr>
<td>Audit fee in month 1 (1/12th of total charge)</td>
<td>Full amount paid sometime in the following year</td>
</tr>
</tbody>
</table>

**VARIANCE**

Variance are useful management tools as they highlight areas where assumptions are incorrect and areas where there is potential for improvement i.e. in understanding what led to the variance you can adjust the future budget if required for the cause of the variance or you can rectify the cause so that it does not occur again.

An example of variance is shown in figure 6:

**Figure 6 Per the budget**

<table>
<thead>
<tr>
<th>Expected sales in the month</th>
<th>£10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual sales achieved</td>
<td>£9,500</td>
</tr>
<tr>
<td>Variance</td>
<td>£500 / 5% negative</td>
</tr>
</tbody>
</table>

This is a small variance and probably will not require further investigation.
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**Fixed and Variable Costs**

Fixed costs are bills that you have to pay whether you sell anything or not. For example, if you are operating a shop or a café, you will need to pay rent, rates, utilities, and wages even if you do not sell goods, have no customers, or casual staff.

Variable costs are those that are incurred due to some level of activity, and vary directly with changes in this activity. For example, when a customer makes a purchase, the variable cost is the price you pay for the item that you have sold to the customer.

**Gross Profit**

The gross profit on any item sold is the difference between paying for the item and how much you sell it for. For example:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bag of beans</td>
<td>£5</td>
</tr>
<tr>
<td>Sale price</td>
<td>£10</td>
</tr>
<tr>
<td>Gross margin</td>
<td>£5</td>
</tr>
</tbody>
</table>

The gross margin goes to paying off your fixed costs (i.e., bills you always pay).

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**Break-even point**

Break-even point is when the fixed costs will have been covered after a certain number of items have been sold. If you sell more items all of the gross profit is your ‘net profit’ as you are no longer paying off your fixed costs.

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**Next Actions**

You know the basics of financial management. But what can you do now? Visit the companion website to this book and download a range of tools, exercises and templates on financial management at www.redochre.org.uk/crp.php. These include:

- A simple cash book
- Break even analysis explanation and tool
- Example purchase and sales ledgers
- Template cash flow projection

---

**Table: Types of cost**

<table>
<thead>
<tr>
<th>Fixed costs (also called overheads or core costs)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Also called overheads or core costs. These are the bills you must pay all the time. Rent and rates are fixed costs.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital expenditure (sometimes shortened to CapEx)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>These are bills you pay once, e.g. buying a computer, a van or a market stall.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contribution (also called Gross Profit)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is what you have left from the sale price of an item once you have paid for it. Instead of being quoted as a number (gross profit) you can also represent this as a percentage (gross profit margin).</td>
<td></td>
</tr>
</tbody>
</table>

---

**Figure 7**

FINANCE: THE BASICS
2. MARKETING

Two key marketing strategies you might find useful to increase sales are by increasing competitiveness and diversification.

1. Competitiveness is how you compare against other people or companies selling similar goods or services to your own.

2. Diversification aims to extend your organisation’s activities into new products or markets.

COMPETITIVENESS

An organisation is competitive when it is able to provide products and services as, or more effectively and efficiently than its competitors.

Businesses can usually achieve competitiveness in two ways:

1. Low-cost leadership
   This requires reducing costs and becoming more efficient throughout the company. An example is Asda, which is a high volume, low cost supermarket.

2. Differentiation
   This requires setting your goods and services apart from competition through better features or quality, including everything that can influence customers’ purchasing decisions: e.g. design, customer service, brand image, durability, feel good factor etc. For example, Louis Vuitton sells desirable, high-quality, very expensive luxury goods; the Body Shop sells ethical ‘feel good’ products.

   Where you are now, where you want to be and how to get there

   Gap analysis is a useful tool that can help you think about your current position and where you want to develop your business to. It can help you decide upon marketing strategies and tactics to enable your business to grow.

   Firstly, decide your focus, e.g. you could choose to examine your market share, profit or sales. Next, ask two questions:

   1. Where are we now?
   2. And where do we want to be?

   The difference between the two is the GAP, as shown in Figure 7, the lower line is where you are now; the upper line is where you want to be. You need to work out what you want to achieve:

   ■ An increase in market share, sales or profitability? If so, by how much?
   ■ What targets do you have in mind?
   ■ Do you have a competitive advantage such as lower costs or a specific product perceived as being different or offering better value than others?

