

## Section 6 Business Planning

### Introduction

Planning for the future is the cornerstone of any organisation, regardless of whether it is a totally profit-orientated commercial business, or a social enterprise. In this section we look at the following key topics:

#### Topic 1: The Importance of Planning

When you have worked through this topic you should be able to:

- list the benefits of planning
- explain the difference between short-term and long-term planning.

#### Topic 2: Preparing a Business Plan

When you have worked through this topic you should be able to:

- list the key elements of a business plan
- describe the kinds of information which should be contained in each element of the plan.

#### Topic 3: Plan to Manage Yourself

When you have worked through this topic you should be able to:

- implement at least three relevant strategies for improving the way in which you manage your working hours
- implement at least three relevant strategies for improving the way in which you manage your workload
- implement at least three relevant strategies for improving the way in which you manage your own learning and development
- implement at least three relevant strategies for improving your communication at work.

#### Topic 4: Planning Goals

When you have worked through this topic you should be able to:

- explain what a SMART goal is
- create three short-term and three long-term SMART goals for your social enterprise.

#### Topic 5: Planning Excellence

When you have worked through this topic you should be able to:

- describe the key differences between an excellent enterprise and a non-excellent enterprise
- explain some of the practical strategies which can be used to develop excellence within an enterprise
- identify specific ways in which you can develop and foster excellence within your social enterprise.

#### Topic 6: Planning Team Building

When you have worked through this topic you should be able to:

- list the characteristics of an effective team
- describe what happens at each of the four stages of the team-building process
- identify specific actions you can take to make your team more efficient and effective.

#### Topic 7: Financial Planning

When you have worked through this topic you should be able to:

- explain the difference between capital costs and operating costs
- explain the difference between fixed and variable costs
- describe the budget-setting process
- explain what is meant by cash flow and produce a cash flow chart
- set an appropriate price for goods and services.



## Section 6 Business Planning

### Topic 1 The Importance of Planning

This topic introduces planning: the difficulties and benefits of planning for a small enterprise, and the differences between short-term and long-term planning.

#### The ability to plan

One of the key differences between a commercial enterprise and a social enterprise is the approach which they are able to take in relation to business and improvement planning. Most medium-sized and large enterprises (especially those that focus on creating profit and satisfying the shareholders) have the infrastructure, resources and expertise to allow them the luxury of planning for the future, both in the short and the long term. For example, medium and large enterprises often have (in no special order of importance):

- a human resources department – to plan staffing, staff development and training
- a marketing department – to plan advertising and marketing campaigns for the company's products or services
- a finance department – to plan cash flow coming into and out of the business, future investment and methods of raising finance
- a sales department – to set sales targets and plan and co-ordinate the activities of the sales force
- a research and development department – to carry out research and identify new products and services.

By contrast, most social enterprises (especially at the beginning, when they are starting up) are likely to have:

- one or more social entrepreneurs – who are the driving force behind the enterprise
- one or more volunteers – who may or may not have any specific business-related skills
- one or more members of staff – who may or may not have any specific business administration, supervisory or management skills.

The key point here is that, at the start of the endeavour, most social enterprises have neither the time nor the resources to carry out much either in the way of short-term planning, or sophisticated strategic planning. In addition, many social entrepreneurs – like most managers of small businesses – often fall into the trap of daily fire-fighting, trouble-shooting and crisis management, and have little time or energy left for planning for the future.

#### The benefits of planning

Careful planning will enable you to:

- set your goals
- identify the step-by-step methods you will use to enable you to achieve your goals
- communicate your ideas and goals to your stakeholders
- identify the resources you are likely to need
- establish (approximately) the amount of cash coming into the enterprise, and the amount of cash going out of the enterprise
- help you to make decisions about the future.

## Jargon buster

### Business planning

Business planning can either be:

- short term – e.g. planning what is to happen over the coming month, 3 months, 6 months
- long term – e.g. planning what is to happen over the coming year, 2 years, 5 years or even ten years. Long-term planning is also often referred as strategic planning.

### Strategic planning

Strategic planning is always long-term and is related to the organisation's business strategy.

### Business strategy

A business strategy is the approach the business takes in order to enable it reach its long-term goals and fulfil its long-term vision. A business strategy might be, for example:

- keeping the business small and focused on providing just a few products or services, but ensuring that everything meets very specific standards of excellence – e.g. manufacturing hand-crafted, very expensive birthday cakes; or growing and producing coffee (Café Direct)
- expanding the business, but focusing on a small range of products or services aimed at a very wide market – e.g. manufacturing large quantities of flat-pack DIY kitchens; or publishing a magazine aimed at a wide cross-section of the general public (The Big Issue).

### Goals

A goal is something you intend to work towards and, ultimately, achieve. Examples of business goals include:

- employ three full-time members of staff by September of this year
- obtain £50,000 of grant funding by the end of November, this year
- over the next twelve months, provide training and work experience to at least fifteen disabled people.

Goals are often also referred to as *targets*, *objectives* or *outcomes*. All these words are interchangeable.

### Stakeholders

Stakeholders are those people who have a stake or an interest in your enterprise. Examples of stakeholders include members, board members, employees, investors, donors, staff, volunteers, clients/customers.

## Check Point

Use this check point to see where you are in terms of being able to plan ahead in your enterprise. Tick all relevant boxes.

Our enterprise has:

- short-term plans
- long-term plans

We know, step-by-step, how we are going to achieve our goals (i.e. we have a business strategy)

Our enterprise has someone who is in charge of planning

We know what resources we need to carry out our aims

We know how much money we need to have coming in to carry out our aims

We know where we are going to get our:

- money
- resources

We know how much money is going out of our enterprise

We know what our money is being spent on

People don't plan to fail ... they fail to plan.

**Mark McCormack**

The topics you have not ticked are the ones you need to work on! Many of the topics in this section will help you do just that.

## Section 6 Business Planning

### Topic 2 Preparing a Business Plan

This topic explains the need for a business plan, and takes you, step by step, through the sections, ending with a sample plan. This will help you build up a business plan for your own enterprise.

