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Arrivals and destinations

AN INTRODUCTION TO LAUNCHING YOUR OWN SUCCESSFUL CREATIVE BUSINESS

If you're a creative person and want to start your own business, then this guide can help. 'Launch Your Own Successful Creative Business' gives you a framework to explore your idea and create a business model that suits your aspirations.

Arrivals

This section sets out:

- Who this guide is for
- Why it's different from other business guides
- How it can help
- What you should expect to get out of the process.

Destinations

This section sets out:

- What kind of company to set up
- Links to useful organisations to help you move to the next stage.

WHO IS THIS GUIDE FOR?

In the 'Launch Your Own Successful Creative Business' handbooks you will find information and advice together with a series of exercises and activities that we have developed to help creative people explore and develop their business idea, and describe the 'story' of their business. By the time you get to the end of this guide you'll be able to answer the following key questions:

- What should I do to make my business work?
- Why should my customers care and how will they benefit?
- How can I make money to allow my business to be sustainable?

In realising your business idea you take risks, solve problems and make ideas happen. This is what business is really about: "Spotting opportunities, creating new ideas and having the confidence and capabilities to turn these ideas into working realities." (Nixon, 2004)

Starting a business can be very daunting. Becoming familiar with business language and processes will help you, and allow you to articulate and discuss your ideas confidently with partners, suppliers and customers as well as business support agencies.

Traditional methods of developing a business involve engaging with bank managers, business support agencies, family and friends, and they're all likely to ask you to develop a business plan – particularly before investing in your idea.

WHAT MAKES THIS GUIDE DIFFERENT?

Business planning can seem alienating, because it tends to use a rigid linear process to define and describe your business. We've tackled this differently. In 'Launch Your Own Successful Creative Business' we've brought together a variety of approaches to business planning that draw on your creative skills to help you design your business. There are four main elements:

01 Practical Handbooks

In addition to this introductory handbook, there are three practical handbooks to help you describe your business, explore how it works and to develop a business model that suits your aspirations.

02 Worksheets

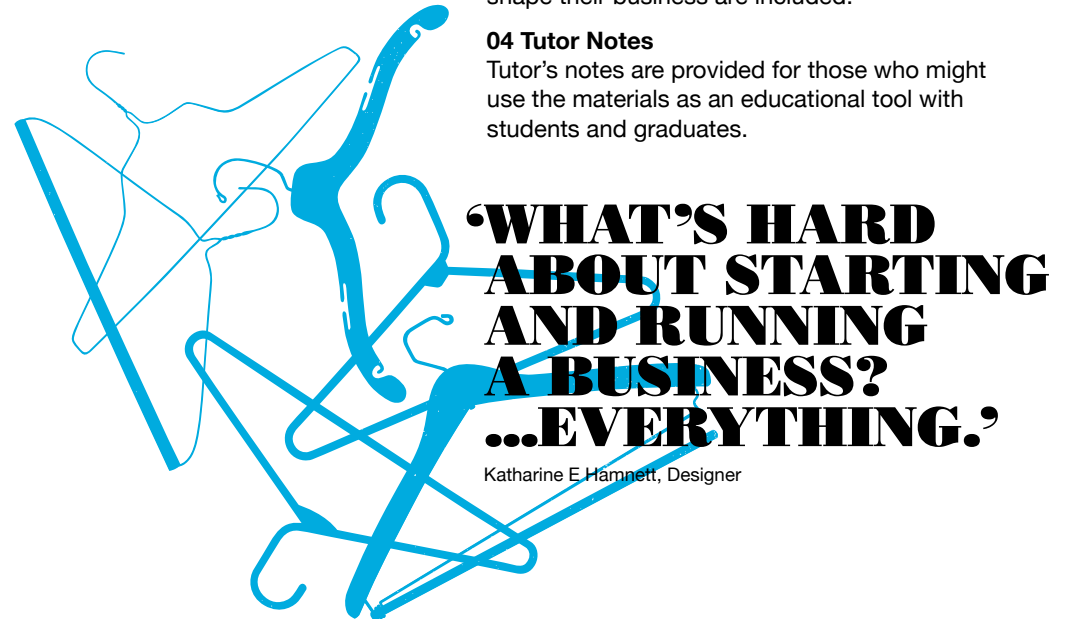
Each handbook contains two or three worksheets with accompanying stickies to help you explore the key issues about your business through modelling.

03 Case Studies

Case studies of real entrepreneurs who have used the worksheets and exercises to successfully shape their business are included.

04 Tutor Notes

Tutor's notes are provided for those who might use the materials as an educational tool with students and graduates.



WHAT MAKES THIS GUIDE DIFFERENT?

Practical Handbooks

Here's a summary of the handbooks. We recommend you use them in the order they're presented. This will lead you through a logical path, from scoping your idea through to practical considerations of marketing and finance.

In **'Getting off the ground: How to go about setting up a creative business'** you define the values you'd like your business to embody, and develop a mission statement. You then explore your idea to look at the real business opportunity and possible customers.

In **'Choosing your path: What you need to make your business work'** you identify the people you need to connect with and build relationships with. You look at the different parts of your business and how they fit together and where relationships are needed to make them work.

'In it for the long haul: Speaking to customers and staying in business' shows you different ways to speak to your customers and generate sales, as well as how to manage your cash flow to make sure the finances stack up.

'What I've realised is that my business isn't just about making money, it's intrinsically part of me. I don't want to be or do anything else, I just couldn't be!'

Carrie Ann Black, Contemporary Jeweller

Worksheets

Modelling means making a visual representation of something, a depiction of reality such as a graph, picture, object or mathematical representation. The worksheets in each handbook are designed to help you to develop a range of models to explore different aspects of your business to better understand, describe and predict how it could work. You'll use them to explore the activities involved in turning your ideas into products and services that people want. They help you explore what you're offering, whom you're offering it to and how you can engage those people and earn money for your business.

With the worksheets you will explore the following areas of your business:

- Your Values
- Evidence Modelling as a way of illustrating the future impact your business will have on the world
- Your Customers
- Blueprint Modelling to visualise how your business will actually operate
- Relationship Modelling to work out who you need to work with to make it all happen
- The Marketing Mix
- Critical Marketing Tasks

WHAT MAKES THIS GUIDE DIFFERENT?

Each worksheet helps you ask crucial questions about your business. Working through them as exercises will help you build a convincing picture, for yourself and others, of your future business. You can use them on your own or with partners and friends. The worksheets have been designed so you can photocopy them, allowing you to revisit and change things over time. Of course you can write directly onto your worksheets, but using the stickies allows you to keep a clean sheet for future use.

‘The exercises have really got me thinking about my long term plans and the whole idea behind my business...the minute I stop enjoying what I do, I will become less willing to dedicate huge amounts of time to the business.’

Nadia Yousuf, Couture Bridal Wear and Evening Gowns

Case Studies

The case studies feature real entrepreneurs who’ve used the worksheets and exercises contained in ‘Launch Your Own Successful Creative Business’ to successfully shape their business. They cover a range of creative companies: fashion, jewellery, technology and product design.

HOW CAN THIS GUIDE HELP ME?

When someone starts turning their idea into a business idea, they go through different stages:

Fantasy. We’ve all had those moments of spotting something that doesn’t work as well as it could do or wondering how to improve things in our lives. Those moments of saying: “Wouldn’t it be great if...”, “I’ve got this idea...”, or “Would it be better if...?” In this fantasy stage, we have an idea that we think is worth exploring and maybe developing further.

Vision. At this stage you’re clearer about what you want to achieve, what your business will offer, who’d be interested in buying what you have and how you might deliver this. Further research might still be needed to develop the idea, including knowing if there is a need or demand for it.

Animation. At this stage you’re testing your idea to see if it could be a sustainable business. You’re considering how you’ll reach your customers, who you’ll need to partner with or involve for the business to deliver what it sets out to do, how you’ll pay for this, and whether what you charge will provide enough profit to create a sustainable business.

‘In the beginning my business was very much an idea. Gradually my ideas and confidence have progressed and I now feel able to take my business forward successfully.’

Anna Stutfield, Product Designer

HOW CAN THIS GUIDE HELP ME?

Operation. At this point you're trading and concentrating on making the business work on a practical level. You'll be testing its different parts to ensure they work profitably to achieve a sustainable business.

Refresh. Once you've operated for a period, you'll be able to measure the performance of the business. You might consider the value you give your customers, as well as the profit this generates for the business, in order to determine what to do next. The wider environment and your ideas will be constantly evolving, so you need to refresh your initial ideas around your customers, business and financial models.

Developing and refining your business idea is an iterative process. Whilst your vision often remains relatively static, you'll need to continually check the viability of your animation and operation processes against changes in the marketplace and the business environment.

WHAT CAN I EXPECT TO GET OUT OF THIS PROCESS?

The three practical handbooks that are the core of this guide aim to support you in the vision and animation stages, and prepare you for operation. Each provide practical outputs:

Getting off the ground – outputs

In handbook 02 you explore the building blocks that will help define the foundations of your business. The outputs you should expect include:

- Using basic business facts to explore your idea as a business idea.
- Looking at how you can identify, protect and exploit your intellectual property.

- Identifying the values that underpin why you're doing what you're doing. It's these values – combined with your energy and ambitions – that will make the difference between your business and others. Balancing passion, talent and economic drive will enhance the chance of your business being successful and sustainable.
- Creating a Mission Statement that summarises the impact you want to have.
- Using evidence modelling and future evidence to illustrate how your business might look and what success means to you.
- A SWOT analysis to look at the strategic positioning of your company, and to identify possible weaknesses and threats to address as well as strengths and opportunities to exploit.

Choosing Your Path – outputs

Having given some shape to your business idea and defining the foundations for its development, in this handbook you identify your customers, explore the connecting aspects of your business, and the various relationships you'll want to develop to help your business move forward and deliver your products or services. The main outputs are:

- Identifying your customer base and checking there's a need for your product or service. You will have established there are enough customers willing to pay you the desired amount of money for your offering.
- Understanding the interrelation of your business vision, your customer expectations, and the qualities of your product or service as key to your business activity.

**WHAT CAN I
EXPECT TO GET
OUT OF THIS
PROCESS?**

- Blueprint Modelling will have helped you develop a more detailed operational plan, and identify areas where you need external expertise and resources to deliver your product or service to your customers.
- Relationship Modelling introduces the four key areas of business activity: Generator, Realiser, Distributor and Customer. You will identify the different types of relationship you need to develop your product or service to your customer.

In it for the long haul – outputs

You need to get your message to your customers and make sure the finances make business sense. In handbook 04 you're introduced to marketing and finance. The main outputs include:

- The Marketing Mix provides a framework for you to consider the key elements that should be in place for you to connect with your customers. These are the 7Ps of Marketing: Product, Place, Price, Promotion, People, Process and Physical Environment.
- The Marketing Mix provides a framework for you to consider the key elements you need to consider when planning communications activities.
- Having a structure and format to develop a marketing plan that will allow you to prepare your communications strategy to ensure you maximise the impact of any information you release to customers.

- Financial Modelling introduces the vital role of finance to allow you to control your business activities. This is crucial for you to anticipate problems that might arise and to ensure that your business doesn't lose money.
- Cash flow is a tool that can help you understand how money flows into and out of the business. By understanding this you can be in real control of your business finances to ensure you keep a healthy and sustainable business that meets your aspirations.

This is the start of your journey – you have the main tools to shape, define, explain, communicate and control your business – now you just have to make it work!

You will find a list of organisations that can offer assistance with setting up your business in the Destinations section at the back of this handbook.



Destinations / Where do you want to take your business?

Now you've worked through the three handbooks with their exercises and worksheets, you have the building blocks to make your idea happen by developing your business idea into a viable enterprise.

You should be able to clearly describe the 'story' of your business and how your business will work.

WHERE DO YOU WANT TO TAKE YOUR BUSINESS?

You should be able to confidently answer the questions set at the beginning of this journey:

- What should I do to make my business work?
- Why should my customers care and how will they benefit?
- How can I make money to allow my business to be sustainable?

But this is only the start... You are only past the first stage of a business journey. By following the processes in 'Launch Your Own Successful Creative Business', you should be able to move from having just an idea to having more of a business idea, and to form answers that any person or organisation wanting to support your business is likely to ask.

Some of these questions may be difficult ones that you'll need to ask yourself before you embark on any enterprise. Indeed, having gone through this process you might have even more questions than answers. You'll need to think whether you can commit the time, energy and emotional investment needed to make your business happen. You'll also need to consider whether this is the right time in your life to establish this venture and why you're favouring self-employment or setting up a company over getting a job.

There might still be a lot of research and development work ahead of you before you're in a position to be able to launch your business.

Do remember that there's support out there for aspiring entrepreneurs. And a great deal of it's free. You'll need to assess what's going to be of most value to you, and how you can make most use of it. There's a list of support agencies at the end of this handbook. The list is not exhaustive and will change over time, so keeping abreast of changes through contact with your peers will be helpful.

WHERE DO YOU WANT TO TAKE YOUR BUSINESS?

Remember, it's good practice to revisit the models and exercises you've gone through. The business and marketing plans should be regularly reviewed and modified against performance to ensure both short and long-term business objectives are achieved.

As your business plan develops, it will inevitably shift and change, and it's well worth going back to the basics now and again to check you're heading in the right direction.

WHAT TYPE OF COMPANY TO SET UP?

It is important to consider what type of company to set up. Below is a brief summary of the main types of company status.

Sole Trader

As a sole trader you are self employed and independent with all of the profits of the company going to you. It is easy to get your business up and running. However, you'll have unlimited liability and will be personally responsible for any debts run up by your business.

Partnership

Partnerships are where two or more people set up in business together. The business can benefit from the range of skills and experience that the partners bring. However, disagreements between partners can cause problems. There is unlimited liability and partners share the costs, profits and any debts of the business.

Limited Liability Partnership

A limited liability partnership (LLP) has the flexibility of a partnership with the benefits of limited liability, where your personal financial risk is restricted to how much you invest in the business and any guarantees you have given to obtain financing.

This type of company has legal duties, including maintenance of the company's public records similar to a limited company.

Limited Liability Company

A limited liability company is a separate legal entity registered at Companies House. The financial risk to shareholders (members or owners) is restricted to the value of the shares they own or guarantees committed to.

This type of company has legal duties beyond those of a sole trader or partnership. The company must file annual accounts and returns at Companies House and the word limited must be used in its name.

Social Enterprises

Social enterprises are businesses that trade for a social purpose. The profit or surplus generated is usually reinvested in the company or community rather than being distributed to shareholders and owners. It may be set up as a charity bringing tax relief benefits although charitable status also comes with increased regulation.