   Figure 8  Gap analysis
Thinking about the gap

You can close the gap by thinking about how you market and sell your goods, products or services on a day-to-day basis. You could change things by altering your pricing, changing the ways you promote your product or service. This kind of marketing is called using the Marketing Mix (see Glossary, page 28).

The aspects you might want to change include:

- **Pricing**
- **Distribution**: are you going to make changes in your supply chain or how you transport or deliver your goods/services?
- **Product**: specification and physical differentiation of a product or service
- **Promotion**: Communications planning, choosing what marketing communication activities to undertake. Who will you market yourself to and how?
- **Physical evidence**: signage, labeling, packaging
- **People**: skills, attitude and appearance of staff including partnerships and alliances. Can you lower your costs or improve results by associating yourself with another company?

**Technique: Customer analysis**

If customers buy products from your market stall or shop it is because you are offering a product or service that meets their needs.

Some questions you might want to ask are:

- Who are your current customers?
- Who are your potential customers?
- What are they looking for?
  - low cost
  - physical quality
  - service
  - timeliness
  - a mix of these
- What do they think of you?
- How can you reach them?
- What needs are you meeting?
- How well are you meeting those needs?
- What other potential needs could you meet?
- Are there trends in demand?

Once you have some of these answers you will have started to develop an understanding of your customers, their motivations and their behaviours – more specifically their buying behaviours as they relate to your business.

**Technique: Competitor research**

We know competitiveness is a relative measure against other providers of goods and services.

You can add to your knowledge by using the internet for research, gaining contacts and information sources at local and professional membership bodies, and by asking your customers and suppliers who they buy from.

The kinds of questions you might want to find answers to include:

- Who are your competitors?
- How well are they doing?
- Are they growing or planning to grow?
- Where do they operate?
- How much do they charge?
- Who are their suppliers?
- Are there potential new entrants in the market or similar products or services that can compete against you?
- How do you compare to them?
- How can you develop/maintain a competitive advantage?
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COSTING AND PRICING

There are some simple tasks to go through to help you decide on the price that you charge for your products or services:

- Capture all the relevant data, such as supply chain prices (suppliers, distributors, transporters, storage), competitor’s prices, how much customers are willing to pay.
- Measure and monitor: how does a change in costing affect your prices, sales, revenue and competitiveness?
- What kinds of adjustments are needed to achieve your targets? Do you need to lower certain costs? Can you make economies of scale?

There are many ways to work out how much to charge for your product or service. Their appropriateness depends on your aims and objectives:

**Example Pricing Strategies**

- **Cost plus pricing**
  How much the product or service that you sell costs you plus your margin (this will ensure a pre-determined percentage of profit on each transaction)

- **Premium pricing**
  A high price, but a high quality product or service is provided in exchange, for example Concorde

- **Penetration pricing**
  Offer a low price to gain market share, then increase price, e.g. sell apples very cheaply until no one else sells apples in the area and then put your prices up

- **Psychological pricing**
  To get a customer to respond on an emotional, rather than rational basis, for example 99p not £1.01. This is called ‘price point perspective’

- **Product-bundle pricing**
  Sellers combine several products at the same price, e.g. a book is sold with a CD on its cover

- **Promotional pricing**
  Buy one get one free, e.g. supermarket offers on toothpaste, soups, etc

- **Value pricing**
  Usually used during difficult economic conditions, e.g. value menus at McDonalds

- **Discounting**
  A discount promotion can increase business. Beware though, raising the price to its original level can prove unpopular and will encounter resistance. Engage in a strategy that informs the customer that any promotion/discount is a time-limited offer

- **Incentives**
  Encourage customers to return to you. This ensures return business and is more profitable in the long term than offering a straight 10% discount, for example:
  - cash back incentives
  - make 10 purchases get one free

-- ensure the offer is only on a selected item. Customers are likely to also purchase food or other items so that you more than recoup the cost of the free offer; for example, coffee in a café
-- give a discount on each transaction over a certain value; for example, spend over £15.00 on ten occasions and get a free sandwich on the 11th. Once again the extra sale more than makes up the cost of the ‘freebie’

For further information and examples of perceived value and differentiation, and selling benefits visit www.redochre.org.uk/crp.php.