#### What is a business plan?

A business plan is the document that tells your stakeholders:

- what you intend to achieve – **your mission**
- how you intend to achieve it – **your strategy**
- how much it will all cost – **financial projections**.

Your business plan is a road map for everyone involved in your social enterprise because it tells people where you are going, and how you intend to get there. Initially, perhaps, the idea of creating a business plan may seem little more than a time-consuming, exhausting and even unnecessary project. However, a business plan is an important tool that will help you to achieve your goals, and turn your vision into reality.

Once you have created your business plan you can use it to:

- explain to investors, donors and other stakeholders why you need their help and support
- inform members, staff and volunteers about the purpose and goals of the enterprise
- guide you through the process of preparing funding proposals, grant applications and proposals to your bank for overdraft facilities, working capital or investment funding.

#### When should a business plan be prepared?

A business plan can be created and prepared:

- right at the start of an enterprise
- when the enterprise has been operating for some time, but it is time to change direction
- every two or three years, as part of an ongoing review process.

#### What should be in the business plan?

The business plan for a social enterprise should be divided into the following sections:

- Executive summary
- Description of the social enterprise
- Market analysis
- Organisation and management
- Finance.

#### Executive summary

The executive summary comes right at the beginning of the plan, and should provide a concise and interesting overview of your social enterprise, and what you hope to achieve. The purpose of the executive summary is to stimulate the reader's interest, and persuade them to read to the end of the plan. The executive summary should contain the following information:

- mission statement
- vision
- target clients, customers, users or beneficiaries of the enterprise
- date the social enterprise first began to operate
- names of the founders, and the functions they perform
- address, telephone and e-mail of the enterprise
- number of employees, members and volunteers
- information relating to current investors or sources of funding
- brief summary of goals and plans for the future.

## Description of the social enterprise

This section of the business plan should include information about:

- the main focus of the enterprise
- what the enterprise is seeking to achieve
- the specific goals of the enterprise.

## Market analysis

This section should provide detailed information about:

- the market for the goods/services being traded
- the needs of the clients, customers, members, users of the enterprise
- the way in which the enterprise will seek to meet these needs
- who will benefit from the enterprise
- how the products or services will be marketed and made available to customers.

This section is vital, as an understanding of the market is vital to the success of the enterprise. If it cannot trade profitably as a business by meeting a market need, then the enterprise will not survive.

## Organisation and management

This section of the business should give details of:

- staffing, supervision, control and management of the enterprise
- board members
- existing resources – premises, equipment, etc.
- the way in which the enterprise will operate on a day-to-day basis.

## Finance

In this section the business plan should include:

- details of previous and current donors and investors (if any)
- anticipated revenue from
  - sales
  - grants and other funding sources
- cash flow forecast.

### Website to visit

[www.bplans.com/sp/index.cfm?a=bc](http://www.bplans.com/sp/index.cfm?a=bc)  
has examples of business plans

### When preparing a business plan:

- Involve members, volunteers, staff and members of the board as they will have useful contributions to make
- Allow at least six weeks from start to finish of the process.

Figure 1 on the next page is an example of a social enterprise business plan. Please bear in mind that this is just one example of the way in which a business plan can be written.



**Warehouse Theatre Group**  
The Warehouse, Lodesly Lane, Manchester  
Telephone 061 372 567  
Website [www.whousetheatregroup.co.uk](http://www.whousetheatregroup.co.uk)  
E-mail [info@whousetheatregroup.co.uk](mailto:info@whousetheatregroup.co.uk)

## **BUSINESS PLAN**

### ***Executive Summary***

The Warehouse Theatre Group was born in 1998, in an almost derelict warehouse in Lodesly Lane, Manchester. Michelle Martin, a classically trained dancer, and Sam Moore, a theatre director, started the group with bags of enthusiasm, very little money, just five members and the following mission statement ... *Our mission is to provide meaningful creative opportunities for people with a history of mental health problems.*

The vision of the Warehouse Theatre group, at that time, was to make the performing arts accessible to members of the community who have, or who are, experiencing long-term mental health problems. Now, four years on, we are able to say, without reservation, that we have made our vision into a reality.

We now have over sixty members, all of whom work together under the leadership of our Executive Director, Julia Foster, and as a Theatre Group we have performed throughout the UK, and even abroad. Not only have we staged some terrific shows which have entertained and delighted large audiences, but we have been able to develop real talent within our membership which, in turn, has brought clarity, motivation and meaning to the lives of people who previously felt a real sense of social exclusion.

Since 1998, we have received funding from the National Lottery; from Manchester City Council, and a small award from North West Arts.

Our goals for the coming year are to expand our membership to people within the community who are living with physical disabilities so that, in future, we can call ourselves a totally inclusive theatre group. In addition, as well as staging shows at theatres around the UK, it is also our intention to organise theatre productions in the three major hospitals in the Manchester area.

### ***What we do***

The purpose of the Warehouse Theatre Group is to provide a creative outlet for people who have experienced long-term mental health problems. Some of our members have been dealing with lack of confidence and low self-esteem. Others have experienced clinical depression, whilst others have been labelled as agoraphobic or manic-depressive.

By providing a creative and supportive environment, we give our members the opportunity to identify where their talents lie. We provide the support and the training, our members supply the hard work and dedication. Some channel their energies into dance, some into singing, acting, play writing, set or costume design. As their talents develop and blossom, so does their self-confidence and self-esteem. Many of our members are now doing things which a year ago, or even six months ago, they would have thought impossible.

We currently have 60 full-time Theatre Group Members and it is our intention to expand our company to at least 100 people by the end of the current year. Seventy-seven of our members now work (mostly part-time) with local businesses and organisations, although they were unable to work when they first joined the Group.

### ***Market Analysis***

Lodesly Lane is situated in an area which is close to three housing estates: Shipton View Estate, Bartlett Estate and Mill House Estate.

Surveys carried out over the last three months show that:

- 1 27% of adults on these three estates have, at one time or another in their lives, experienced mental health problems
- 2 21% have been unemployed for twelve months or longer, and are in receipt of state benefits of one kind or another
- 3 12% of adults on these three estates are currently receiving medication for mental health problems
- 4 6% of adults on these three estates have, at least once, been hospitalised for mental health problems.