Co-operative

A co-operative business is a company run and owned by its workers and/or consumers where each member has a vote. Member-owners share equally in the control of the business and invest in shares to provide capital for the operation. The main difference between other types of businesses and a co-operative is that co-operatives are organised for mutual benefit, where members equally control and benefit from the operation.

Acknowledgements

This toolkit has been written for a UK audience, although we think the approaches are applicable to creative businesses' across the world.

The content for this handbook was originally devised by the Creative Pioneer/Creative Economy Team at NESTA to accompany The Creative Pioneers' Academy, Insight Out and Starter for 6 programmes.

Following feedback from trainers and participants the content has been revised and new aspects included. The models, exercises and ideas are from a number of sources, some of which are listed below.

The definitions of modelling and business models have been developed from the work of Alexander Osterwalder <http://business-model-design.blogspot.com>

The 'passion, talents and economic drive' illustration is developed from the Three Circles of the Hedgehog concept in 'Good to Great', by Jim Collins and published by Random House Business Books.

Values Worksheet: The content and approach was developed and provided by Joanna Woodford - Trainer, Coach and Business Adviser.

Your Customers: The content for this worksheet was provided by the Cultural Enterprise Office.

Evidence Modelling: This is an adaptation of the Tetrad Model developed by Marshall McLuhan www.marshallmcluhan.com, undertaken by the service innovation and design company Live | Work www.livework.co.uk

Relationship Modelling: The content used in this section has been developed from an idea by Designersblock www.designersblock.org.uk

Blueprint Modelling: This has been developed from some of the ideas in Bill and Gillian Hollins' book, 'Over the Horizon: Planning Products Today for Success Tomorrow', published by John Wiley & Sons.

View the toolkit online:
www.nesta.org.uk/enterprise-toolkit

The Marketing Mix and Critical Marketing Tasks: This content was provided by The Value Innovators Ltd www.tvi-ltd.com

Financial Modelling: This was developed by Andy Chapman, who has licensed this model to NESTA.

List of Contributors

NESTA would like to thank the following individuals and organisations for their contribution in supporting and developing the content within this handbook.

Cultural Enterprise Office, in particular Fiona Pilgrim www.culturalenterpriseoffice.org.uk

Jenny Rutter – Creative and Digital Business Advisor

Joanna Woodford – Trainer, Coach and Business Adviser

Journey Associates – Catherine Docherty www.journeyassociates.com

Martach – Colin Burns

Own-it www.own-it.org

Percy Emmett www.percyemmett.com

The Value Innovators Ltd www.tvi-ltd.co.uk

The Big Picture www.big-picture.co.uk

List of Useful Organisations

Business Gateway www.bgateway.com

Business Link www.businesslink.gov.uk

Coach in a Box www.coachinabox.co.uk

Cobweb Information for Business www.cobwebinfo.com

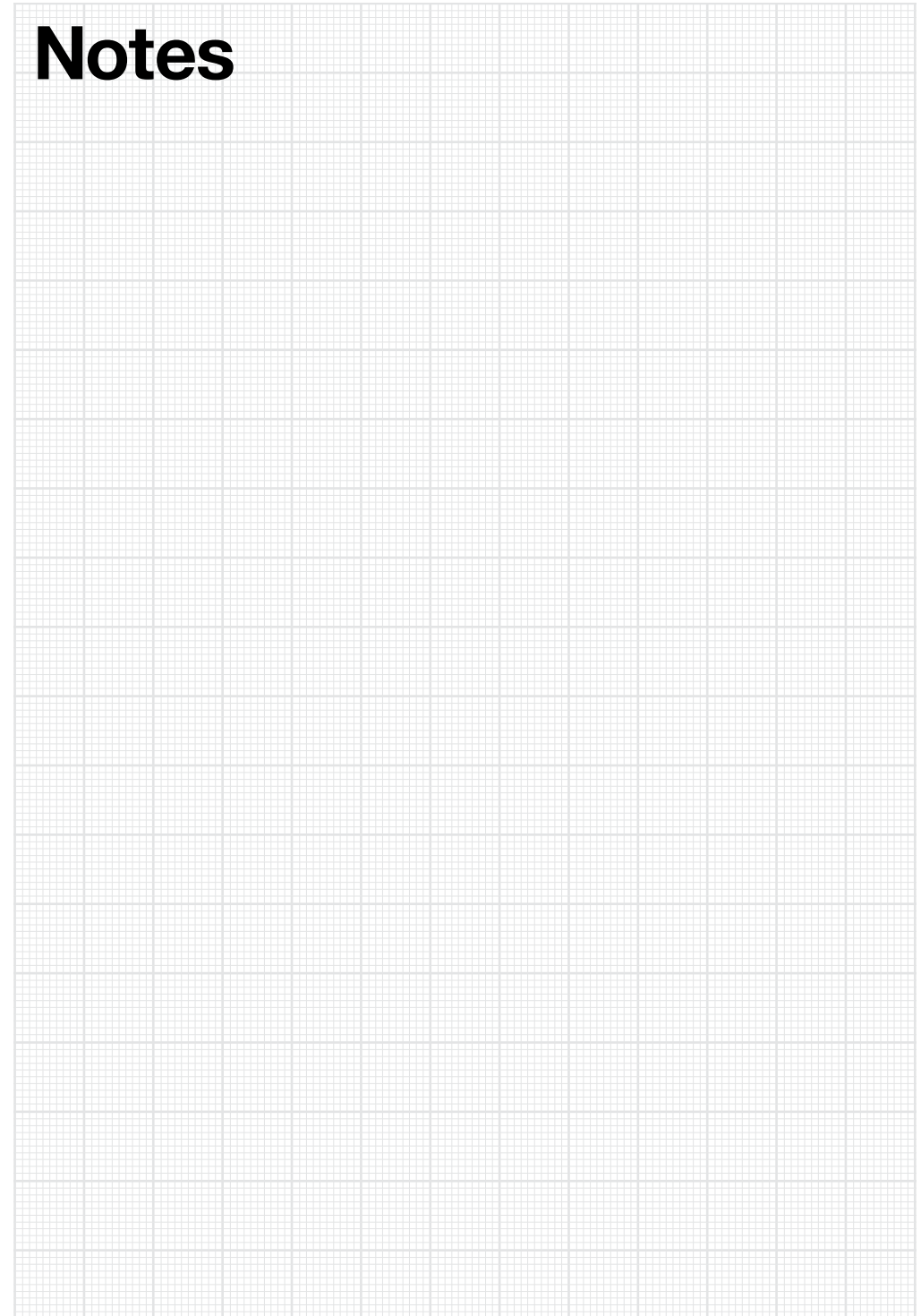
Intellectual Property Office www.ipo.gov.uk

Invest Northern Ireland www.investni.com

Own-it www.own-it.org

Welsh Assembly Government www.business-support-wales.gov.uk

Notes





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Getting off the ground

HOW TO GO ABOUT SETTING
UP A CREATIVE BUSINESS

Setting out on the journey to define your business, Handbook 02 of 'Launch Your Own Successful Creative Business' will help you explore the foundations and drivers for your activities. These are the building blocks that will help shape your business for the future.

Business Facts

Do you have a good idea or a good business idea

Intellectual Property

How to identify, protect and exploit your IP

Values

Identifying the values that underpin your activities

Mission Statement

Summarise the impact you want to make with your business

Evidence

Using evidence modelling and future evidence, illustrate what success will look like for you.

There are two questions that anyone setting up a business needs to be able to answer at the drop of a hat:

- **What is it that I do?**
- **Why should my customers care?**

Take a moment to write a short sentence that encapsulates what it is you do. Then another saying why that should matter to your customers. This is known as an ‘elevator pitch’. Keeping it concise can be tricky. If you find yourself waffling on, keep refining your words until you have something short and to the point. Your answers might look something like this:

What is it that I do?

I run a service design company.

Why should my customers care?

Because I offer a creative service that makes my customers’ products more appealing, and means they sell more.

To examine these two questions a little deeper, here are some basic business facts that you must take on board.

01 Customers have to want what you’re offering

A business needs income to survive, and income is based on the demand for your product or service. Market research can help you to find out if there is a demand, or the potential for it. On page 05 we talk more about spotting demand opportunities.

02 You need to say how you meet that demand

You’ll have to describe how your product or service will meet those needs. Talk about the benefits it will bring, rather than describing its features and functions. You can check the benefits through customer satisfaction surveys. Remember, you’ll want customers to come back, so it’s important to listen to their needs.

03 You have to keep appealing to that demand

Even when you know a demand exists, and you’ve made your appeal to it, you can’t rest. Customer demand is like putting petrol in a car. You may be going along, even at speed, but unless you keep refuelling you’ll grind to a halt at some point. You can ‘refuel’ by developing a sales and marketing plan that concentrates on acquiring customers.

04 You have to continuously innovate to compete and survive

This is done through a competitive strategy. Five guiding principles make the difference and help ensure a business is focussed, productive and ultimately successful:

- 01** You’re not at the centre of your idea, your customers are.
- 02** You don’t need to do everything yourself. Build partnerships and alliances.
- 03** You need a vision for your business in order to position your offering. And you need to communicate this vision clearly and consistently.
- 04** You need to understand your personal motivation for running a business, including the importance of financial returns.
- 05** You need to be able to measure the performance of your business, which at certain critical moments can only be measured in terms of money.

These facts are the basis for everything that follows. If your business idea doesn’t stack up against them, then you should seriously question whether it’s likely to work.

A GREAT IDEA OR A GREAT BUSINESS IDEA?

An idea tends to have your thoughts and desires as its focus. But a business idea needs to have customers, clients or audience as its focus. Three key facts distinguish a business idea from a creative idea:

- 01 There must be a clear need for your product or service (or you must create one), and you should be providing a new or improved solution for that need.
- 02 That need must have sufficient potential to create a demand.
- 03 There should be sufficient reward within your idea to be able to support your immediate business needs, as well as your future business requirements.

Product Example: Dyson

Inventor James Dyson introduced the bagless vacuum cleaner that promised greater suction than conventional vacuums and so cleaner carpets. Enough people were dissatisfied with their current vacuum cleaners to create demand for the new Dysons. The company's reward was that it made enough money not just to break even, but to extend its range of vacuum cleaners and diversify into other products.

Service Example: Easyjet

Easyjet was key to revolutionising air travel by making it affordable. The company set up in 1995 with two aircraft offering low cost air fares by providing a core service and charging for extras like hold baggage and food. Consumer demand has fuelled the success of the company. Its reward is that it is now one of the largest airlines in Europe and was floated on the London Stock Exchange in 2000.

Spotting Opportunities

Having an innovative product or service can open markets where none existed before challenging the existing competitive landscape. It allows you to build a new monopoly (even if just for a short while), which will allow you to grow without competition. But be careful! Innovators who are first to market often have negative experiences and lose money, while followers reap the rewards: benefiting from awareness of the product or service, and introducing revised versions that iron out teething problems and avoid intellectual property issues.

So alongside the questions 'What is it that I do?' and 'Why should my customers care?', you should ask yourself:

- Is there a need for what I'm offering?
- Will there be sufficient demand?
- Will that generate sufficient reward for me to move my business forward?

What is Intellectual Property?¹

If you've spotted an opportunity or thought of an idea, you need to think about Intellectual Property.

Music. Books. Computer software. Products we use in our daily lives... each is a product of human creativity, and that creativity is protected. It is creations of the mind, once expressed, that make up intellectual property (IP).

The crucial word here is "expressed". There's no IP protection in the UK for ideas or concepts, only for expression of those ideas or concepts.

1: Original content by Own-it, intellectual property advice for creative businesses

A GREAT IDEA OR A GREAT BUSINESS IDEA?

The most common types of IP protection for certain types of activities are:

- **Patents and Design Rights** / technical solutions, new inventions and products
- **Copyright** / for literary, artistic, dramatic and musical works
- **Trade Marks** / for brand names, words, sounds and even (very rarely) smells.

In business, everything from your own designs, software, brand, packaging and logo should be protected. In a nutshell, all of your mental and creative outputs can be transformed into tangible commodities so that you can license, sell, trade, divide or retain your rights to those commodities.

It is important to consider how you can protect, exploit and manage your intellectual property effectively.

Managing Your IP and Unlocking the Value of Your Creativity

Some of what follows may be for later down the line in the development of your business, but it's worth being aware of it now.

Step 1 – Identify Your Intellectual Property

- List your creative assets (your IP) including your logo and company name/brand, packaging design, products and software.
- Check your designs, expressed ideas, concepts and creative works are new and original.

Step 2 – Protect Your Intellectual Property

- Have a simple confidentiality agreement that you use with clients, potential manufacturers or investors BEFORE you start negotiations.
- Register designs, patents and trademarks at the UK Intellectual Property Office website.
- Secure internet domain names to safeguard your brand.
- When approaching manufacturers get agreement terms in writing such as confidentiality agreement, prototype agreement (whereby the factory agrees to make a sample to your specifications), heads of agreement and manufacturing agreement.
- Keep good records including work in progress. This includes your sketches, notes, drafts, diagrams, contracts, letters and email communications.
- Mark the author/publisher or creator's name on all copies of your work, along with the date and country. © (Name of owner) (Year of creation).
- Put registered design rights and other IP renewal dates in your diary. Never forget IP rights or domain name renewals.

Step 3 – Exploit Your Intellectual Property

- Ensure any designs, trademarks and patents you register or apply for are the same as those you intend to market.
- Put your design rights number on any packaging and ® if you have a registered trademark to enhance your profile.
- Maximise returns by licensing your rights either as a whole or separately to exploit your IP in different territories or different forms – this way you hold onto your rights whilst making money from them.
- Charge an assignment fee if the client wants the rights, always seek external advice before assignment.

A GREAT IDEA OR A GREAT BUSINESS IDEA?

- License your IP (either exclusively or non-exclusively). You can license your rights exclusively to the licensee only, or non-exclusively to the licensee and anyone else you choose to license to. You can license reproduction or distribution rights, rental or lending rights. Consider what you are licensing (e.g. your trademark, copyright, design rights) in what format (exclusively or non-exclusively) and how long for (e.g. are the terms of the licence for a fixed term, perpetual or terminal) and finally, where in the world you are licensing to?
- Figure out whether you require royalties, licence fees or both. (Royalty payments generally vary between 4 and 14%, dependent on the type of creative work/industry).
- Negotiate fair terms. This is the period where you spend time bargaining to work out a deal. Next comes the contracting part, which involves formulating the details to create a binding agreement.
- Make sure you are given equitable remuneration for your work. For example if you produce sound recordings, you should be paid royalties. If you have written a book, you should receive lending royalties as well as royalties from your publisher.
- Use a Creative Commons licence if you want to control and share your IP. You can choose to allow reproductions of your work but not for commercial purposes or other methods of use, so some rights are reserved instead of all.