Quality

Quality, or perceived value, is what the customer gets out of a purchase whatever way they measure that themselves.

Typical measures of value to a customer include:

- Physical quality or workmanship of an object
- Scarcity or perceived rarity of an object or service
- Time saved
- Customer service
- Resilience of a product or service
- Feel good factor
Value for money
As shown in Figure 8 above, the greater the ‘value for money’ you offer, the greater the likelihood that your customers will buy from you and not your competitors.

DIVERSIFICATION
Looking at moving into new products or selling to different types of people, or both. Whatever type of business you run, you can diversify in three ways:

1. Market development – finding a new market for your existing products. This involves seeking new groups of customers by moving or expanding to new locations (opening another market stall in a different place) or reaching different market segments (selling to a different type of customer).
2. Product development – bringing in or developing new or different products for your current customers.
3. Market and product development – selling new products to a new market. This strategy has aspects of both and is the most risky form of diversification.

Market penetration strategy is selling more of your current products to existing customers.

Focus strategy or specialisation is the opposite direction of diversification. This is when businesses compete by concentrating on a particular position in the market, such as supplying specialty products, selling in a location neglected or targeting niches with specific demands (e.g. a food store that specialises in vegetarian/vegan food, or sells gramophone needles).

Uses of diversification in the real world
When would a business wish to diversify? What does this mean in practice? Some of the most common reasons to use this strategy is to manage business risk.

- If your market stall has experienced a drop in your usual customers then you might want to consider providing new cash flows into the business through diversification
- If your small shop serves a limited range of products, relies on a small group of customers or is just based in one geographic area then you might want to reduce this overdependence by diversifying
- The other main reason to use diversification is if you adopt an expansionist strategy. This is a way to move into areas where there is an opportunity to sell goods and/or services you currently don’t sell

Below are some examples of product diversification tailored to particular market sectors:

MARKET DEVELOPMENT: CORNISH SARDINES
In the late 1990s and into the 21st century the UK market for locally caught pilchards was static. Pilchards were ‘re-branded’ as Cornish sardines to increase sales of fish caught off the west coast of Britain.

This marketing strategy opened up Spanish and Portuguese markets as consumers there have cooked with sardines for generations, but were unaware of pilchards (which are in fact only large sardines).

This is an example of market diversification as the same products were being sold to a different group of customers.

MARKET AND PRODUCT DEVELOPMENT: CHUPA CHUPS
The company started as a confectionary store, but soon revolutionised sweet eating habits by creating and selling the lollipop, a candy that can be eaten on a stick in a variety of flavours.

Chupa Chups learnt that merchandising and distribution were key in attracting customers. They multiplied points of sale where they presented the lollipops in a very colourful, attractive and innovative display. This was very appealing to children, who were by far their largest market at the time.

Later on, the company anticipated market changes by:
- Targeting places where young adults spent time and there was no competition, e.g. clubs and arcades, creating a ‘lollipop fashion’ (market development)
- Introducing Cremosa, sugar-free lollipops, which appealed to more health conscious consumers (product development)
- Creating Smints, the first dental candy, which appealed to a much wider public, especially adults (product and market development)

Chupa Chups also created its own distribution company to ensure timely delivery of their products to thousands of outlets. By branding the delivery vehicles with their logo and colours they benefited from a free and highly visible outdoor media campaign.

This Spanish lollypop maker is a great example of the use of diversification in business growth.

Visit www.chupachupsgroup.com/ for more information.
DIVERSIFICATION AND PRODUCT DEVELOPMENT: VIRGIN

Virgin started selling records by mail order, and then moved into retail (Virgin shops).

Over time the organisation diversified into selling other media, including creating its own music (Virgin MegaStores, Virgin Music and Virgin Radio). Once Virgin had sufficient brand awareness the company expanded into:

■ Transport (Virgin Trains, Virgin Atlantic)
■ Communications (Virgin Mobile)
■ Financial services (Virgin Money)
■ Stem Cell Services (Virgin Stem Cell)

Virgin continues to expand through franchising, i.e. selling the licence to use the Virgin brand for use in marketing other products.

Virgin is an excellent example of diversification and product development.

Visit www.virgin.com/uk/default.asp for more information.