These figures clearly show that there is a large pool of adults who are eligible to benefit from the Warehouse Theatre Group. In fact, over the last three months, we have received applications for membership from over 21 people, all of whom have heard about the Theatre Group by word-of-mouth.

### ***Organisation and Management***

Thanks to help from the National Lottery, and the generosity of private and business donors, we have been able to purchase the premises in which we are located.

Our Executive Director, who controls and manages the enterprise, is Julia Foster, formerly Chief Executive Officer of the Circus Rouge, Paris. Julia is a well-known opera singer in her own right, has an MBA from the University of Birmingham, and has previously worked with another social firm – The Dance Group – in the capacity of Executive Director.

Michelle Martin is our Artistic Director, and Sam Moore is our Creative Director. They are both responsible for managing all aspects of our productions on a day-to-day basis.

In addition, we have three supervisors (all of whom are performing artists), plus six volunteers who, between them, bring to the enterprise a sound mix of management, training and counselling skills. We have also forged strong links with the medical team at Harwood Grove Hospital, and there is a team of support staff on hand – medical doctors and psychiatrists – who work with our members, as and when their professional services are required.

### ***Finance***

For the period April 2001 to April 2002

Income from grants	£92,000
Income from other sources	£17,250
Incomes from sales	£48,000
Salaries and other business expenditure	£158,250
Profit/deficit	–£1,000

Cash flow forecast for the period April 2002 to April 2003 is attached.

## **Activity**

Take two sections of a business plan that you would feel confident about drawing up for your enterprise, and jot down notes for what should go in them. Note what extra information you will need to find out.

This activity will have given you a better idea of what will need to be done, and what you will be asking other members to do and think about, when you draw up your business plan. You will find it helpful to draw on topics you have worked on in other sections of this book, e.g. for your vision and mission statement.



## Section 6 Business Planning

### Topic 3 Planning to Manage Yourself

For anyone involved in running a business, regardless of whether or not the business is a social enterprise, planning self-management is a key activity. Too often the people who are at the forefront of the business are so involved in managing the business and managing other people, that there is very little time left for them even to think about managing themselves.

This topic will help you take a step back and look at how you are managing yourself, and then offer some strategies for helping you manage your time, your workload, your own learning and development, and communication at work.

#### Manage your working hours

When you are the driving force behind a business it's all too easy to dedicate every waking hour to getting things done, achieving results, keeping people happy and, of course, maximising revenue. It is vital, though, that you maintain some kind of balance between work and leisure, work and home.

##### Tips for managing your working hours

- Decide how many hours each week you are prepared to devote to the business, and then stick to your limit.
- Work out whether you function better early in the morning, or in the evening. If you must work long hours, then make sure that some of your working time is spent during the hours when you feel most energetic and productive, as this is when you will be able to get a lot of work done.
- Allocate solitary tasks – report, proposal and letter writing; thinking and planning – to those sections of the day when you work best *and* are not likely to be disturbed.
- Think carefully about which meetings to attend. Ask yourself:
  - what do I want to achieve at this meeting?
  - can I achieve what I want to achieve by making phone calls or communicating by e-mail?
  - would it be more useful for someone else to attend?
  - if I attend, is this meeting likely to be productive?
- Make sure that you spend some time each week relaxing, taking part in some activity that is not work-related.

#### Manage your workload

Recognise that it is just not possible to do everything yourself, and be prepared to give the responsibility for some tasks to other people.

##### Tips for managing your workload

- Don't be tempted to try and do everything yourself.
- People learn best by doing, so when you delegate tasks to other people, you are providing them with learning and development opportunities.
- If you are not sure how much responsibility someone can handle, start with small tasks.
- Use the delegation method that is most appropriate and suitable for each individual.
- Prioritise your tasks, so that the most urgent and important things are done first.
- Make a daily 'To do' list, so that at the start of the day you can see what needs to be done and at the end of the day you can see what has been accomplished.

## Manage your own learning and development

Find someone you respect and can trust, and ask them to be your coach and mentor. Probably (but not necessarily) this will be someone outside the business who has the kind of skills, abilities and experience that you find yourself needing on a day-to-day basis.

### Tips for managing your own learning and development

- Ask a trusted friend or colleague to be your coach and mentor.
- Arrange regular weekly meetings with this person and use the time to:
  - ask questions
  - seek advice
  - talk through your concerns
  - obtain objective feedback on your plans and ideas.
- Network with other people in your position. Be willing to share ideas and resources and, above all, learn from one another.
- Set yourself a realistic target for self-development. For example, you might decide to read one management/work-related book every month; or subscribe to a management/work-related journal, and promise yourself that you will read every issue.

## Manage your communication

Clear, effective communication lies at the heart of every successful organisation. If you can make sure that communication within your enterprise runs smoothly, then there is much less chance of misunderstandings, mistakes, muddles and missed opportunities, which you will have to spend time and energy sorting out.

### Tips for managing your communication

- Encourage open and honest communication within the enterprise, and discourage rumour and gossip.
- Make sure that you give everyone the same information at the same time.
- Make sure that everyone understands what they are supposed to be doing, and what everyone else is supposed to be doing.
- Don't assume that people have understood – check and, if there is any doubt or confusion, explain again.
- Communicate frequently, so that people are kept up to date with what is happening, and how things are going.
- Keep your written communication brief and to the point.

Put it before  
them **briefly** so they  
will read it, **clearly** so they  
will appreciate it,  
**picturesquely** so they will  
remember it and, above all,  
**accurately** ...

**Joseph Pulitzer,**  
newspaper  
publisher



## Check Point

How well do I manage my working hours?

Very well  Just coping  Badly

The strategies I will use to help me manage my working hours better are:

1

2

3

How well do I manage my workload?

Very well  Just coping  Badly

The strategies I will use to help me manage my working hours better are:

1

2

3

How well do I manage my learning and development?

Very well  Just coping  Badly

The strategies I will use to help me manage my working hours better are:

1

2

3

How well do I manage my communication?

Very well  Just coping  Badly

The strategies I will use to help me manage my working hours better are:

1

2

3

You will probably have used some of the strategies we have suggested in this topic, but you may well have thought of others, e.g. 'I will enrol on a business finance open learning course'.