Step 4 – Enforce Your Intellectual Property

Even large organisations can experience problems enforcing their IP. DVD piracy costs the film industry hugely, just as illegal music downloading costs the music industry. So how can you enforce your IP effectively?

- Monitor what competitors and new entrants to your market are doing. Get news alerts, subscribe to industry news, keep an eye on the UK Intellectual Property Office site and pay attention to new trademarks being advertised. If any infringe yours you are able to contest them once they've been advertised.
- Send standard cease and desist letters if you find anyone infringing your IP rights. A lawyer can help draw up an effective letter to send out and advise you on the best course of action.

More information on identifying, protecting and maximising your IP can be found through organisations including Own-it: Intellectual Property Advice for Creative Businesses.

Values

When you're running your own business, you are in control. You decide what you work on. You have the opportunity to create a business that is as you want it to be – a venture that truly reflects your own enthusiasm, passion and values.

While profitability is vital for any business to be able to survive and prosper, it is essential that you align your business and how you run it with your personal values. These are not necessarily morals or ethics, but simply the things that make you feel truly alive and passionately committed to what you're doing. For one person it might be service to others; for another it might be creativity or innovation; and for someone else it might be travel, adventure or discovery.

You will have a greater sense of energy, commitment and enthusiasm for starting, developing and running a business that is aligned with your values. It will give you greater determination and resourcefulness in getting over the difficulties and challenges of setting up a business and maintaining it.

Your values will affect a number of areas: how you work, how you wish your work to be received and how you interact with customers, suppliers and funders.

“Though I found it hard to come up with the values under pressure, just realising that I should think about my business in relation to my values was a lesson I will take into the future.”

Tom Dowding, Mobile Content Designer, Mobile Pie

Values are different from beliefs. Abi Yardimci, Creative Education Specialist and writer explains:

“The difference between a belief and a value (for me) is that a value is something you hold very dear, like something precious that you protect against all odds to keep intact. A belief is something that underpins your actions and your direction in life. Beliefs can change, and when they do you see big shifts in energy, emotion and attitude...”

Use Worksheet 02a: Your Values¹ to help you identify and prioritise your values and build them into your plans for your business. On your stickies write down the values that are important to you. The table on the next page has a list of possible values to get you started.

02a Your Values	Always Important	Sometimes Important	Rarely Important	Never Important
<p>Do</p> <p>Work alone for this exercise. Find a quiet place where you can reflect and think...</p> <p>You are going to capture and organise your personal values. Think of them as the things that make you feel truly alive and passionately committed to what you are doing in your business.</p> <p>For one person it might be things like service to others, for another it might be creativity or innovation, for someone else it might be honesty, ecological awareness or leadership.</p> <p>Using your stickies write down all of the values that are important to you. Write down lots of them – more than you might think are useful. See examples of values on page 12 in Handbook 02 to help get you started.</p> <p>When you have got plenty (ten or more), place them in the relevant columns. Don't worry about getting it right first time – swap them around until you have them in the right place. To focus your activities, have a maximum of five in the 'Always Important' column.</p> <p>Show your completed worksheet to someone who knows you well and ask for their feedback.</p> <p>NESTA <small>the national endowment for science, technology and innovation</small></p>				

1. This exercise has been adapted from content provided by business advisor, Joanna Woodford.

Then prioritise those you've selected and arrange them into the relevant columns on Worksheet 02a. Try to have a maximum of five values in the 'Always Important' column.

Achievement	Personal development	Respect
Advancement and promotion	Meaningful work	Harmony
Influencing others	Money	Aesthetics
Independence	Power and authority	Humour
Honesty	Public service	Work life balance
Helping society	Quality of what I take part in	Excitement
Helping other people	Recognition	Excellence
Growth	Reputation	Economic security
Financial gain	Supervising others	Decisiveness
Fame	Status	Ecological awareness
Integrity	Stability	Creativity
Innovation	Self respect	Co-operation
Market position	Responsibility and accountability	Competition
Leadership	Time freedom	Community
Knowledge	Wisdom	Competence
Job tranquillity	Work under pressure	Change and variety
Intellectual status	Work with others	Challenging problems
Physical challenge	Working alone	Art
Freedom		

Why are Values Important?

Now that you've named your values, you'll be able to use them in a number of ways. Think of them as a kind of radar to scan your work and the other areas of your life, and notice which things are creating a real sense of fulfilment and excitement (and equally, which are not).

They'll help you to:

- Assess your business idea in terms of how it honours your values.
- Test how your work/life balance needs to be adjusted.
- Stay inspired when dealing with the more mundane aspects of business or when things aren't going so well.
- Keep on track when you're offered different choices or opportunities. For example, what happens if you're short of cash and are offered some work that doesn't really fit in with your plan?
- Communicate why someone should care about your business, as your values often connect with those held by other people.

It's possible that there'll be tension between your personal values and your business values. For example, you may not care about money, but making a profit is essential to building a sustainable business. So how do you use your personal values to inspire, guide and shape your business? One way is to look at the various aspects of being in business, and to think about which of your values is most important to each aspect.

VALUES

Your values are also vital in building a brand and have to be consistent with your actions. If you act in a way that conflicts with the values that your customers understand this could have significant consequences and even result in a backlash. This was the case with Innocent Drinks, who recently struck a deal with Coca Cola.

Innocent brand

Innocent, founded 10 years ago and fêted for its healthy drinks and ethics – it donates 10% of profits to charity – provoked a vitriolic outpouring from scores of customers when Coca-Cola took a share in the company. As far as they were concerned, the firm might as well have done a deal with the devil. One railed: “You have sold your soul. That’s the last time we buy your produce.” Others lamented the end of the fairy tale: “No more jolly blogs, cutie e-mails, cottage-industry-style village fetes or sweetie messages on the side of cartons please... they just don’t fit with your brand image anymore.”

They [Innocent’s founders] also appear to be blinkered to the apparent conflict between what Innocent purportedly stands for – health and social values – and Coca-Cola’s position as one of the flagbearers of global capitalism.

(Source: business.timesonline.co.uk)

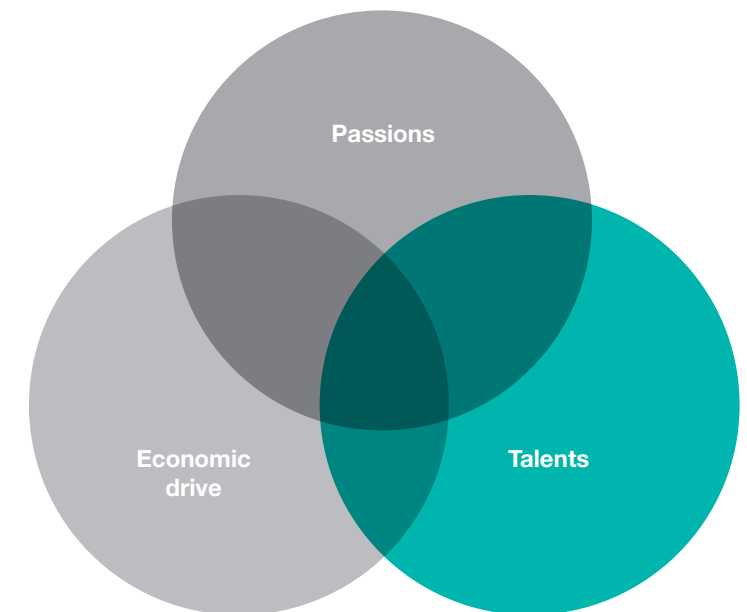
WHAT’S YOUR
BUSINESS
DRIVEN BY?

To be successful, you need to balance your drive to develop your idea into a business with other imperatives.

If an enterprise is primarily driven by ideas but doesn’t have a commercial aspect, it won’t be sustainable. Similarly, if a business is motivated by commercial imperatives without due consideration to its innovation and creativity, then it may not be effective in the long-term. Achieving a balance between passions, talents and economic drive is important.

“Thinking about myself, my ideals, my motivations and the impact of my business was much more valuable to me than simply knowing how a business functions.”

Holly McIntyre, Online Recruitment for Creative Practitioners



WHAT'S YOUR BUSINESS DRIVEN BY?

The illustration on page 15 is developed from 'Good to Great' by Jim Collins. Collins studied the qualities and drivers that distinguished great companies. Excellent companies are focussed on activities that ignite their passions, fully utilise their skills and talents, and have clear insight into how to most effectively generate sustained and robust cash flow and profitability.

It's probably easiest to identify what your passions are. Many will have been outlined in your values. This handbook will help you to weigh each of the drivers against the skills needed to take your idea forward, and the financial efficiency of what you're proposing.

Mission Statement

Having broadly explored your idea as a business proposition, the values that will underpin it and the drivers for your activities, you can now draft a mission statement.

A mission statement is a clear, concise summary of why a business exists and its future intentions. A mission statement can tell customers a lot about your business, so it's very important to take time to develop it. Have a look at some other companies' mission statements for guidance.

Ideally the mission statement should be motivational, realistic and only 3-4 sentences long. It should be similar to an executive summary stating what your company is, what you do, what your business intentions are and why you are in business. Virgin Atlantic's mission statement is:

To grow a profitable airline where people love to fly and where people love to work.

EVIDENCE MODELLING

Determining a vision for you and your business is usually a simple task for an entrepreneur. You have an idea in mind that you're passionate about, and you're determined to make happen. But can you articulate that vision? Can you describe it or draw it, and above all do you understand how your vision might take shape as a business?

There's a process called Evidence Modelling that can help you explore these questions. It's based on research by Marshall McLuhan. Being an academic, he came up with the 'Tetrad of Media Effects', which sounds more complex than it actually is. Basically, it poses four questions you can run your idea past:

01 What does it enhance?

02 What does it replace/make less desirable?

For example, online news – with blogs and so on – is making the traditional newspaper less desirable.

03 What does it revive?

New ideas can change how we see and value older ones. For example, because people now mostly buy music digitally, vinyl records have changed from being common to being rare. And that means they now have a new value as collectible objects worth a lot of money.

04 What might be the backlash?

Could an idea become so successful it actually ends up having a negative effect? For example, if a car-sharing service is so well designed it actually tempts people off public transport and into cars, increasing congestion, then a successful idea actually ends up having a negative effect.

EVIDENCE MODELLING

Evidence Modelling is helpful to illustrate the extremes of success as experienced by Burberry.

Burberry brand

Burberry became famous for a remarkable brand repositioning at the end of the 1990s. Established for 150 years, it was closely associated with the British upper class by virtue of its iconic trench coat and check pattern. By the 1980s the popularity of the brand was waning and it was failing to find favour with new generations. Profits fell from £37m to £25m in 1997. A new CEO, Rose Marie Bravo, was recruited to overhaul the brand. She appointed new designers who updated the clothing range and developed new products. A new advertising campaign was launched using celebrities like Kate Moss, who became the face of the product.

Burberry was trying to retain its core values of quality and exclusivity whilst giving them a modern appeal. New stores were opened and unprofitable ones closed, and accessories and gifts were promoted as part of the new strategy. In 2005 the company's profits had risen six fold. One of the downsides of this was the adoption of the brand by unsavoury types and a social group known as 'chavs', as well as a flood of counterfeit goods. Burberry responded by acting against counterfeiters and by reducing the use of the ubiquitous check and stopping selling Burberry caps.

What did the overhaul enhance?

- brand prominence and recognition
- use of check as status symbol

What did it replace/make less desirable?

- high-end product becomes mainstream, losing its exclusivity

What did it revive?

- new demand for check
- new demand for older style product now seen as fashionable

What was the backlash?

- adoption by unsavoury types and 'chavs' devalued the brand
- predominance of counterfeit items

Exploring Evidence of Your Future Success

Evidence helps prove the viability of your idea. Imagine what your business will be like if your vision succeeds. Then think about what evidence will provide proof of its success. Use Worksheet 02b: Evidence Modelling to help you explore these points. Imagine the future of your business and describe in words and images its consequences. Use as many stickies as you need to answer the four questions. Before you start, ask yourself:

'If my business becomes successful in the future, how will I recognise it?'

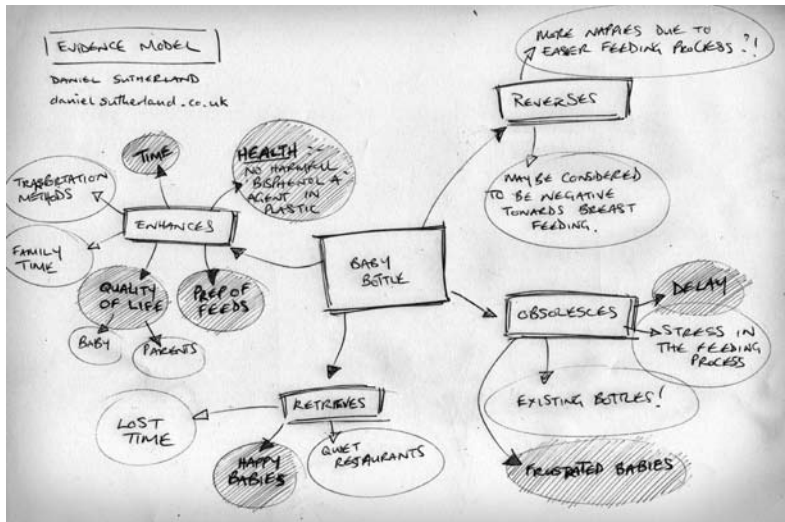
If you're pioneering a new way of doing something, what would its impact be on the environment? How might your business affect society or the industry you work within?

In answering the questions about your business (what will it enhance, what will it replace, what will it revive and what will be the backlash), try imagining the consequences from a number of viewpoints, such as:

- The wider world (think as big as possible)
- Your particular industry/field (e.g. how it might impact on current industry practices)
- Your customers (what benefits will it bring them)
- On you (what impact could it have on your work/life?).

EVIDENCE MODELLING

The example below shows how an entrepreneur has used the Evidence Model to help explore the consequences of their business.