Exercise: how and when to diversify

Diversification is not always the best strategy to adopt: sometimes it is better to concentrate on your current products and customers. There are many market traders, small shop owners and suppliers of services that have focused on their core business and been successful.

If you are looking for a way to grow your business or if you have identified a specific opportunity it may be worth pursuing a new product or market.

Questions to ask yourself

■ Have you done your market research?
  – have you found new products to sell or new customer needs?
  – can you think of new clients to sell your current products to?
  – is there a demand for the new product you want to sell?
■ How will you reach this new market?
■ What is the competition like?
■ What are the risks involved?
■ Is it a known or unknown market?
  – do you have or lack expertise selling the new product, goods or services?
  – is there a high cost of setting up in the new market?
  – does this new product/market fit with your company?
■ Do you have sufficient capacity for existing and proposed products and services?
■ Will the quality or customer service you provide suffer as you expand?
■ Can you have a trial period or do some test trading?
■ Perhaps selling a similar product to familiar markets will be less risky (e.g. sugar free lollipops to lollipop consumers)

Next Actions

What marketing can you do now? Visit www.redochre.org.uk/crp.php to download a range of tools and exercises including:

■ Marketing plan template
■ Product/Market diversification tool
■ Tools to work on where you are and where you want to be
■ Finding out whether you offer value, and action plans based on cost or differentiation
■ Tools to help you find out how competitive you are
3. MAXIMISING LOCAL OPPORTUNITIES

Making the most of opportunities in your area comes from knowing what is happening (or what is likely to happen) and how you can get involved. The best ways to learn about local opportunities are through networking and research. One of the most effective ways to get involved and exert influence is by using your network.

NETWORKING
Having a network will also help you to become involved in, and perhaps exert influence over, potential local developments.

Some networking opportunities occur during day-to-day activities, while others require planned action. A structured approach to networking and reaching out to new contacts will help you to build a strong network of allies, potential customers or business partners that will help you to take advantage of local opportunities.

Networking is one of the most cost effective ways to find out what is happening in your local neighbourhood. There are a number of methods to encourage this to occur. A few simple guiding principles are:

- Be visible
- Get involved
- Be informal if necessary

Tried and tested methods of networking
To make the most of your time and effort you should use all of these techniques as part of a strategy to build your network of contacts.

- Make the most of impromptu meetings, e.g. with an acquaintance on your way to work, catching up with current partners or contacts over lunch, having a conversation with neighbouring businesses/suppliers/distributors/competitors.
- Take part in local meetings or events to discuss upcoming projects, events, or changes in your sector/area. You can even organise one yourself and be at the centre of the networking if you see a need or opportunity.
- Discuss potential opportunities to collaborate with other people who run similar businesses to take advantage of an opportunity (e.g. distributing each other’s leaflets, putting up posters, offering discounts in association with others, organising a special event with other traders).

You could consider joining:
- Trade associations
- Local business associations
- Local community organisations to exchange ideas and stay up-to-date with developments and news
- Political parties

Talking to other people can enable you to know what is happening

For further details see the Local Contacts List (page 23) or visit www.redochre.org.uk/crp.php.

RESEARCH
Research is a great tool to find out what is happening, who is involved in your area, and what might be happening that could affect you and your business. It can complement information you have heard from other people as well as inform you of brand new opportunities.

Desk research
Desk research is a highly efficient use of time and resources when it comes to maximum information collected for minimal outlay of time or money. This type of research can be done during lunch hours, after work, at weekends or during the working day.

- Visit your local authority website regularly at www.direct.gov.uk. There will be lists of forthcoming business networking opportunities in your area and how to get involved. Local authorities also provide practical information on planning applications, business
improvements, regeneration programmes or events that could be of benefit to you or affect your business (e.g. a new transport link could bring new customers to your market), Councils also provide very useful links and information for business owners and employers (e.g. awards and grants, business support/advise, free training).

- Read your local newspapers, trade magazines or bulletins.
- Visit the National Statistics website at www.statistics.gov.uk to find out about trends or demographic changes.

Example: You might wish to keep up-to-date with statistics on where new immigrant groups are settling. In Shepherd’s Bush there are now signs for Polish food written in Polish. As countries join the European Union this information may give you an advantage over your competitors that aren’t aware of how your customer base and their needs might change.