Whatever strategy you suggest:

- be specific, so you know how you are going to do it, e.g. call a Monday morning meeting so we can all set our targets for the week ahead together, and everyone knows what they're doing
- be realistic, so you know you won't drop it after two weeks, e.g. don't subscribe to six work-related journals that you'll never open!



## Section 6 Business Planning

### Topic 4 Planning Goals

This topic will take you through the process of thinking about and planning goals for your enterprise, which are specific, measurable, achievable, realistic and time-related (SMART).

#### Goals

The process of thinking about and planning goals is a key aspect of any business. As we said before, the following words all mean the same thing:

- goal
- target
- outcome
- objective

For the sake of simplicity, we'll be using the word goal to describe something which you (and your team):

- decide you want to achieve
- can recognise when it has been achieved.
- work towards

Just about everyone sets goals for themselves in their personal and working lives. Goals can be simple or complex, and they can be short-term or long-term.

<b>Examples of short-term PERSONAL goals</b> Spend more time in the garden Redecorate the sitting room	<b>Examples of long-term PERSONAL goals</b> Save up for a long-haul holiday Move to a larger house
<b>Examples of short-term WORK goals</b> Sort out my paperwork Reduce the number of meetings I attend	<b>Examples of long-term WORK goals</b> Increase sales Increase fund-raising efforts

The key problem with all of the goals listed above is that each one is extremely vague. For example:

- What does 'spend more time in the garden' really mean? – How much more time? When? How often?
- What does 'increase sales' really mean? – Increase sales of what? By how much? By when?

Setting **meaningful** goals is very important for you and your enterprise and, to be meaningful, a goal needs to be SMART.

#### SMART goals

**SMART** is the key word that stands for:

**S**pecific   **M**easurable   **A**chievable   **R**ealistic   **T**ime-related

**Specific** goals are:

- precise
- unambiguous
- clear-cut
- uncomplicated

**Measurable** goals include information – facts or figures – which can be measured.

**Achievable** goals are:

- do-able
- possible.

**Realistic** goals are:

- sensible
- practical.
- reasonable

**Time-related** goals contain specific dates and/or times.

### Examples of SMART goals

All the following specific examples of SMART goals meet the criteria of being simple, measurable, achievable, realistic and time-related:

It is our intention to:

- 1 Increase sales of meals to our customers by 10% over the next three months.
- 2 Employ three additional full-time members of staff before the end of January next year.
- 3 Obtain at least £5000 from individual and business sponsors by 30th June, 2003.
- 4 Prepare and submit at least one proposal for funding/grant aid every week between August and December of this year.
- 5 Redecorate and refurbish the building before the end of September, 2004.
- 6 Hold a full team meeting once a week, every week, between February and July of this year.
- 7 Obtain a 5% increase in funding by the end of October this year.
- 8 Be financially self-sufficient by the end of December 2004.
- 9 Set up and run our own crèche service, available to all members, by the end of the year.
- 10 Review our goals every week at our weekly team meeting.

### Activity

Use this activity as an opportunity to think about:

- three short-term business goals – short-term = 1 week to 6 months
- three long-term business goals – long-term = 6 months to anything up to 10 years which you would like to set for your enterprise.

You can work through this activity on your own or with other members of your team, but do make sure that the goals you create are Specific, Measurable, Achievable, Realistic and Time-Related.

#### Short-term goals

1 \_\_\_\_\_

2 \_\_\_\_\_

3 \_\_\_\_\_

#### Long-term goals

1 \_\_\_\_\_

2 \_\_\_\_\_

3 \_\_\_\_\_

The nicest thing about not planning, is that failure comes as a complete surprise, and is not preceded by a period of worry.  
**Peter Drucker**

Obviously, the goals you have produced will be specific to your enterprise, but remember how important it is for your goals to be SMART. Once you have written your goals out, ask yourself these questions for each one.

- Will other people be able to understand it?
- Have I said how I will know whether it has been achieved?
- Are we really able to achieve this?
- Is it sensible for us to be trying to achieve this?
- Have I said how long we are allowing ourselves to achieve this?

You will soon know whether you have written SMART goals, or what you have to do to make them SMART.

### Check Point

Use the 'Goals Planning Sheet' in Section 9 whenever you need to set goals that are SMART.



## Section 6 Business Planning

### Topic 5 Planning excellence

This topic looks at what it takes to turn an enterprise into an excellent enterprise. Excellence is not just another buzz word which applies to commercial enterprises but not to social enterprises. Excellence is an attitude, an approach, a philosophy, which, if adopted within your enterprise, will help your business to achieve its social aims and fulfil its mission. In other words, the excellent social enterprise is able to help more individuals, deliver better value to the community and make a greater contribution to society as a whole.

Figure 2 The key differences between an excellent and a non-excellent enterprise

<p><b>In an excellent enterprise</b>  <b>Customers, clients, members, users say:</b>                      'This place has made a real difference to my life.'                      'I don't know what I'd do without this place.'                      'I love coming here.'                      'I'm really looking forward to the future.'</p>	<p><b>In a non-excellent enterprise</b>  <b>Customers, clients, members, users say:</b>                      'Coming here is a waste of time.'                      'Nothing ever gets done here.'                      'It was a good idea ... but it hasn't worked out.'                      'I'm not going to bother any more.'</p>
<p><b>Staff and volunteers say:</b>                      'Yeah, we work hard – but look at what we've achieved.'                      'I get a lot of job satisfaction.'                      'Everyone pulls together, and there's a great team spirit.'                      'I actually enjoy coming to work.'</p>	<p><b>Staff and volunteers say:</b>                      'This place is falling apart.'                      'No one knows what they're doing ... or even what they're supposed to be doing.'                      'No one tells me anything.'                      'It's not my fault.'                      'It's not my responsibility.'</p>
<p><b>Other enterprises say:</b>                      'They're really on the ball!'                      'I like dealing with those people.'                      'They're well organised, and they know what they're doing.'                      'They take a professional approach to things.'</p>	<p><b>Other enterprises say:</b>                      'No one can give you a straight answer.'                      'They're totally disorganised.'                      'I don't think anyone knows what they're doing.'                      'Their admin and their systems are out of control.'</p>

### How to achieve excellence

Introducing an attitude and approach that supports excellence is not difficult. The way to achieving excellence requires a little thought, and some careful planning. The key point here is that the time you spend on planning for excellence will pay massive dividends. This is because the benefits of excellence will be experienced by everyone connected with the enterprise – customers, clients, members, staff, the board, external agencies and so on. Opposite are suggestions of some ways in which excellence can be encouraged.