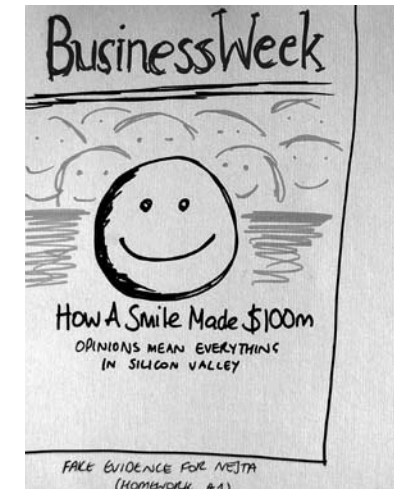
FUTURE EVIDENCE

Once you've imagined the future of your business, it helps to construct evidence of its success.

For example, if you're creating a new transport service based around car sharing, what would its impact be on the insurance industry? You could create an insurance quotation from an insurance firm showing how four people will be listed on one insurance premium.

Try creating your own persuasive visual argument to support your idea. This could become an important sales tool for you in the future. Having a compelling argument can attract collaborators to help implement your vision, as well as arousing the desire in your customers for your product or service.

Below are examples of Future Evidence created by entrepreneurs who have used this process.



You could use your Future Evidence not only in planning your business, but also as a way of communicating your idea to potential supporters in combination with the more standard business predictions, such as cash flow forecasts. After all a cash flow is just another type of prediction: one that shows you know how much it will cost to make your business idea happen, how much you will need to charge, and how many you will have to sell.

SWOT ANALYSIS

Now that you have explored what your business might look like if it were to become very successful, you should do a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. By identifying these aspects of your company, a SWOT analysis allows you to evaluate its strategic position. Strengths and weaknesses are both internal factors that are controllable, whereas the opportunities and threats are generally affected by external factors that you can't control.

One of the main reasons for doing a SWOT analysis is to help you to turn perceived company weaknesses into strengths, and threats into opportunities.

Here's what a SWOT analysis might look like:

STRENGTHS
(Internal Factors)

- Well educated team
- Original Patented idea

WEAKNESSES
(Internal Factors)

- Low market profile
- Lack of turnover
- No key customer

OPPORTUNITIES
(External Factors)

- Clear market opportunity
- Competitor product at mature stage of cycle

THREATS
(External Factors)

- New competitors entering market
- Window of opportunity before product is superseded

**BEFORE WE
MOVE ON**

You've used a number of exercises to help give shape to your idea in terms of its business potential. To summarise what we've gone through so far:

- There are some basic business facts that will help you succeed in your business. The key one is engaging with your customers to understand their needs.
- You have guidance on identifying, protecting and maximising your IP.
- Your personal values, energy and ambitions will help define your working environment, and will make the difference between your business and others.
- A business idea that balances passions, talents and economic drive will enhance the chances of success and sustainability.
- A mission statement summarises the aspirations for your business and can help guide the activities of your business.
- Through Evidence Modelling you've explored what your business might look like if it's very successful. This helps you to interrogate your vision and to define and communicate your idea so other people can understand and input into it.
- You've created Future Evidence to illustrate what success will look like for you.
- A SWOT analysis has allowed you to look at the strategic positioning of your company, and to identify possible weaknesses and threats as well as strengths and opportunities.

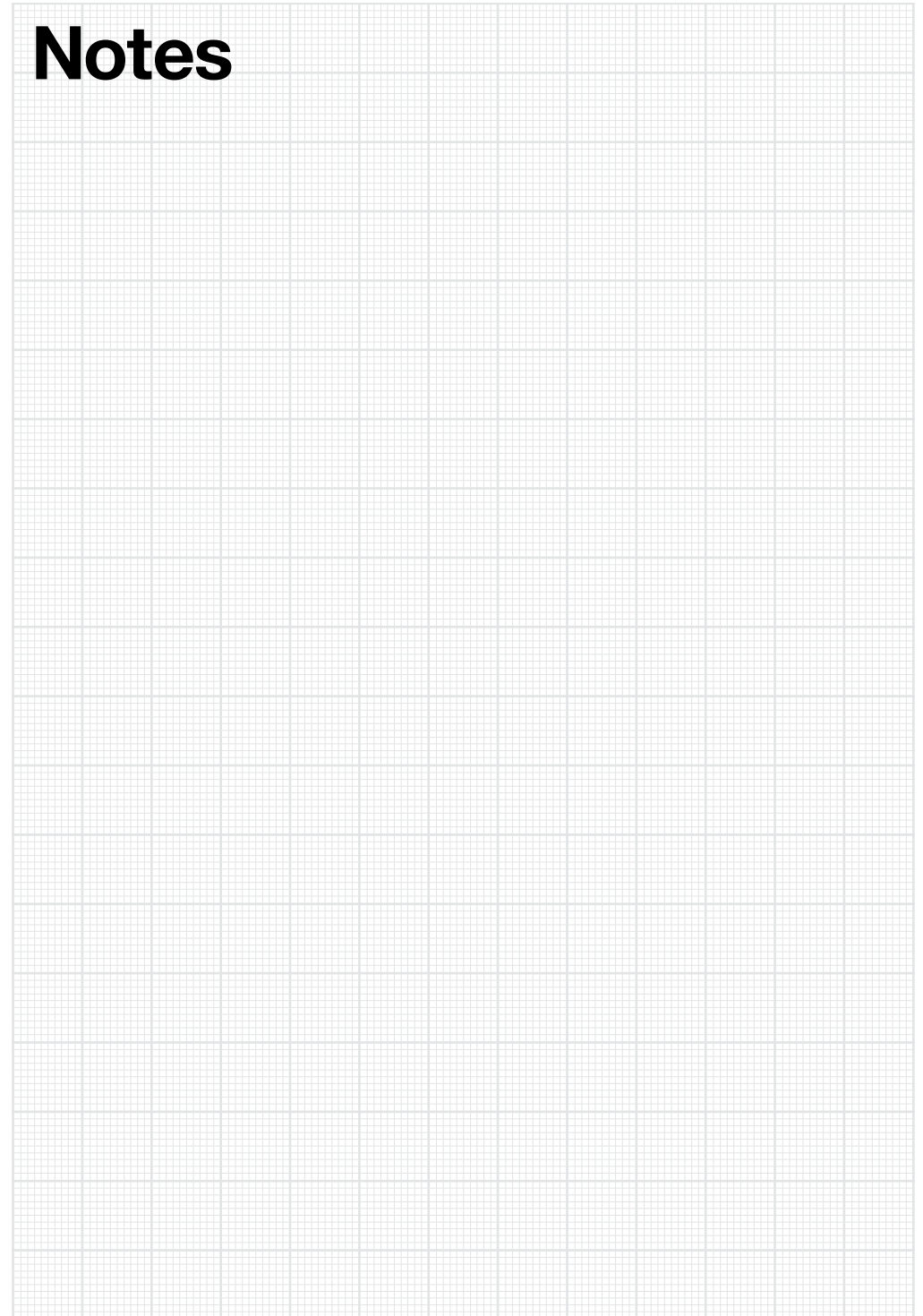
BEFORE WE MOVE ON

The next step is to define your milestones (your goals and objectives) and clarify how you'll develop your business.

In handbook 03 / **Choosing your path** we look at:

- Identifying your customers
- Building the various relationships you'll want to help your business move forward
- Detailing how your business will work to deliver your products or services.

Notes





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Choosing your path

WHAT YOU NEED TO MAKE
YOUR BUSINESS WORK

You've given some shape to your business idea and defined the foundations for developing it. In this part of 'Launch Your Own Creative Successful Business', you'll explore the different aspects that will allow your business to work.

You'll look at three main areas...

Customers

To determine who is buying your product, and why

Your business process

The different elements that make up your business

Relationships

The different associations you have to recognise and develop to ensure your product or service reaches your customers.

Before you spend any more time developing the business, you should check that your activity meets a genuine need. If it doesn't, then there may not be much point going any further.

At this point it will be useful to revisit the business idea questions highlighted earlier:

- What is it that I do?
- Why should my customers care?
- Is there a need for what I'm offering?
- Will there be sufficient demand?
- Will that generate sufficient reward for me to move forward?

Basing your answers on purely a gut feeling might be a little flimsy to risk your business future on, so you need to gather some real evidence. This gathering of evidence is called market research. The two main things to consider at this stage are: who is your customer; and how does your product or service benefit them?

01 Defining Your Customer

First, identify who would like to buy your product or service. It's more important to work out who your customers are before you work out how you're going to behave with them. Customers come in many shapes and sizes, and you need to be able to respond to all of them. Make a list of as many types of customers as you can and estimate how many would want your product or service.

02 Outlining the Benefit to Customers

Then, make explicit what benefit your product or service will bring to each of the customer types. For example:

I have identified that need W is not being met by anybody (or certainly not well enough). I propose offering X as a solution to this need. Y will be the benefit to my customer /client and for this I will expect to charge Z.

If you can't afford to use a market research company, you can carry this out yourself. For example:

Desk Research: Use the internet to find out about competitors' products or services and keep up to date with their activities, news stories, client days and case studies. This will give you an idea of what customers are buying, how much they'll pay and how your product or service offers something new or different.

Published Market Research: Some information on general trends can be accessed for free. You can also buy reports on market trends from a variety of commercial companies. This can help confirm the need or demand for your product or service, and allow you to clearly target your customers.

Field Research: This includes both qualitative and quantitative research. Qualitative research can identify individuals' feelings and attitudes to a product or service, and lead to suggested improvements. Quantitative research provides statistical information, for example, how many potential customers there are, their socio-economic background, age profile, and purchasing habits.

**“ALL YOU
NEED TO HAVE
A BUSINESS IS A
CUSTOMER AND IF
YOU DON'T HAVE A
CUSTOMER THEN
YOU DON'T HAVE
A BUSINESS -
YOU HAVE A
HOBBY.”**

Dean Brown, Product Designer

WHO'S BUYING?

For qualitative research, you can put together a formal focus group, or just do something more informal – as was the case with Innocent Smoothies.

Innocent Smoothies
 Three graduates tested their fruit smoothie drinks at a music festival in London. People were invited to put the empty cartons in bins marked YES and NO depending on whether they liked the product. At the end of the festival the YES bins were full. After getting investment they launched the product and the rest is history.

Use the earlier Evidence Modelling exercise to help you identify the needs and benefits associated with your product or service. In Worksheet 03a: Your Customers is a table that you can complete for each customer group. This will help you record and establish viable income streams for each customer group.

Worksheet 03a: Your customers

<p>03a Your Customers</p> <p>Do Use this worksheet to build a picture of your potential customers and customer groups. You might want to copy the worksheet and try it several times for different customer groups. Write onto the stickies and place them onto the worksheet. If you want to change it later simply remove the sticky and try again. You can do this informally, from memory, or with friends or colleagues. Ideally, you should be talking to your potential customers who will buy your product or service and, if different, the end users. Be open to feedback and fresh perspectives as people can come up with suggestions you haven't considered.</p> <p>NESTA</p>	What do you call this customer group?				
	Draw them – or stick a 'found' picture here		What are their needs?		
			What are you offering them?		
	How many are there?	How many of those will you reach?	How frequently?	How much will they pay?	Potential total income?

You can start to complete the table by talking to your friends and family, but ideally you should also be talking to your potential customers, and anyone who could be involved in supplying your products or services to them.

Be open to feedback and fresh perspectives, as people can come up with suggestions you haven't considered. Your local business support agency, libraries and online resources like the British Library Business and IP Centre all host information that can support your research.

The specific questions you ask during your research will depend upon the nature of your business. However, the key information you need is:

- How big is your potential market?
- Roughly and realistically how many people can you get your idea in front of?
- How are you going to engage with them?
- How many of them will buy it?
- Is this a big enough group to meet your income needs?

If demand is big enough to meet your needs then you can proceed. If not, then maybe it's time to think again. You could improve your idea, or look into reaching more people by broadening the scope of your offer.

Market research can be a very challenging process. You're opening up your idea to feedback and criticism – and the possibility there isn't enough demand or paying customers to make it a viable business.

However, don't be tempted to avoid it. If your analysis of the market potential is flawed at this stage, you'll probably come out with a flawed business design.

WHO'S BUYING?

Try to stay objective. Remember the aim is to test whether your idea has application as a good business idea. At this stage it's easy to reframe the idea, develop it or drop it and start again. This becomes more difficult as time goes on, and you've invested money and energy in the idea.

CREATING A SUSTAINABLE BUSINESS

There are three key aspects to creating a sustainable business:

- 01 Having a clear idea of what you want your business to do.
- 02 Knowing that there'll be an audience or market for what you're going to offer.
- 03 Developing a business process that allows you to offer this to customers and sell it for more than it costs to produce.

“Starting a business can be a daunting but nonetheless exciting prospect. Being given the tools to help you break down exactly what you need to do and when you need to do it has helped me manage my business needs one step at a time instead of visualising a mammoth task and not knowing where to start.”

Rachel Horrocks, Product Designer.

So far you've used Evidence Modelling to help you explore point 01 and Who's Buying to explore point 02. The next sections help you explore point 03.

One way to understand how a business works is to think of your business activity in terms of promises:

- You promise your customers that you'll deliver either a product or a service
- Your customers will have an expectation that this promise is going to be kept, and
- You work with others to enable that promise to be delivered.

These make a 'promise triangle' between you, your customer and the qualities of your product or service.

The Promise Triangle



Any business involves a number of different areas, and it's unlikely you're going to undertake them all yourself. Therefore, you'll need to involve others and build relationships to help you deliver on the promises.

Most innovative individuals rely on their creativity and inventiveness to drive their businesses, controlling every aspect of activity themselves. Because this energy and control can be difficult to sustain, this approach can cause issues for you and your business's wellbeing. Besides, you probably also only have interest, skills, and expertise in certain areas of your business. Frequently, it will be too expensive and time-consuming for you to acquire expertise in all areas.

You need to establish the roles your business needs, and which of them you'll undertake. To do this you need to:

- Identify where your personal skills and interests fit within your business;
- Understand what you need to add to your own skills in order to create a complete set of business skills; and
- Identify the relationships you need to build with other people and businesses to make your business succeed.

Techniques we call Blueprint Modelling and Relationship Modelling will help with this. Blueprint Modelling helps you describe the process of your business, while Relationship Modelling identifies four areas of activity in which you can develop a role or relationships to support your business.

If you can build a business model that allows your business to live beyond your direct involvement, it will mean that your ideas will have been transferred and embedded in others. It will also mean that you can extract financial, creative or social value from your business whilst you go off to work on other ideas.

Before we explore Relationship Modelling further, you need to work out the various aspects of your business and how they fit together: the process of your business. To do this, we use Blueprint Modelling.