Subscribing to relevant newsletters can inform you about new local opportunities in your area.
PRIMARY RESEARCH

Primary research is research undertaken by you directly or commissioned by you.

Simple methods of primary research include:

- **Surveys** – ask relevant questions verbally to people around you about forthcoming local opportunities, e.g. will you attend the fair next week or would you buy organic food if there was some in the store?
- **Structured interviews** – these can be very short and can be undertaken in person (e.g. while serving customers, or meeting potential clients) and on the telephone.

PROMOTE YOUR PRODUCT / SERVICE AND RAISE AWARENESS

If you decide to act on a local opportunity because you think your business, customers or neighbourhood will benefit from it, make sure you plan your course of action.

- **Plan first** – list your aims and objectives, strategy and tactics, budget and resources, targets as well as potential risks.
- **Create awareness** – promote your idea and stimulate interest and desire
  - consider promoting your product or service through direct marketing (mail, inserts, leaflet drops, point of sale activity, etc), newsletters, events, public and press relations, conferences, seminars, websites, electronic-direct marketing, newsgroups, etc.
  - publicise your product or service in the local newspaper
  - consider contributing to local newspapers or bulletins, thus raising your profile
- **Get as many people who may help/benefit from your activity involved, as champions**
- **Monitor and evaluate your success**; was it worth taking on the opportunity?

Share this information with people who have helped you along the way – this will also give you a chance to follow up on your networking. Another opportunity may come along!

Example of a local opportunity

You are a small catering company with a shop for customers who live and/or work in the neighbourhood. The only other sandwich shop is three streets away. You learn from the local newspaper that a group of businesses with a total of 70 employees is about to move into the newly renovated building on the corner of your street.

How to you take advantage of this opportunity?

- **Be reactive** – wait to see what happens. They may not buy from you or you could quickly become overcrowded at lunchtime
- **Contact the Building Manager** and arrange to distribute leaflets to promote your shop, and organise to deliver sandwiches directly to the offices
- **Prepare yourself** for an increase in customers by ordering more supplies and hiring extra staff

**Tools: Spotting Opportunities**

Normally a SWOT analysis will identify 10-15 strengths and weaknesses and 5-10 opportunities and threats. SWOT analyses are most effective if completed as a group exercise with input from many people – so involve your employees or colleagues. Brainstorming (see Glossary, page 28) is often used to get as many items for the SWOT as possible.

Strengths and weaknesses focus on internal issues; whilst opportunities and threats highlight external issues. For the purposes of maximising local opportunities, concentrate on opportunities and threats in your use of the SWOT analysis.

Strengths and opportunities are positive; whereas weaknesses and threats are negative. A SWOT analysis will highlight negative issues that can be used and developed to your advantage, i.e. to be moved from the negative column to the positive column of the SWOT chart.

**Figure 10 SWOT analysis**

<table>
<thead>
<tr>
<th>Internal</th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td>Issues within your control which help your business achieve its goals</td>
<td></td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>Issues outside of your control which hinder the business and prevent it from achieving its goals</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities</strong></td>
<td>Issues within your control which might offer the business a way to achieve its goals</td>
<td></td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td>Issues outside of your control which might hinder the business and prevent it from achieving its goals</td>
<td></td>
</tr>
</tbody>
</table>

A SWOT analysis can be used with another tool called PESTLE (Political Economic Social Technical Legal and Environmental) analysis. This is a way to look at external factors affecting your business (the opportunities and threats of the SWOT analysis).
Within the next month:
- Make contact with your local councillor
- Make contact with two officers from your local authority such as members of the trading standards or planning departments
- Develop strategies to keep in contact with these contacts via emails, invitations to meet for coffee, attendance at formal meetings etc.

We can now put the information we have, and the tools we’ve learnt about, into practice.

PRACTICE RESEARCH AND NETWORKING
We can now put the information we have, and the tools we’ve learnt about, into practice.

Within the next week:
- Carry out a SWOT analysis on your enterprise paying particular attention to the opportunities and threats.
- Use the internet to research two possible local developments that might have either a positive or negative effect on your business.

Within the next month:
- Make contact with your local councillor
- Make contact with two officers from your local authority such as members of the trading standards or planning departments
- Develop strategies to keep in contact with these contacts via emails, invitations to meet for coffee, attendance at formal meetings etc.