Quality is never an accident; it's always the result of intelligent effort.

**John Ruskin, critic and writer**

**Team work and co-operation** This is covered in Topic 6 of this section

- Open and honest communication involves:**
- being honest with people (about the bad news, as well as the good)
  - telling everyone the same thing at the same time, and not withholding information from some people, and supplying information to others
  - encouraging people to share information and ideas
  - inviting others to give their views and opinions, and listening carefully.

- Customer focus involves:**
- recognising that the enterprise exists for the benefit of its customers – these may be the members, or clients, or local community
  - not allowing the enterprise to get so bogged-down in administration, paperwork and red-tape that the needs of its customers are forgotten
  - constantly looking at how improvements can be made for the benefit of customers.

- Strong leadership involves:**
- leading from the front and modelling the kind of actions, attitudes and behaviours you want to see in the enterprise
  - upholding the values and the ethics which are important to the enterprise
  - making sure that everyone knows what they are supposed to doing, and what everyone else is supposed to be doing
  - encouraging people to use their judgement and initiative to make changes and improvements
  - providing a supportive atmosphere in which people know that, if they do make a mistake, whilst there may be discussion, there won't be blame
  - paying attention to the needs of the staff, as well as the needs of the customers, clients and members.

**Activity**

Look back at the quotes given in Figure 2, which illustrate the differences between an excellent and non-excellent enterprise. From the table of ways excellence can be encouraged, choose one point which you think would help change one set of quotes from each category of Figure 2 from a non-excellent to an excellent enterprise. For example: *Encouraging people to use their judgement and initiative (from 'Strong leadership') changes 'It's not my responsibility' to 'I get a lot of job satisfaction'.*

Way excellence can be encouraged	Changes	To
for customers, clients, members:		
for staff & volunteers:		
for other enterprises:		

This activity will have shown how introducing a philosophy of excellence makes a practical difference to everyone connected with the enterprise. Note down three practical actions you can take straight away, to introduce a philosophy of excellence into your social enterprise.

Note down one action you can take to:

- encourage open and honest communication within your enterprise \_\_\_\_\_
- encourage customer focus in your enterprise \_\_\_\_\_
- demonstrate your strong leadership \_\_\_\_\_



## Section 6 Business Planning

### Topic 6 Planning Team-building

In this topic we shall look at what it takes to make a successful team, and the stages a group goes through before it becomes a team.

The hallmarks of an effective team are co-operation, collaboration, unity, mutual support and mutual respect. The important thing to recognise is that teams are built, they don't just happen. When any group of people is brought together, for example to work on a project, carry out a task or make something happen, they are not, generally, a team. They are, in fact, a group of individuals, each of whom has their own likes and dislikes, values, opinions, beliefs, attitudes and ways of doing things. This *group* will only become a *team* when:

- they have been through the normal process of *forming, storming, norming* and *performing*
- everyone in the group is made to feel valued, respected and part of the team
- everyone in the group is working towards achieving the same goals.

#### Forming, storming, norming and performing

This quaintly named four-stage process is something that every group has to go through in order to transform itself into an effective and properly functioning team.

##### Stage 1 Forming

When people first get together as a group, because they may not know one another very well, everyone tends to be on their best behaviour. Although, at this stage, overt arguments and disagreements are unlikely, everyone is watchful. There can often be an air of tension as people in the group weigh up what the other personalities are like; who seems the most competent; what the levels of experience are; who gets on well with the leader of the group ... and so on. Stage 1 can last from one or two days, to a month or more.

##### Stage 2 Storming

At the second stage of this process, people start to jockey for position. The aggressive people become even more aggressive as they attempt to stamp their ideas and opinions on the group. The shy, quiet people become even more quiet and withdrawn in the face of the aggressive behaviour of others. Cliques may form within the group, with members of the group lining up behind two or even three strong characters, all of whom have different ideas about what should happen, and all of whom want to be the unofficial leader of the group. Arguments and disagreements may flare up and, in some cases, tears and tantrums may be the order of the day. Stage 2, storming, can go on for some weeks and can be an uncomfortable state of affairs for everyone involved.

##### Stage 3 Norming

This is when the group begins to settle down. People come to terms with what is expected and required of them and, generally, start making an effort both to do their job and get along with the other people in the group. Some groups, unfortunately, remain at this stage and never progress onto stage 4. In practical terms, this means that they are still a disparate group of individuals who, when things get tough, will tend to look out for their own interests, rather than the interests of the group.

##### Stage 4 Performing

It is at this stage that the group becomes a team. What this means is that there is a genuine spirit of collaboration and co-operation amongst people. There are high levels of respect and everyone's contribution is recognised and valued. Everyone is willing to work together to achieve a common goal and, where necessary, will go to some trouble to help other colleagues who are experiencing difficulties or

Coming together is a beginning, staying together is progress and working together is success.  
Henry Ford, car manufacturer



frustrations. If differences of opinion occur (as they almost certainly will), there is a willingness to discuss options, to be flexible and adaptable, and to find the solution that is

- best for the team
- most likely to help the team achieve its goal.

People work together, laugh together and support one another without criticising or complaining.

**TEAM –  
Together  
Everyone  
Achieves  
More**

## Making everyone feel valued, respected and part of the team

The team leader (usually, but not always, the most senior or most experienced member of the team) can make an enormous contribution towards helping the group to become a team by demonstrating, consistently, that everyone:

- is a team member
- is equal, and equally important
- is an individual, with individual preferences, views and beliefs
- has a valuable contribution to make to the team
- has the same rights and responsibilities
- is entitled to ask questions and air their opinions
- has the right to make suggestions
- will be treated with courtesy and respect
- will be listened to with care and attention
- will be given the same information, at the same time, as everyone else.