A blueprint is a detailed plan or design that explains how something is expected to work. So this exercise will help you visualise how your business will actually function, and describe how business will be done. It will help you identify all the activities involved in a yearly overview down to a day-to-day plan.

“Blueprint Modelling is a fantastically useful (life-changing!) tool that we are using to break down the goals we want to achieve. Such a simple thing, but so incredibly helpful if you are a creative perfectionist!”

Zoe Sinclair, Artist.

Before you start developing your business blueprint, let's look at some operational factors you'll need to consider.

There are lots of different types of businesses specialising in different sorts of activities. For example, how a jeweller operates is very different from a film or TV production company. However, even in this example there are similarities. All businesses, whether product or service based, have a process. This process consists of a client engagement phase, a development phase and a delivery phase.

Engagement Stage: This is the time that it takes to plan who your prospective clients are and to persuade them to buy products or services from you.

Development Stage: This is the time that it takes to develop your product or service for your customers.

Delivery Stage: This is the time it takes to get your product or service to your customer.

All of these activities take place either in front of the customer, which we call 'Onstage', or out of sight of the customer, which we call 'Backstage'. The examples in the diagram below show how this process might look for a design company.

Areas shaded in grey are things that can't be directly charged to the customer: you can't bill your client for market research, promotion or the cost of selling to customers. You need to fund these from your profit margin. This is why businesses that can't get beyond the engagement stage, or that are purely focused on backroom research and development, will ultimately fail.

Use Part A: Operational Stages of Worksheet 03b: Blueprint Modelling and place the stickies to show which parts of your business take place Backstage and Onstage, and at what parts of the delivery process from engagement to delivery.

		Part A		Part B
		Backstage	Onstage	Starting here
Engagement		e.g. things like customer and market research	e.g. things like networking or exhibiting at trade-shows	↓
		e.g. things like developing briefs and ideas	e.g. things like showing customers early prototypes	↓
Development				↓
		e.g. things like design reviews and making decisions	e.g. things like presenting to a customer or client	↓
Delivery			↓	
				Finishing here

Drawing a Blueprint¹

A simple way of understanding how your business will deliver its products and services is to draw, using flow diagrams, the various stages of generating, realising and distributing a product or service. You can create a blueprint by mapping out how you're going to come up with the idea, how you're going to have the idea realised and how you're going to deliver it to your customer.

A good starting point is to answer the following questions:

- **How do I imagine my business operating?**
- **How will I find and engage my customers?**
- **How will I generate what they want?**
- **How will I distribute what I generate?**

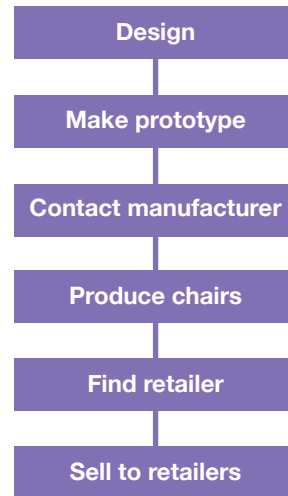
You might find it easiest to imagine yourself at the point of delivering the product or service to the client and work backwards.

Each drawing or business blueprint will look different. Over the page are two examples, one showing a simplified process for a furniture design company and the other a more detailed example mapping a trip to the airport and boarding a plane in which you will see the detailed tasks that need to be undertaken and the different people involved in this.

¹ Blueprint modelling has been developed with reference to the work of Bill and Gillian Hollins in their book 'Over the Horizon', published by Wiley.

BLUEPRINT MODELLING

Diagram 01
Simplified business blueprint for a product-based furniture company.

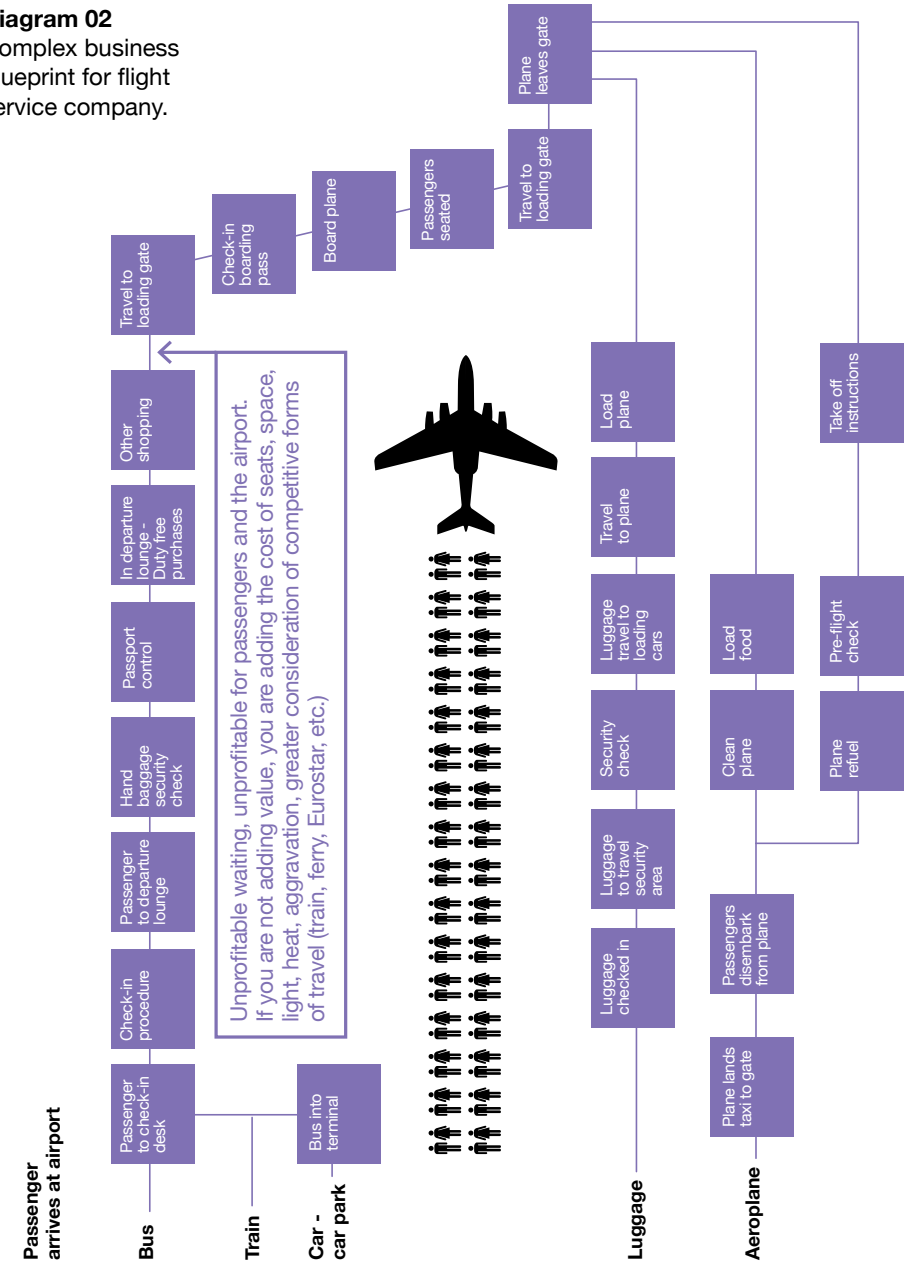


The objectives of these flow diagrams are to identify:

- The tasks that need to be undertaken at each stage of your business, and
- The different people involved in delivering these activities.

From this process you can see where the critical stages are, where bottlenecks may occur and where the process might break down because you don't have the necessary expertise or resources. This will allow you to see how much of the business you need to develop and manage.

Diagram 02
Complex business blueprint for flight service company.



Developing Your Business Blueprint

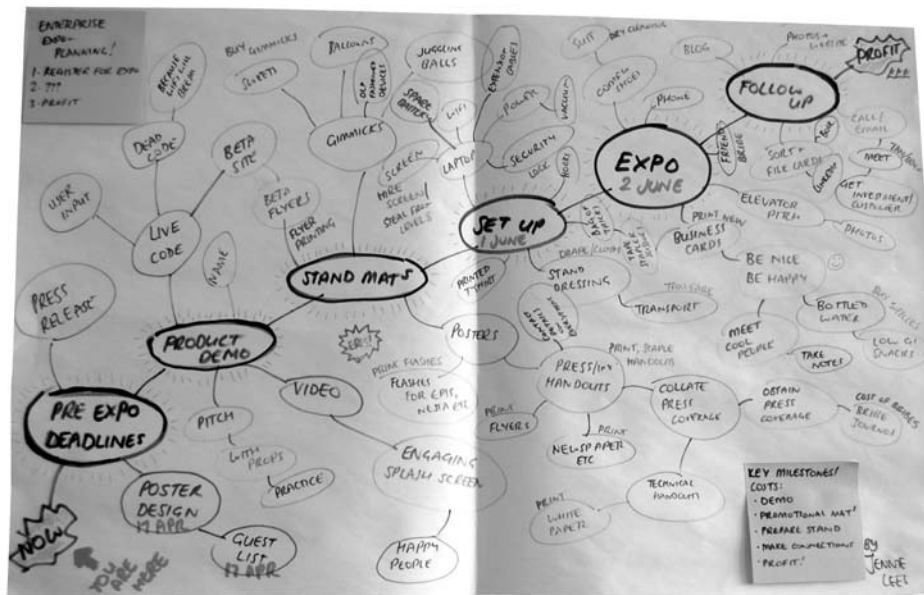
There are three rules to blueprinting:

- Do it in small steps
- Map the entire process
- Include as much detail as possible.

Using Part B of Worksheet 03b: Blueprint Modelling, create a flow diagram of your business idea. Remember to identify and detail all the stages that need to take place to realise your idea.

In your business there may be many processes that happen simultaneously, so you may need several blueprints to create the whole picture.

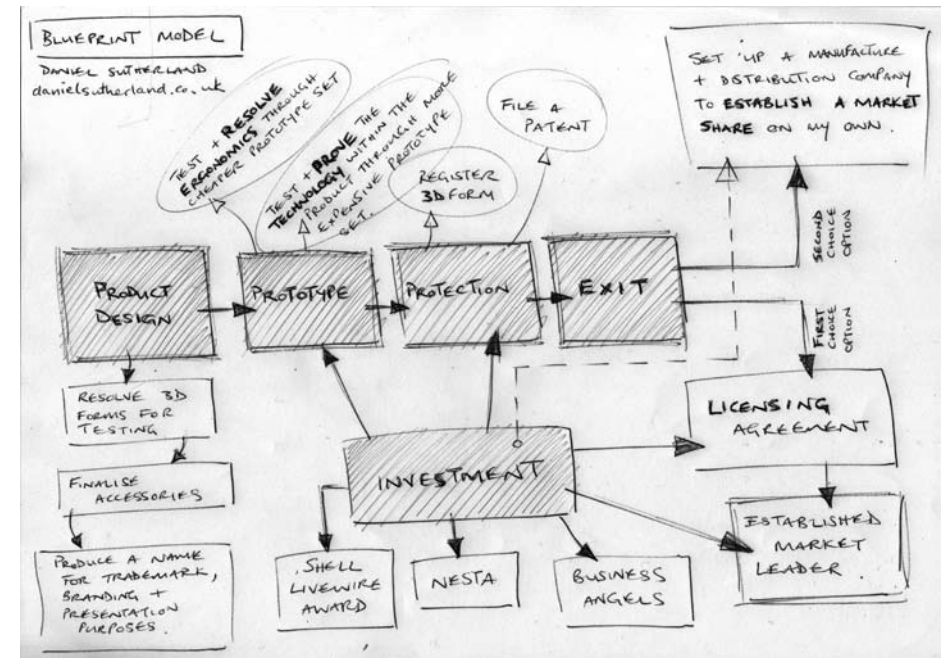
Blueprint Model Example 1



Refer to Part A: Operational Stages of Worksheet 03b to identify which parts of your business are happening in front of the customer and those that are behind the scenes. You can then draw separate blueprints for onstage and backstage activity, and also overlay this information with your existing blueprint. This should give you a clear insight into exactly how your business might operate.

On these pages are some examples of blueprints. You'll see that the number of stages and styles used vary – proof that there's no right or wrong way to develop your blueprint.

Blueprint Model Example 2



Blueprinting is one part of understanding how your business works and where you might need assistance from others. In this section you'll focus on the relationships you need to make for your business process to work. Think about the following:

- **How do you find people to help you?**
- **Why would anybody want to help you?**
- **What sort of deal can you expect?**

The first step in Relationship Modelling is to understand the four areas of activity that are necessary to support your business: the Generator, Realiser, Distributor and Customer:

Generator/Idea Generator: key activities are originating, forming and synthesising ideas; direction, design and concept development. This role describes the process of forming and synthesising ideas. It's important in creativity, and concept development. If this is the area where you're most familiar and where you think all your strengths lie, it's probably where you're tempted to spend all your time.

Realiser: key activities include transforming ideas into finished product, services and experiences; manufacture and content production. This role describes the process of transforming raw materials or ideas, such as a film script or a piece of sheet music, as well as physical materials, into a finished product.

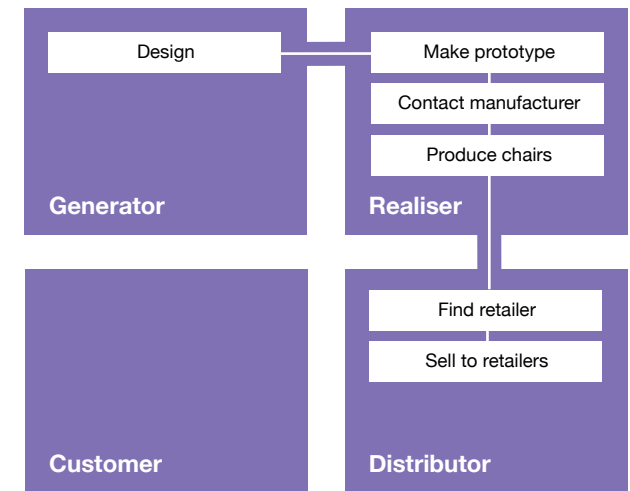
Distributor: key activities encompass distributing finished products, services and experiences; delivery, sales and marketing. This role describes the purchase of finished products or services for resale, or the co-ordination and distribution of finished products or services.

Customer: key activities include buying, consuming, utilising or experiencing the product or service. This role receives, buys or consumes an item or service.

All four areas need to be in place for your business to survive. However, your business does not need to do all these things itself, and can achieve them through building relationships with others.

The areas can be overlaid with the activities defined on your blueprint. The diagram below shows the four activity areas overlaid with the blueprint activities of the furniture company we looked at previously on page 12.