Next Actions
What now? Visit www.redochre.org.uk/crp.php to download blank templates such as SWOT analysis, up to date links of local authority contacts and other information.

SUCCESS IN BUSINESS: a guide to financial management and marketing for small businesses

SUCCESS IN BUSINESS:

A discrete occurrence that can cause the partial or total failure of a project or organisation.

WHAT NOW?
Visit www.redochre.org.uk/crp.php to download blank templates such as SWOT analysis, up to date links of local authority contacts and other information.

MAXIMISING LOCAL OPPORTUNITIES

Glossary

Amortisation
Similar to the process of depreciation but to decrease the value of an intangible asset, such as a lease, rather than a tangible asset such as a delivery van, over time.

Balance Sheet
The balance sheet is a statement of an organisation’s net worth. The net worth is the difference between what you own (Assets) and what you owe someone else (Liabilities).

Net Worth = Assets – Liabilities

Brainstorming
A creative thinking technique for groups. All ideas are welcomed and recorded, repetition and restating encouraged. There is no evaluation or criticism of any idea in brainstorming.

Brand Fluency
The degree to which consumers recognise a company’s product or service. Brand awareness is an important way of promoting commodity related products.

Capital
Cash or assets introduced into a business, (by the owners whether they are sole traders, partners or investors) plus the accumulated profit less any drawings made (payments to owners either as drawings or dividends).

Creditors
People to whom you owe money.

Debtors
People who owe you money.

Depreciation
The decline in value of an asset over time. Assets are usually ‘written-off’ over an agreed number of years, such as 1 to 3 years for computers, 5 years for general office furniture or 50 years for buildings. For instance, a delivery van is recorded in your profit and loss account for each accounting period and the value of the van is decreased in your balance sheet by the same amount to reflect that if you were to sell the asset it would be worth less than you bought it because of wear and tear.

Exposure
Involvement in a particular sector or type of business.

Franchise
An authorisation granted to a person or organisation to sell or distribute a company’s goods or services in a certain area.

GOLDP
Generally Accepted Business Principle. A way of doing things that almost all business people agree on.

Market Sector (also called Market Segment)
A way to describe groups of business, customers and their interactions. These businesses sell goods and services to customers.

Marketing Mix
Also known as the Four, Five or Seven Ps
- Price – ways to price a product or service
- Place – distribution, channel, or intermediary
- Promotion – all of the methods for ‘marketing communication’
- Product – specification and differentiation of a product or service
- People – skills, attitude and appearance of staff
- Process – integration of marketing activity to achieve an aim
- Physical evidence – material part of your product or service e.g. packaging, uniforms

Networth (social)
A social structure made up from the relationships between individuals and organisations. The word social does not relate to socialising, but to society. This does not include computer networking.

Networking
The activities involved in creating, maintaining and developing a social network.

PESTLE analysis
A classic business planning ‘tool’ or technique. The letters stand for:
- Political
- Economic
- Social
- Technological
- Legal
- Environmental

Product Line Extension
A new product or service marketed under an existing brand.

Revenue stream
Money coming in from a business activity.

SMART
Specific – Objectives should specify what they want to achieve.
Measurable – Can you measure whether you are meeting the objectives?
Achievable – Are the objectives attainable?
Realistic – Can you achieve the objectives with the resources you have?
Time-limited – Set a timescale and measure progress against this

STEEPLE analysis
A business planning ‘tool’ or technique. This is an extension of the PESTLE tool. The letters stand for:
- Social
- Technological
- Environmental
- Ethics
- Political
- Legal
- Economic
- Demographic

SWOT analysis
A classic business planning tool! Using this technique balances your attention between internal (Strengths and Weaknesses) and external (Opportunities and Threats) issues. The letters stand for:
- Strengths
- Weaknesses
- Opportunities
- Threats

Trade association
An organisation of people and businesses associated with a specific industry.

Value
What the customer gets out of a purchase whatever way they measure that themselves. This can include physical quality or workmanship, good customer service or any other criteria of meaning to your customer.

Value for Money
The difference between what a customer pays and what they believe (perceive) is the value of the goods or service.

Working capital
The money flowing round the system represented by stock, trade debtors, i.e. people who owe the business money for goods or services purchased. It is the money needed for day-to-day operations.