## Ensuring that everyone is familiar with the team's goals

It's also the role of the team leader to make sure that everyone on the team knows:

- precisely what the team is working towards, and wants to achieve
- what their specific tasks, roles, responsibilities, schedules and deadlines are
- what the other team members' tasks, roles and responsibilities are.

Team leaders should always seek to avoid situations in which team members can truthfully say:

- 'I didn't know that!'
- 'No one told me!'
- 'This is the first I've heard of it!'
- 'I thought everything was going OK!'
- 'You never said anything about this before!'

**The way a team plays as a whole determines its success. You may have the greatest individual bunch of stars in the world, but if they don't play together, the club won't be worth a dime.**

**Babe Ruth, baseball player**

**People work to the best of their ability and achieve the best results when they:**

- know what is expected of them
- have access to the resources they need in order to do what is expected of them
- are told when they need to do things differently
- receive praise, encouragement and support.



## Check Point

At which stage of the 4-stage process is your team right now? Tick one only.

- the team is currently **forming**
- the team is currently **storming**
- the team is currently **norming**
- the team is currently **performing**

What three specific actions can you take to encourage your people to be more collaborative, more co-operative and more unified?

1

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2

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3

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What you have chosen to do will depend on what stage your group is at.

For instance, if your group has only recently come together and they still hardly know one another, you may want to hold informal get-togethers over coffee or lunch, for everyone to get to know each other and find out what they are all doing.

On the other hand, if your team is at the third stage, you might want to set up particular projects combining people who don't normally work together, so that they can experience a real working relationship.

## Groups and teams

The terms 'group' and 'team' are often used interchangeably, but actually they are not the same thing:

- A group is a number of people who work together, and will undergo, as an identity, the four stages of development we have examined.
- Teams on the other hand, tend to be characterised by a subtle, but fundamental, difference.

Leigh Thompson in *Making the Team* (Prentice Hall, New Jersey, 2000) describes a team as:

'a group of people (who work together) who are interdependent with respect to information, resources and skills and who seek to combine their efforts to achieve a common goal.'

Teams are often described as operating as part of a larger social context, i.e. they work as part of a larger organisation, often alongside other teams; work-groups, on the other hand, are characterised as a collection of individual workers who are **not interdependent** on each other. A team, therefore, is a type of group (all teams are groups), but not all groups are teams.

In a social enterprise setting, particularly in a young, micro social enterprise, it is entirely possible for the workers to be both a group and a team. In a more developed and slightly larger enterprise (say 8–15 people), the difference between groups and teams starts to become more self-evident. One might have – in a recycling social enterprise of this kind of size – a collections team, a sorting team and an administration team, but together they may well be only one group.

## Characteristics of good teams

So what are the characteristics of good teams, and how can you encourage and support their growth? If you go to the library and look for practical help on teambuilding, you'll probably find that there is little to help you – unless you want to get into the corporate teambuilding territory of mountain challenges, survival games and the like. For a social enterprise starting out, this really is a sledgehammer to crack a nut – and potentially destructive too (not to mention expensive!), unless you really know what you are doing!

All organisations are about groups of people working together, so it makes sense that the effective development of teams is a high priority. Let's think about beginning to turn a group (a collection of people who achieve less together than they would as individuals) into a team (individuals working together creating more than they could as individuals – within an environment that is exciting, stimulating, satisfying and enjoyable).

Perhaps the best place to start is to reflect upon the characteristics of a good team, and then focus upon how you can put some of the learning of others to good use in your organisation.

Woodcock (Gower, Aldershot, 1994) suggests that these characteristics are building blocks – the raw materials that can be used in a very practical way to build effective teams. This can neither be done overnight, nor imposed. It's rather like the organisational vision we looked at in Section 3; it has to be shared and owned by all to work – but equally it has to be led.

Think about the following building blocks and how they relate to your social enterprise.

### Balanced roles

In Section 5, Topic 1, we discussed the 'cornerstone' approach to developing your board; one of the great strengths in effective teams lies in taking a similar broad and balanced approach to skills, abilities and experiences.

### Clear objectives and agreed goals

We have looked at goal setting in Topic 4. Teams are no different to organisations in that they have little chance of being effective unless they know what it is they want to achieve.

Ownership is important, i.e. having commonly agreed goals, as is measurement of output (what is achieved) rather than input (things to do). In other words, objectives need to be SMART.

## Openness and confrontation

Members need to be able to state their views, differences, opinions and problems without fear of ridicule, retaliation or retribution. Blame culture is no good.

Members of the team need to be willing to confront issues, but deal with them in an open and honest manner. This can be done constructively, if there is no fear.

## Support and trust

These two aspects go together 'hand in hand'. Without support, there can be no trust, and vice versa.

## Co-operation and conflict

Perhaps this is the essence of teamwork: putting the team's objectives before your own and sharing in both the financial and psychological rewards of their efforts.

Conflict is often seen as being at the opposite end of the spectrum to co-operation, but whilst in isolation this may be true, a certain amount of conflict can support co-operation. It prevents teams from becoming lazy and complacent, and uses a very useful team skill – a problem-solving approach to reach a resolution.

## Effective decision-making procedures

In creating an effective team, it is vital to ensure that there is a sound basis for decision-making, and that this is known, understood and agreed by everyone. In effect, this will translate into a number of often quite informal procedures for differing types and levels of decisions, many of which may well be delegated on a day-to-day basis. But everybody needs to be clear.

## Appropriate leadership

To lead or to manage? Social entrepreneurs, by their very nature are leaders, but many are not managers. Think about how your style of leadership is viewed by others – are you one of the 'benevolent dictators' argued about by James and Dominique (see Section 2, Topic 5).

## Regular review

Methods of review include:

- the team reviewing its own performance
- individuals reviewing the team performance
- individuals reviewing their role and contribution to the team (and what it gives to them)
- the team being reviewed by another part of the organisation.

Whichever mechanisms are used, regular feedback is critical for the team and its members, not only to be clear about its success, but also to highlight development needs and new opportunities.