Diagram 03: Areas of Business Activity



You can see that there are only three of the four activity areas linked together in the relationship for the furniture design company. They don't sell directly to customers and instead work with distributors and intermediaries – therefore there are no activities shown in the 'customer' section.

There's nothing uncommon about this type of relationship, but the implications for the business are significant. The distributors will charge for their service, either as a commission or as a mark-up on price, such as from wholesale to retail. Some distributors cover whole countries (as in the film industry), while others are more targeted (as with fashion retailers). The nature of your product and how it's distributed will determine whether you have to make one relationship or develop many.

The type of business you're creating and the way you want to run it will determine which activity areas are involved.

Defining Your Relationships

Using Part B of Workbook 03c: Relationship Modelling, highlight activities from your Blueprint Model that correspond to any of the four key areas (generator, realiser, distributor and customer).

Identify where your skills and interests lie.

Ask yourself:

- Who will you need to build relationships with in order to cover the other areas?
- Who is giving or receiving the money in each of these relationships?
- What will be the implications of your relationship sequence on how much you need to charge and when you get paid?
- Is this something you'll be able to manage? If not, what additional resources will you need?

Spend time exploring different scenarios to understand the most effective ones for your idea. You're prototyping your business, so it's worth considering many different designs of your business model at this stage.

Building Relationships

All businesses depend on others for their survival. You're always buying products and services from others, or supplying products and services to others.

For a successful combination, each relationship needs to be based on mutual trust and support. If some relationships collapse, they can have a significant effect on the activity of the business. So it's important to have a good understanding of who's supporting who in each relationship, and who's supporting your 'Promise Triangle'.

When you're in the buying role, you need to be clear about what you want, when you want it, the quality and consistency, how much it will cost, and when and how you're going to pay.

If you're looking to buy a computer from Dell, for example, you can have a high expectation that it will arrive as expected, and you'll know what you'll be charged and when it will be delivered. This is because Dell has clearly defined what it can and cannot do. This is the minimum that you should expect from any relationship.

Why Would Anybody Want to Help You With Your Business?

It's critical that any relationship you pursue and develop creates a win-win situation for both parties.

What differentiates your relationships with a supplier or distributor and other people's relationships with the same supplier is the experience. A good experience will prolong and strengthen the relationship; a bad experience will bring the relationship into question.

RELATIONSHIP MODELLING

Historically, business relationships were mainly about transactions. The manufacturer didn't necessarily consider the customers' needs or wants to any great degree. This is no longer the case, and every business has a large number of potential partners to choose from to build relationships with.

In order to build good relationships there are some points you should bear in mind:

- You need to be informed about your customers' or partners' needs and understand how they will benefit from the relationship.
- A relationship has not been established just because you think it has. Both parties need to be involved.
- Relationships are based upon attitudes. Initially you'll rely on trust and honesty and then you can develop ties, all of which need to be earned and sustained.
- Relationships create a mutual way of thinking and the depth of this will increase with the longevity, frequency and quality of your transactions.

When building a relationship the customer should be seen as a resource with whom the firm can create a valued solution based on a level of co-operation. In terms of partners, suppliers and other intermediaries, firms will not work with each other from a win-lose perspective but they will from a win-win one, where both parties are better off as partners.

Think about your own situation and write down answers to the following questions.

- What's appealing about your business for the:
 - Generator?
 - Realiser?
 - Distributor?
 - Customer?
- What can you currently offer them?
- Is that enough, and if not, what do you need to offer for them to want to work with you?
- What are you going to have to do to make that happen?
- What additional resources, skills, people and information might you need to get there?
- What impact will that have on your finances and planning?

It's vital to be able to show when you will be paid and how you will collect the funds. Many apparently successful businesses fail in their first few years because they owe their suppliers money, which they can't pay because they haven't been paid themselves by their clients. It is therefore vital to identify all the people involved in the flow of money around your business.

What Sort of Deal Can You Expect?

On initiating a relationship and starting a conversation with potential partners and suppliers, you must know and be able to articulate:

- What you want out of the relationship;
- What you are going to offer to your partner; and
- Why it will benefit them.

Contracts and agreements help ensure that business transactions are clearly understood by and acceptable to the parties concerned. It should include a clear written specification of what you are going to do, the costs to the client and your payment terms. The latter is important to ensure that you get paid the right amount and on time.

Specification

This should include:

- A description of the project based on the client brief
- How much time it will take you to deliver
- When you will provide progress reports or staged viewings of work-in-progress
- The number of changes the client can make without charge
- Size, shape, colour, text, font and any other specific details that are vital to the specification
- What penalties you will incur if you do not deliver to schedule
- Details of the price for all the elements of the project, including management fees, print costs, VAT etc.
- Your payment terms stating how and at what stages of the project you want to get paid.

Payment Terms

Clearly stating your payment terms is important as many small businesses fail due to poor cash flow management. You need to know when you need to be paid and how much that should be.

If the job will take a while then set a series of staged payments, for example, 40% on the project being commissioned, 30% mid-stage, and 30% on completion.

If you have to purchase expensive materials then ask the client to pay for this in advance then follow up with a staged payment or remainder on completion.

You might prefer to present a delivery note and request cash or a cheque on completion rather than submitting an invoice. When you submit an invoice then clearly state the payment terms, for example, seven days or 30 days. Keep records of the invoices you have sent out, when they were paid and when they are overdue. Use your discretion as to when to send a reminder for outstanding payments but don't avoid it. Remember – if you've done the work, you're owed the money!

Contract/Agreement Sign Off

Send two copies of contract/agreement to the client for them to sign off. Make it clear that work will not start until you receive a signed copy. This becomes a legally binding agreement with clear terms and conditions for both parties.

A solicitor can draw up a standard contract covering these areas that you can modify for each client. Alternatively trade associations may have sample contracts that you can use. Remember, you are doing this to protect yourself and your customers from misunderstandings, disagreements and crossed wires.

Sale or Return

This is where you negotiate a selling figure with a gallery or outlet, of which they take a percentage with you receiving the balance when the item is sold. In this case you have to pay for all materials up front.

It is common for galleries and outlets to use sale or return to see if your work will sell before committing to buying up front. You should consider limiting the number of items you will leave on a sale or return basis.

The activities and guides in this handbook have helped you identify your customers, explore the connecting aspects of your business, and the various relationships you will want to develop to help your business move forward.

To summarise:

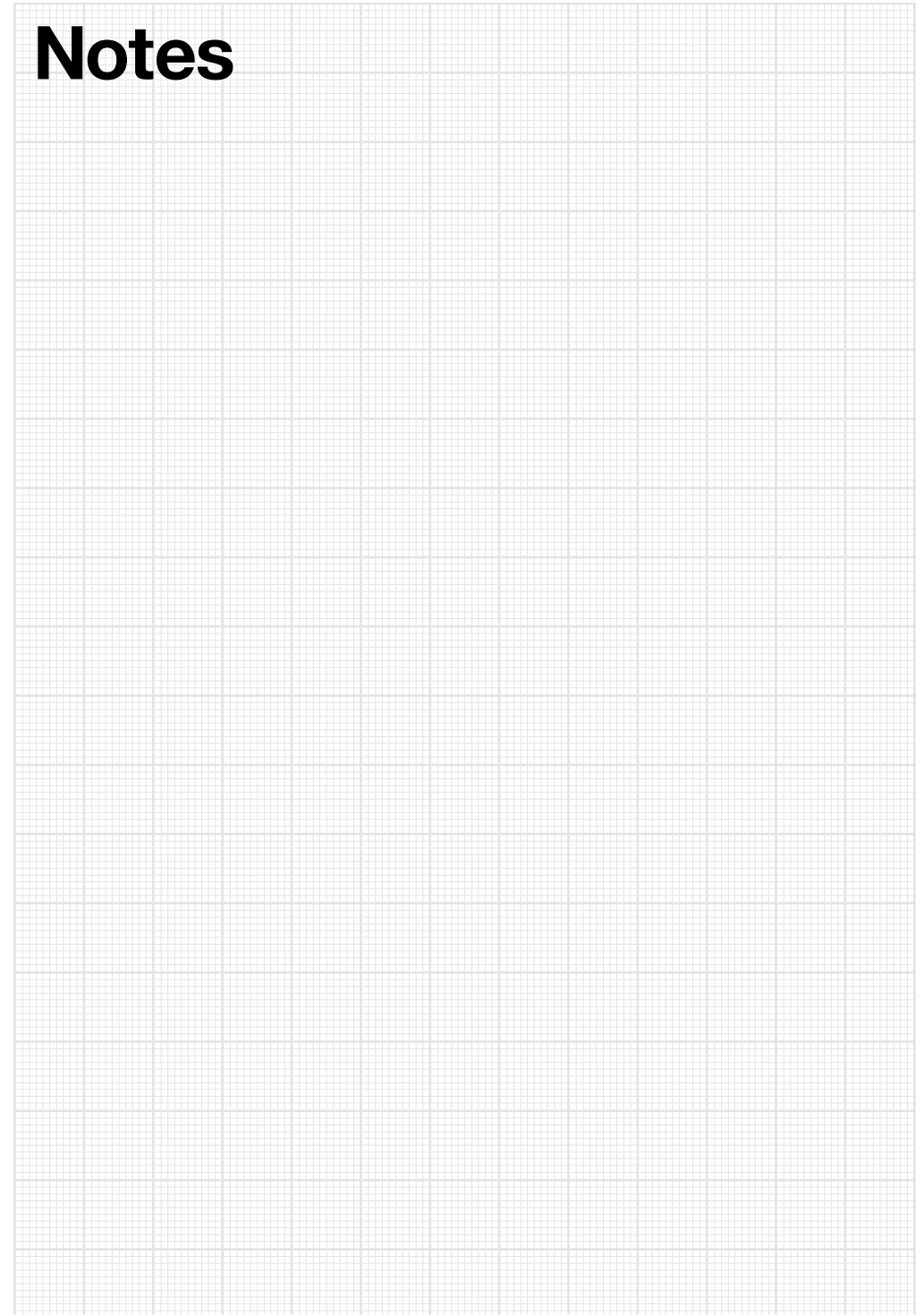
- You have identified your customer base and checked there's a need for your product or service at the price you want to charge.
- You understand the interrelation of your business vision, your customer expectations, and the qualities of your product or service.
- Blueprint Modelling helped you turn your draft operational plan into a more detailed picture.
- Relationship Modelling introduced different types of relationships you need to develop in the four key areas of business activity: Generator, Realiser, Distributor and Customer.
- You considered contractual details for the payment terms that suit your needs.

With what you've found out about roles and responsibilities, go back and update your blueprint. Add how you'll build and manage the relationships within your relationship model (for example, researching suppliers and meeting distributors) and the flow of money around those relationships (for example, paying suppliers and invoicing customers).

In handbook 04: **In it for the long haul** we look at:

- Different ways of communicating with customers through the marketing mix.
- Developing a marketing plan
- Controlling your business finances to ensure you have a sustainable business that meets your aspirations.

Notes





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In it for the long haul

**SPEAKING TO CUSTOMERS
AND STAYING IN BUSINESS**

Now you know how your business will work, who will be involved in making it happen, and what relationships you have to develop. Next in 'Launch Your Own Successful Creative Business' you'll find out how to get your message to your customers, and make sure that the finances make business sense.

The main areas you'll cover include:

Marketing Mix

The 7Ps of marketing and how to apply them for your business needs

Marketing Plan

The main elements you need to consider when planning marketing activities

Financial Modelling

Including the vital role of cash flow to ensure your business makes enough money to continue trading in the way you desire.

WHAT IS MARKETING?

According to the Chartered Institute of Marketing:
Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.

When you're in business, you need to sell your goods or services. And you need someone to buy them. You also have to be seen and heard in a noisy and busy marketplace. It doesn't matter whether you're Bill Gates or a one-man business, the techniques you need to apply to make sure you sell well, profitably and to the right customers are the same.

This section introduces the 7Ps of Marketing. These are also known as the Marketing Mix. It then goes on to describe how to devise a marketing plan.

THE MARKETING MIX

The 7Ps of Marketing

These can help ensure your product or service is in alignment with your company's business and marketing plans. They are:

- 01 **Product**
- 02 **Place**
- 03 **Price**
- 04 **Promotion**
- 05 **People**
- 06 **Process**
- 07 **Physical Environment**

01 **Product**

Your product or service must appeal to your potential customers, meeting a defined need and, ideally, result in multiple, repeat purchases. You have to ensure there is demand for your product and state what is unique about it.

Establishing Demand

However good you think your product is, if no one wants to buy it then no amount of marketing activity will entice them to do so. You may personally love Anchovy and Caper ice cream, but you'd want to test its popularity among potential customers before setting up a business.

Understanding your customers' needs and desires is crucial to the success of your business. Some simple, cost effective market testing will help you identify, at an early stage, if there is a demand by answering a few basic questions:

- Is there a market/desire for your product?
- Is there a satisfactory demand for the product?

You covered much of this in handbook 02, researching your customer.

The USP of a Product

The 'Unique Selling Proposition' of a product or service states clearly the features and benefits that make your product different from your competitors. For example, is it more energy efficient? Made of better quality materials? Does it last longer? Is it more prestigious? Or the only one of its kind on the market?

Your product may share certain features with similar items, for example, all fruit drinks include fruit and are drinkable. The unique benefit of your product may be that it's proven to improve your skin. This would be your USP if it's the only fruit drink on the market that can do this.

The USP can change as the business evolves and different USPs can exist for different types of products and customers.

**THE
MARKETING
MIX**

02 Place

Place refers to where your product or service is sold to customers. As well as thinking about the location where sales are made, you also have to consider how well your product or service is distributed, which will also have an impact on cost.

If you use intermediaries such as wholesalers, resellers or sales agents, they'll need paying. This is generally included in their mark-up. You will also have to consider how you'll promote the product or service to reach end users.

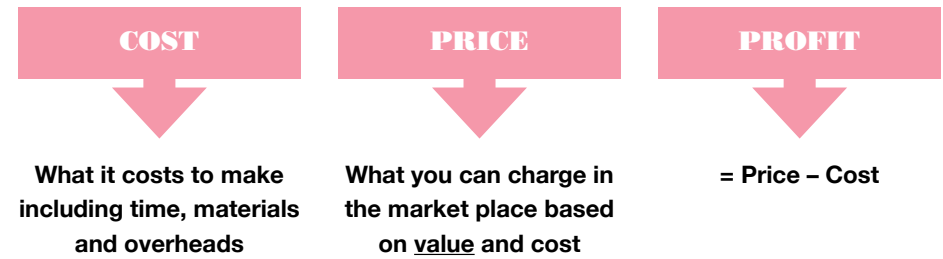
If the product's large, then you also need to consider storage costs. Your pricing strategy will therefore be affected by:

- Price of production/delivery
- Profit margin
- Storage and stock control

03 Price

The price of the product or service generates income and, most importantly, profit, whilst all the other elements in the marketing mix incur costs. It is vital that you understand the relationship between price, cost and profit.