## Individual development

Although the effective team succeeds by the whole being greater than the sum of the parts, it neglects the development needs of the individual at its peril. Personal and professional development is the fuel that fires the team and organisation. Forget to fuel the fire and it dies!

## Good communications

However sound the building blocks above are, any team will be held back if it hasn't developed good communications, both internal to itself (amongst team members and as regards its business) and external to itself (to other teams in the organisation, its stakeholders and to the external world).

## Check Point

Think about any team(s) within your organisation of which you are a part. How many of the building blocks have you identified as being in place and working well, contributing to an effective team? Which need further work?

### Building block

### How well are they working in your team?

Balanced roles

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Clear objectives and agreed goals

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Openness and confrontation

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Support and trust

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Co-operation and conflict

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Effective decision-making procedures

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Appropriate leadership

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Regular review

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Individual development

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Good communications

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## Section 6 Business Planning

### Topic 7 Financial planning

This topic goes through the important aspects of financial planning: budget setting and how to produce an annual budget; managing cash flow and how to produce a cash flow chart; and pricing goods and services. It will also explain terms, such as capital and operating costs, fixed and variable costs, and break-even and profit prices.

It is a fact of life that, for everyone in business, including people involved in social enterprise, financial planning is a key issue. This means that the social entrepreneur (and the board members) need to:

- determine and set an annual budget
- manage cash flow
- set appropriate prices for products and goods.

#### Budget setting

Every enterprise needs an annual budget. This is a detailed statement which sets out, in writing:

- the amount of money going out over the coming year
- the amount of money coming in over the coming year.

#### Money going out over the coming year

Every enterprise expenditure can be classified as:

- capital costs
- operating costs.

**Capital costs** are usually one-off payments made in respect of, for example, machinery, equipment and vehicles.

#### Examples of capital costs include:

- office desks, filing cabinets, chairs and other furniture
- central heating system
- burglar alarm system
- computers, faxes, telephones and other office equipment
- cars and vans
- telephones and mobile 'phones
- cookers, refrigerators, microwave ovens and other catering equipment.

**Operating costs** are the costs of actually running the business (sometimes called *running costs*).

#### Examples of operating costs include costs associated with:

- premises, such as rent, community charge, insurance, lighting and heating
- staffing, such as salaries, staff training, pension schemes
- manufacturing, such as raw materials, packaging and labelling
- transport, such as petrol, road tax, car/van insurance, repairs
- communication, such as telephone and internet charges, postage
- administration, such as stationery, files and office sundries.

Operating costs can be either **fixed** costs or **variable** costs.

- Fixed costs are fixed for a period of time, and will not change or fluctuate during that time.
- Variable costs vary depending on a number of factors including:
  - the time of year
  - the quantity of products produced or services provided
  - how economical or extravagant the enterprise wishes to be.

Figure 3 Examples of fixed and variable costs

Examples of fixed costs	Examples of variable costs
<ul style="list-style-type: none"> <li>● Rent – usually fixed by the landlord for a 6-month or 12-month period</li> <li>● Business rates – fixed by the local authority for a 12 month period</li> <li>● Insurance (Buildings, premises contents, vehicle) – fixed by the insurance company for a 12 month period</li> <li>● Loan repayments – monthly payments fixed by the financial institution making the loan</li> <li>● National Insurance Contributions – fixed by the Department of Work and Pensions</li> <li>● Road Fund Licence (car tax) – fixed by the government for a 12-month period</li> </ul>	<ul style="list-style-type: none"> <li>● Heating and lighting costs – usually lower in the warmer, summer months</li> <li>● Costs of raw materials – lower if fewer goods are manufactured</li> <li>● Staff wages – can be varied by reducing or increasing the number of staff employed</li> <li>● Staff overtime – will vary depending on the number of products produced, or the quantity of services provided</li> <li>● Petrol – will vary depending on the number of miles travelled</li> <li>● Telephone calls, postage and stationery – will vary depending on calls made, letters sent and so on</li> </ul>

**The key points to take into account are:**

- Fixed costs will not change over a 6 or 12-month period
- Variable costs can vary and, if a company is looking for ways to save money on operating costs, some economies can be made
- Where economies are made – e.g. reducing the amount spent on raw materials or petrol – sales may be affected. This is because if fewer goods are made or fewer services are provided, then sales may also fall – which will affect the amount of money coming into the enterprise.

**The budget setting process**

To set an annual budget for your social enterprise you will need to get together with your Board and work out:

- |  |  |
|--|--|
| <p><b>1</b> How much you expect to spend, over the next 12 months, on:</p> <ul style="list-style-type: none"> <li>● capital items</li> <li>● fixed operating costs</li> <li>● variable operating costs.</li> </ul> | <p><b>2</b> How much you expect to receive, over the next 12 months, from:</p> <ul style="list-style-type: none"> <li>● sales of good or services</li> <li>● grants</li> <li>● donations.</li> </ul> |
|--|--|

Figure 4 Example of an annual budget

	Expenses	Receipts
Rent	£17,000	
Staff wages and National Insurance Contributions	£115,000	
Loan repayments (including interest)	£6,000	
Lighting, heating, water, rates	£11,000	
Telephone	£4,500	
Vehicle road tax and insurance	£4,800	
Postage, stationery and sundries	£3,000	
Wood and other raw materials to make garden furniture	£15,000	
Advertising and other marketing costs	£6,000	
European Social Fund Grant		£66,000
Local Authority Grant		£50,000
Sales of hand crafted furniture		£60,000
Donations from business and private individuals		£6,300
<b>TOTAL</b>	<b>£182,300.00</b>	<b>£182,300.00</b>



In the example on the previous page, you will see that the outgoings (expenses) have been kept within the limit of the incomes (receipts). This means that although, at the end of the year, the enterprise will not have any surplus cash in the bank, neither will it owe any unexpected debts which might have accumulated over the year. The only way to ensure this kind of balance at the year end is to keep a very careful eye on the enterprise's cash flow.

**Note:** There is a 'Budget Monitoring Sheet' in Section 9 which will help you work out how your planned and estimated income and expenditure are comparing to your actual income and expenditure.