This is outlined below.

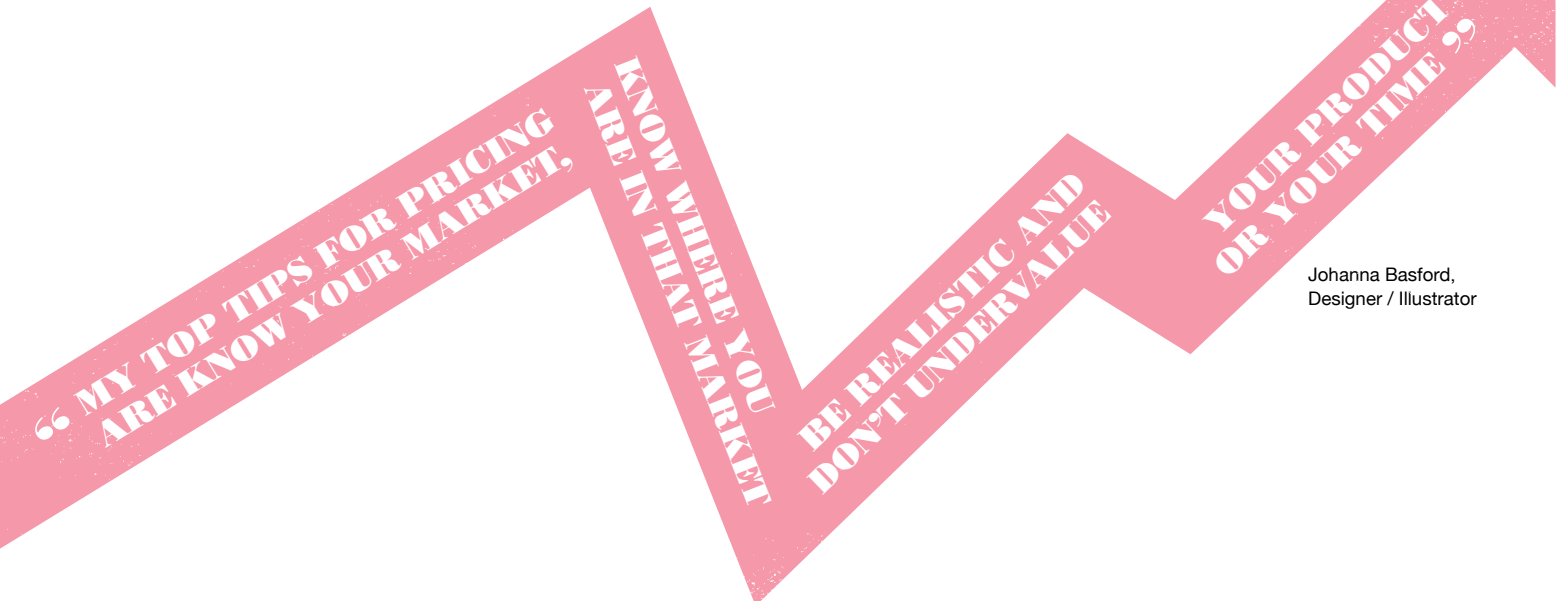


The price of your product or service must be set at a level that the market will accept. You also have to consider if you're providing a luxury or mass market item, as well as what competitors charge for similar products or services.

If it's too expensive it may not sell as the benefits to the customer are not acknowledged. On the other hand, a product that's too cheap may not produce a sufficient return to cover costs and sustain the business. A low price may also infer it's poor quality or inferior.

The price of your product or service must include both the costs to produce it and the additional costs associated with selling it, as discussed in Place.

Johanna Basford,
Designer / Illustrator



04 Promotion

To choose the appropriate means of promoting your product or service you need to consider who your customer is and how you will reach them.

Market segmentation is where you divide your overall target market into smaller sub-markets made up of people with the same needs. This allows you to target them in the right way.

For example, if your target market is householders to whom you wish to market an energy monitoring device, then you might look at sub-markets of age. Are elderly people more likely to want the product to help control energy bills? Are younger householders more likely to want it because they're concerned about environmental issues? This type of research can help you develop marketing messages and use marketing methods appropriate for these sub-markets.

When looking at sub-markets, you could divide your consumer markets using the following profiles:

- **Behaviour:** usage, frequent/infrequent, favourable impressions, convenience
- **Character:** lifestyle, personality, trendsetter/follower
- **Socio economic factors:** profession, income, location, buying patterns/loyalty, age and gender

If you are segmenting a business market, you could consider the following component parts:

- **Company size:** small, medium or large
- **Industry type:** IT, finance, education, media, local government
- **Location:** local, Scotland, UK, Mainland Europe

Marketing and Promotional Tools

Having established facts about your product and the relevant markets, you need to consider how to get your business and product noticed.

Not every method of communication will be right for your business. And the methods you use can change as your business develops and grows.

Before engaging in any promotional activity you need to be clear:

- What message do you want to communicate?
- Who is the audience?
- What is the best way to communicate with them?
- What budget do I have?
- What measures will I use to know if I have been successful?

Some promotional activities are expensive and should only be considered for specific products or markets and at certain points in the product lifecycle. There would be little point in spending thousands of pounds on advertising in a glossy magazine if your customers tend to buy your product via the internet.

The six main tools for promoting your business and product or service are:

- Public Relations
- Advertising
- Internet & Online Marketing
- Direct marketing
- Sales promotion
- Personal Selling

Public Relations

Public Relations (PR) is about creating and maintaining an image for your business or product that's the essence of its values and integrity, and that forms your reputation.

The impression you make through press coverage is highly visible and long-lasting. It's therefore important that you try to control the range and content of press stories about your business.

If you choose to communicate with the media through press releases it's essential the information contained in these is newsworthy. Just because you think something about your company or product is interesting doesn't necessarily make it a news story. It has to be of sufficient interest or importance to the public or sections of the public to warrant coverage in the media, e.g. a new product or person, an investment, or a new contract.

Writing endless press releases and sending them to nameless editors and journalists on a database of press outlets is not the way to get good coverage. Likewise, if you send out releases each week simply to keep your profile up, then you are in danger of damaging your reputation.

**“IF I WAS
DOWN TO MY
LAST DOLLAR,
I’D SPEND
IT ON PUBLIC
RELATIONS\$”**

Bill Gates

Journalists receive hundreds of press releases each day, so it's important to target the right journalists with information relevant to their area of interest.

If you can't afford professional PR support, then the SOLAADS rules can help you to get your message across in a press release.

- Subject** What is the subject of the story?
- Organisation** Which organisation is the story from?
- Location** Where is it located?
- Advantages** What advantages to public and/or company does this story encapsulate?
- Applications** What does the subject of this story do and who can use it or benefit from it?
- Details** What are the precise details (if about a person, their biographical details or if it is about a product, its dimensions, size, scale etc)?
- Source** Who issued the press release and what are their contact details?

Using SOLAADS rules can help you focus on telling the story. Other tips for writing a press release are to include all the key components of the story in the first paragraph. That way, if a news editor reads your press release their interest will be invoked right away and they'll have all the relevant facts.

Advertising

There are three main reasons for advertising:

- To create awareness among your target audience
- To persuade customers to buy your product by promoting its benefits
- To keep up your company profile.

To be effective, any advertising undertaken by your business needs to be done regularly and have a recognisable tone. Advertising, whether TV, press or radio, can be expensive and is generally brokered by agencies that will charge for their time and input on top of any design, airtime and production costs.

Newspaper and magazine advertising costs vary with the type of publication, circulation and readership figures and the size and position of the advert.

Advertising on the internet is generally cheaper than other forms. You can advertise on Google by yourself without an intermediary.

An online advert can be changed quickly and easily, but pop-up adverts can be considered intrusive and annoying. Online advertising can improve your search engine rankings, increase awareness of the product and entice browsers from other websites to yours.

The impact of advertising is difficult to track unless you include a monitoring tool like a voucher or coupon promotion in print. Online advertising can be tracked through hits to your advert or site, but this might not necessarily correspond with an increase in sales.

Internet and Online Promotion

A well-designed and managed website can allow a company of any size to reach customers all over the world. It can contain a variety of information in the form of press releases, news items, product information and products for sale. It's important to maximise your search engine ranking and build links on and to partner websites.

If you plan to sell your product or service online, then the architecture and functionality of your site must allow you to meet promises and fulfil orders. Make sure to invest in planning and testing your website – those who do then spend around two thirds less time fixing problems than those who don't (Source: Accenture).

Direct Marketing

- **Direct Mailing** can be a useful tool in business-to-business marketing, allowing you to personalise and target communications. But be careful when sending it to consumers – you don't want to be seen as 'junk mail', or be lost among it. To be effective, regularly update your databases. Use your own research, or buy up-to-date target lists from reliable sources.
- **Telemarketing** can promote, sell or solicit a product or service. You can gather information about potential business-to-business customers allowing you to build a comprehensive and up-to-date database of actual and potential customers. You can also use it to follow up on potential customers that you have emailed, written to or leafleted.

- **Email marketing** has the advantage of being immediate, cost-effective and highly targeted. Emails can be tracked using specific software, indicating when it was opened and what links the user clicked on. It's best to avoid sending attachments as they may get blocked by the recipient's server or the recipient may be reluctant to open it.

It is critical to send emails only to those people who have at some stage agreed to receive information from you, for example, if they have signed up for a newsletter, are a previous customer, or made an enquiry about your product. There are strict legal implications governing the use of emails and it is imperative that you adhere to the EU directives on opting out of further communication issues. Business start up organisations in your area should be able to advise on this matter. A list of such organisations is provided in the Destinations section of handbook 01.

Sales Promotion

This can be described as short-term activities to encourage customers to buy, and boost sales for a limited period of time. This could include price reductions, money off vouchers, multi-buys, interest free credit, and extended guarantees. However, consistent discounting can damage the image of a product or service.

Personal Selling

Face-to-face marketing enables you to listen to prospective or existing customers needs and it allows you to convey the ethos and values of your business. This personal interaction also offers a valuable opportunity to get first-hand feedback on our products, your company and your competitors.

05 People

You and the people you employ are the biggest assets in your business. You will want to portray a positive image and keep your customers happy. Customer care and aftersales should be a priority for you to build your brand and ensure customer loyalty.

06 Process

The procedures that your company uses to deliver your product or service will have an effect on the customer. From supplying product information, providing quotations, taking an order, availability of stock, to tracking an order and delivering the product or service, each step is an opportunity to make a good or bad impression. Having high standards of customer care that are regularly monitored and reviewed will help you to deal effectively with any process issues and complaints.

07 Physical Environment

It is important that your workplace sets the right impression to your customers, suppliers and staff. If the business appears shabby and untidy then potential customers may be put off. If customers have access to your premises then ensure that public areas reflect the values and character of the business.

You should also manage your image including updating your website. Having simple rules for any company promotional material – whether printed or electronic – should ensure a consistent image. This could include standardising the position of your logo, company name, corporate colours, and typeface used for all materials. Use worksheet 04a: Marketing Mix to explore the 7P's of marketing for your business.

Developing a Marketing Plan

A marketing plan is a clearly defined, detailed route to delivering your marketing strategy and should mirror the objectives contained in your business plan.

There are six elements to any Marketing Plan, some of which we've covered previously. They are:

- 01 Mission Statement
- 02 SWOT Analysis
- 03 Marketing Objectives
- 04 Marketing Strategies
- 05 Implementing the Plan
- 06 Measuring and Controlling the Plan

01 Mission Statement

The mission statement is a clear, concise summary of why your business exists and its future intentions. This was covered in handbook 02: Getting off the ground.

02 SWOT Analysis

This summarises the strategic positioning of your company. Refer to the SWOT analysis you conducted, also in handbook 02.

03 Marketing Objectives

Your marketing objectives should be based on your business strengths and weaknesses, and form a key part of your business plan and be set to specific timescales. They should be:

- **Definite:** e.g. to increase sales by 10%
- **Quantifiable:** to increase sales by 10%
- **Achievable:** you should have sufficient staff and financial resources to meet the objectives
- **Realistic:** it should be possible to meet the targets
- **Time sensitive:** timescales and deadlines should be set

04 Marketing Strategies

Marketing strategies are the means through which the marketing objectives are reached.

They are informed by the 7Ps: Product USP, the Place you will sell it, the Price you will charge, how you will Promote it, the People you involve, the Process you employ to make, sell and deliver it and the Physical Environment you operate from.

05 Implementing the Plan

The marketing plan states:

- Your intentions
- How each of the objectives will be achieved, and
- By what means.

To help you plan and guide your activities create a Critical Marketing Tasks Chart. This lists all the activities to be carried out, along with associated deadlines and individuals responsible for achieving them. Costs of carrying out the activities will be included in a budget.

THE MARKETING PLAN

An example is shown below. Use Worksheet 04b: Critical Marketing Tasks to help you devise and implement your marketing plan.

Activity	Timescales	Assigned to	Budget	Review
Launch company newsletter	April 2010	Ann	£500	Feedback from customers
Email Campaign	May 2010	John Part time contractor	4 Hours at £25 per hour	Response from customers
Trade Exhibition Edinburgh	Sept 2010	Sales person (Jane)	£2400 + travelling expenses	Number of sales and value of sales leads

06 Measure and Control the Plan

As with your business plan, you should regularly monitor and review the progress of your marketing activities, both in terms of staff resources and budgets. It's a good idea to have one person acting as project manager to chase up work in progress and monitor results. Any deviation in progress or finances should be acted upon and the marketing plan amended accordingly. A good Critical Marketing Tasks Chart combined with clear financial information will allow the plan to be effectively monitored and reviewed.

FINANCIAL MODELLING

The business decisions you make will always have financial impacts. Some will have a lot more than others. Where you locate your business, how you price your product or service, who you use as suppliers and how much advertising you do will all have important financial consequences.

To be in full control of your business, you need to be aware of the financial impacts of decisions before you make them, and also how changes in the business environment will impact on your enterprise. You will also need to measure the performance of your business, in terms of profit or the surplus that you've made after deducting your wages, overheads and costs.

“It's taken me a while to get over my belief that you have to be on the breadline to be running a successful creative business. Now I realise it is about making money... we sell designs, we make money, then we can be more creative and take on more new projects!”

Johanna Basford, Designer / Illustrator

Consider your answers to the following questions. These deal as much with your lifestyle as your work or creativity. Your views are likely to change with time.

- How much money do I want to earn a year?
- How hard do I want to work?
- How do I feel about employing others or working with partners?
- What is my attitude to taking risk?
- How self-disciplined am I likely to be in building my business?

These next questions are about the size and capacity of your business.

- What annual turnover (this is your sales in one year) would make me feel my business is properly established?
- What do my competitors charge for their service or product?
- What do I want to charge for my service or product?
- How am I going to generate the sales I need?

“I used these creative techniques to explore how I shape my fledgling business but I know that unless I’m making money it’s not a business at all.”

Carrie Ann Black, Contemporary Jeweller

To get a complete view of your decisions and the possible consequences of them, you also need to consider your business costs. These are split into two categories: direct costs and indirect costs.

Direct Costs

These are the costs that you incur as a direct result of making a product or selling a service, for example raw material costs, labour and advertising costs. Consider the following:

- If my business makes and sells products, what are the direct costs (materials, labour, distribution, design, advertising and marketing) of producing one unit of each product?
- If my business is a service business, how much will I charge for my time and how much of it will I need to spend developing and marketing the services I am offering?

Indirect Costs or Overheads

These are the costs that you and your business incur even if you produce or deliver nothing. Consider the following:

- How much do I want to pay myself as a salary?
- Where will my business be located and what costs will that incur (such as rent, phones, broadband, insurance, utilities and business rates)?
- What professional services (such as lawyers and accountants) will I need? What will they cost?
- How much will other items (such as postage and stationery) cost?
- How much will I have to pay other consultants to deliver my product or service?

You may also have to spend money on equipment, such as machinery or computers, which the business will then own as an asset. This is known as Capital Expenditure or Capital Investment. Consider the following:

- How much will I need to invest in equipment (such as computers or machinery)?

It may be some time before you start to make a profit. In the meantime, your business will need to be financed in some way. Borrowing from friends and family, loans or a bank overdraft are the most common ways of bridging the gap. So consider:

- How will my business be financed in the period before it begins to make profits?
- How long will this period be?

All businesses face risks of various kinds, such as the risk of losing business to competitors, having a supplier go out of business, or transport costs increasing. It's critical to be aware of the risks your business may face. Consider the following:

- What are the main risk factors that affect/determine the basic profitability of my business? (These may be things such as competitors changing their prices, supply bottlenecks or ineffective marketing).
- How sensitive to each of these factors is my business?

These questions can seem daunting, and it's important to remember that the aim isn't to come up with a set of perfect answers! There's no such thing – no-one can predict the future. The questions are there to help you think about the financial consequences of your decisions and to pre-empt the sorts of questions other people, such as your bank manager, are likely to ask you about your business. You can experiment with different pricing structures, sales forecasts and marketing costs to see the impact of each of these.

If you would like help with this you can contact your local business support service for advice and information – see Destinations in handbook 01 for a list of useful contacts.

Cash Flow

Cash flow shows how much money is coming in and out of your business at any one time. If you understand your cash flow then you know when you're likely to have bills coming in and, most importantly, whether you'll have enough money to pay them. By working out your cash flow, you can identify possible problems in advance and decide what you might do about them.

Refer back to your Blueprint Model to help you think about your business's cash flow. In the blueprint you identified operational activities in a time frame. Each of those activities will have to be resourced, and those resources will have a cost. By entering those costs as outgoings and entering values for income generated by onstage activity in a time frame, you can start to work out a basic cash flow. A 12-month time frame showing monthly income and expenditure helps identify seasonal variations in sales and costs.

In diagram 01 you can see the various categories of money flowing in and out of a business.

Money In:

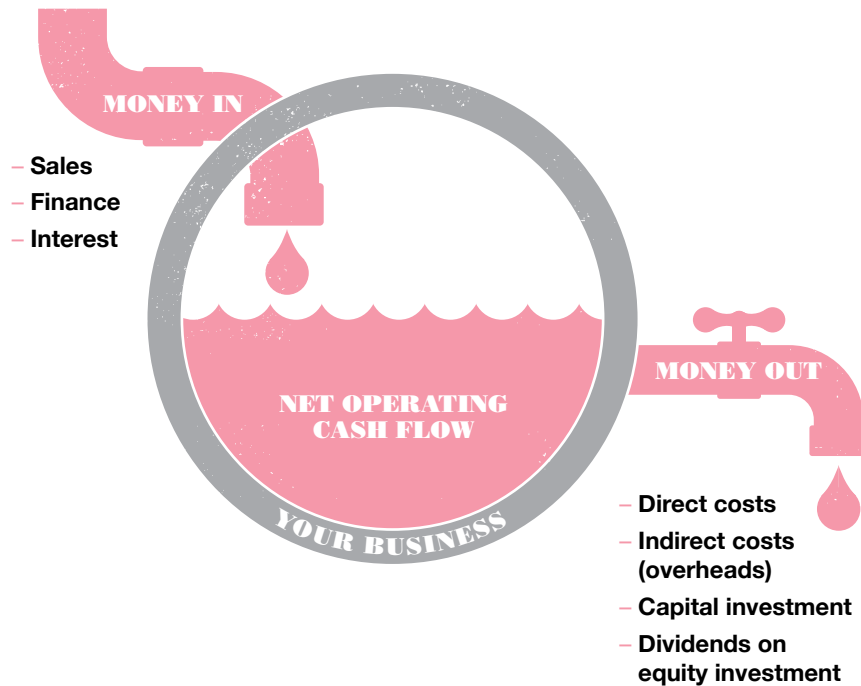
- Sales revenues.
- Financial investments (such as grants, loans and equity investors).
- Interest on surplus cash.

Money Out:

- Direct production costs if you are a product based company (these cover things such as materials, labour, packaging, advertising – anything that is linked directly to making and selling your products).
- Indirect costs (such as rent, utility bills, insurance and any other costs that you incur whether or not you sell your product or services).
- Capital investment (including buying items such as computers, machinery or equipment).
- Loan repayments and dividends (this is repaying any loans you may have and paying dividends from profits to any investors you have).

Diagram 01 Basic cash flow process.

Note that the illustration does not deal with Value Added Tax (VAT), or Corporation Tax, should your business generate sufficient revenue.

**Developing a Cash Flow**

A cash flow spreadsheet in Excel for an imaginary business that makes and sells products, and also generates income from licences and services is shown on pages 26 and 27. It could be a designer who makes and sells their own pieces and also acts as a consultant to other companies. (Your Customers and your Relationship Model will have identified the types of income streams for your business.) You can use a similar format to develop a cash flow for your business.

Your cash flow should include:

- Light grey area: **Cash Inflows**
In this example there are three: product sales, license income and consultancy services. Sales volume and price assumptions and the first month that sales are assumed to be made are included. Grant finance, along with a loan that has been arranged is shown as other funding
- Light red area: **Cash Outflows or Costs**
Some assumptions have been made about direct costs per unit of output and the main categories of indirect costs. The amount to be spent on capital equipment (vehicles, machinery and computers, etc) and the month of expenditure.
- Dark grey area: **Finance Costs / Receipts**
There are assumptions for the average interest rate received on positive cash balances in the business account and those paid on any overdraft balances.

The projections are monthly for the first year and annually for the two subsequent years. This gives a more detailed picture for the short term, enabling possible cash flow problems to be identified and remedied quickly, while providing enough of a longer-term picture to get a feel for the business's true commercial potential.

Spreadsheets for calculating cash flow are available from your local business support service or bank manager. By changing the input assumptions and noting the consequences of these in terms of the cash flow, you'll get an idea of what different changes could mean for your business.

Getting the Numbers to Add Up

Building up a picture of your cash flow and modelling the consequences isn't easy. You need to make sure, as much as possible, that your assumptions about the market are correct. People often underestimate the amount of time it takes to get people to start buying their product or service and overestimate the amount of sales they'll make. The more research you do, the more accurate your assumptions are likely to be.

At this very early stage, it may feel that you're making up the numbers. You might not know how many products you will sell in your first year of trading, but it's useful to make your best guess. However, as soon as you've started the business you're going to generate numbers that will be more accurate and meaningful. It'll be important to record these numbers as soon as they're available, so you can begin to see how your business is performing.

It might be useful to remind yourself of the difference between cash flow, profit and loss and balance sheet:

- Cash flow: shows the movement of cash into and out of the business at the time it occurs.
- Profit and Loss: is an accounting view of the profits or losses earned by the business on the date an invoice is raised (rather than payment made as per the cash flow) over a particular period of time such as a quarter or year. It also includes a number of non-cash items such as depreciation on fixed assets.
- Balance Sheet: is a snapshot of the assets and liabilities of the business on a given date.

Dealing with financial matters might seem scary or boring, but by understanding your cash flow you will know what you're earning, what you owe and, vitally, whether you're making any money.

As a starting point it might be useful to create a 'survival budget' to help you assess what it costs you to live each month/year. Add up all of your living costs e.g. rent/mortgage, utility services, council tax, credit card payments, car and living expenses. By calculating this you will know how much money you need to earn through your business in order to make it survive and grow - this will allow for better financial planning in the future.

By putting in place financial systems that are reviewed regularly and that empower you to know how well your business is operating you will ensure its sustainability.

Cash Flow Projection Example

Cash Flow Projections	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Total Year 1	Year 2	Year 3		
													% change	Assumed Amount	% change	Assumed Amount	
Cash Inflows																	
Product Sales	£0	£0	£0	£0	£0	£0	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£18,000	10%	£19,800	25%	£24,750
Licensee royalties	£0	£0	£0	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£18,000	50%	£27,000	25%	£33,750
Consulting income	£0	£0	£0	£0	£0	£0	£0	£0	£700	£700	£700	£700	£2,800	0%	£2,800	25%	£3,500
Business bank loan	£0	£0	£0	£8,750	£0	£0	£8,750	£0	£0	£8,750	£0	£0	£26,250	0%	£0	0%	£0
Start-up grant	£8,750	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£8,750	0%	£0	0%	£0
Workshop delivery - teaching	£5,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,000	0%	£0	0%	£0
Total Cash Inflow	£13,750	£0	£0	£10,750	£2,000	£2,000	£13,750	£5,000	£5,700	£14,450	£5,700	£5,700	£78,800		£49,600		£62,000
Cash Outflows																	
Direct Costs																	
Materials	£0	£0	£0	£0	£0	£0	-£960	-£960	-£960	-£960	-£960	-£960	-£5,760	5%	-£6,048	5%	-£6,350
Direct Labour	£0	£0	£0	£0	£0	£0	-£600	-£600	-£600	-£600	-£600	-£600	-£3,600	5%	-£3,780	5%	-£3,969
Delivery / Postage	£0	£0	£0	£0	£0	£0	-£60	-£60	-£60	-£60	-£60	-£60	-£360	5%	-£378	5%	-£397
Marketing	£0	£0	£0	£0	£0	£0	-£500	-£500	-£500	-£500	-£500	-£500	-£3,000	5%	-£3,150	5%	-£3,308
Total Direct Costs	£0	£0	£0	£0	£0	£0	-£2,120	-£2,120	-£2,120	-£2,120	-£2,120	-£2,120	-£12,720		-£13,356		-£14,024
Overheads																	
Salary	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£1,000	-£12,000	5%	-£12,600	5%	-£13,230
Office / Shop rent	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£700	-£8,400	5%	-£8,820	5%	-£9,261
Software / Web Service	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£180	5%	-£189	5%	-£198
Telephone	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£600	5%	-£630	5%	-£662
Utilities	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£600	5%	-£630	5%	-£662
Travel	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£200	-£2,400	5%	-£2,520	5%	-£2,646
Printing	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£180	5%	-£189	5%	-£198
Equipment rentals	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£25	-£300	5%	-£315	5%	-£331
Accounting	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£75	-£900	5%	-£945	5%	-£992
Legal	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£40	-£480	5%	-£504	5%	-£529
Insurance	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£180	5%	-£189	5%	-£198
Repairs / Maintenance	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£20	-£240	5%	-£252	5%	-£265
Supplies - Office	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£180	5%	-£189	5%	-£198
Postage	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£15	-£180	5%	-£189	5%	-£198
Bank Charges	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£5	-£60	5%	-£63	5%	-£66
Training and Development	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£50	-£600	5%	-£630	5%	-£662
Other	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£30	-£360	5%	-£378	5%	-£397
Total Overheads	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£2,320	-£27,840		-£29,232		-£30,694
Capital Expenditure																	
Vehicles	£0	£0	£0	£0	-£4,000	£0	£0	£0	£0	£0	£0	£0	-£4,000		-£1,000		-£1,000
Machinery and Equipment	£0	£0	-£1,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	-£1,000		£0		£0
Computers and other IT	£0	£0	£0	£0	-£3,000	£0	£0	£0	£0	£0	£0	£0	-£3,000		-£2,000		-£2,000
Total Capital Expenditure	£0	£0	-£1,000	£0	-£7,000	£0	£0	£0	£0	£0	£0	£0	-£8,000		-£3,000		-£3,000
Finance Costs / Receipts																	
Repaid loans: OUT	£0	£0	£0	£0	£0	£0	£0	£0	-£400	-£400	-£400	-£400	-£1,600		-£3,400		£0
Interest paid / (received)	£0	£29	£23	£15	£36	£18	£17	£40	£42	£44	£68	£70	£402		£871		£916
Total Finance Costs	£0	£29	£23	£15	£36	£18	£17	£40	-£358	-£356	-£332	-£330	-£1,198		-£2,529		£916
Total Cash Outflow	-£2,320	-£2,291	-£3,297	-£2,305	-£9,284	-£2,302	-£4,423	-£4,400	-£4,798	-£4,796	-£4,772	-£4,770	-£49,758		-£48,117		-£46,802
Net Cash Flow	£11,430	-£2,291	-£3,297	£8,445	-£7,284	-£302	£9,327	£600	£902	£9,654	£928	£930	£29,042		£1,483		£15,198
Opening Bank Balance	£0	£11,430	£9,139	£5,842	£14,287	£7,003	£6,701	£16,028	£16,628	£17,530	£27,184	£28,112	£0		£29,042		£30,525
Closing Bank Balance	£11,430	£9,139	£5,842	£14,287	£7,003	£6,701	£16,028	£16,628	£17,530	£27,184	£28,112	£29,042	£29,042		£30,525		£45,723