## Setting appropriate prices

When deciding on the prices you are going to charge customers for the goods or services provided by your social enterprise, you must take into account the actual cost of making the products or providing the services. You need to ensure that whatever you sell, at the very least, you break even. Ideally, though, you should be aiming to make a profit.

**Break-even price** = the cost of the product, including raw materials, packaging, staffing costs, heating, lighting, advertising (e.g. all the costs involved in producing a sandwich = £1.00).

The price of the product to the customer (e.g. one sandwich sells for £1.00). The producer of the sandwich does not make a profit, but does cover costs

**Profit price** = the cost of the product, including raw materials, packaging, staffing costs, heating, lighting, advertising (e.g. £1.00), plus profit.

The price of the product to the customer: £1.00 plus 20% profit = £1.20. The producer of the sandwich covers costs, **and** makes a profit of 20p.

The key point here is that a social enterprise should:

- 1 trade
- 2 seek profit
- 3 have a social aim/mission.

Whereas the sole aim is not to make a profit, the more profit you do make, the more you will be able to put back into your social enterprise. The profit margin (amount you choose to add on to the break-even price) will depend on:

- what your competitors are charging for similar goods or services
- what customers are prepared to pay.

**It is worth noting that many social enterprises have found that they sell more when they charge a higher price (and make more profit), than when they charge a lower price (and make less profit).**

**Note:** There is a 'Price-Setting Planning Sheet' in Section 9 which you can use whenever you need to work out an appropriate selling price for goods or services.

## Managing cash flow

Cash flow is:

- the money that comes **in** to the enterprise – e.g. money received from customers for sales of goods and services; grants; donations
- the money that goes **out** of the enterprise – e.g. money paid out in respect of capital and running costs.

By keeping a monthly record of the cash going out and coming in you should be able to see, month by month:

- how the enterprise is doing, financially
- whether or not anticipated sales and expenditure are accurate
- whether the enterprise, at the end of the year, will have a cash deficit (e.g. be in debt) or a cash surplus (e.g. have money in the bank).

This monthly record is called a **cash flow chart**.

Figure 5 Example cash flow chart

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash in bank												
Revenue from sales												
Grants and donations												
<b>Total cash in hand</b>												
Running costs												
Capital expenditure												
<b>Total cash out</b>												
<b>BANK BALANCE</b>												

The cash flow chart says nothing about profitability – it is purely a record of the cash position of the business. The importance of keeping track of cash flow cannot be stressed too much. The fact is that most small businesses go bust not because they are unprofitable, but because they have cash flow problems.

For example, in order to manufacture an item, Social Works Ltd has to buy raw materials in January, paying for them in February. Manufacturing takes three months, so the goods are ready for sale in April. They are sold in May and an invoice is raised at the end of the month. The client – a slow payer – takes 60 days to pay the invoice, so the money finally reaches the Social Works bank account at the beginning of August. Meanwhile, as well as the costs of the raw materials, the company has had to meet its regular expenses: staff costs, rent, mailing costs, photocopier lease, etc. So, even though the company makes a good profit on every item it sells, its poor cash flow leaves it in a vulnerable position in that period when it has had to bridge the gap before revenue comes in. If it is short of cash, the business won't be able to buy in the raw materials needed to keep production flowing. Banks can help with overdrafts, but they are not renowned for their patience...

**Note:** There is a 'Cash Flow Planning Sheet' in Section 9 to help you keep a month-by-month record of your cash flow.

## Check Point

Look back at the check point you completed in Topic 1 of this section. You now know what you need to do to find out what money you have coming in and going out of your enterprise, and how much money you will need to have coming in to carry out your aims.

Gather together as much information as you can on how much you are paying for fixed and variable costs, and start to keep clear records. Set up systems so that everything is clearly accounted for, from postage stamps to electricity bills. Section 9 contains planning sheets to help you sort out your financial situation and keep your records straight.

**You might find it useful to make notes of what you need to do in your learning journal.**

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The rest of this topic is devoted to a case study that illustrates how setting budgets and forecasting cash flow works. Don't worry if it seems a little complicated at first – it will make more sense as you begin to work on these aspects of your own business.

## Green Dreams – setting budgets, and forecasting cash flow

Green Dreams is a social enterprise that recycles wood waste, steel and cardboard from local small and medium sized enterprises.

The company has turned the budget and cash flow monitoring sheets in Section 9 into a spreadsheet-based budget and cash flow system, which the general manager, Mary, uses to monitor the company's position from month to month. Mary has been asked to produce a draft budget and cash flow for the financial year April 2003 to March 2004. She knows that while it will be difficult to divert time to these activities from business development, it is essential that she find time to work on the business, not in the business.

### Has Green Dreams blossomed?

Green Dreams grew significantly in the first nine months of this financial year (April 2002 to March 2003). Turnover from traded activity was £29,000 in the last financial year and was budgeted at £47,250 in this financial year. However, turnover in the first nine months of this financial year alone exceeded £59,000 and looks set to reach £76,340 by the year end. This increase is largely due to three new contracts and a reprocessing premium from the British Steel 'CanRoute' initiative. Green Dreams had to buy another vehicle to meet these contracts, resulting in higher than anticipated transport costs.

In addition to Mary, Green Dreams currently employs a part-time training manager, two full time driver/collectors, five full and part-time depot staff and a part-time administrator. The training manager and the second driver/collector were employed due to the increase in business. Paradoxically, as the team is now busier, they have undertaken less training than anticipated, with a consequent fall in ESF grant.

### Checking the budget

Mary compares the predicted budget for the current year with data from her monitoring sheets for the first nine months of this year and generates the summary shown in Figure 6.

The column **Budget** is the estimate Green Dreams made in January 2002 of what would happen in this financial year (April 2002 to March 2003). To get a better understanding of how these figures were calculated, consider:

- what happened in the nine months to 31st December 2002 (the **Actual to date** column)
- how this might affect the income and expenditure by the end of the current financial year (shown in the **Estimated full year** column)
- how to use this information to budget for the financial year April 2003 to March 2004.

The budget monitoring sheet has two columns that help show what has happened this year, how that differs from the budget. These **Variance** columns express the differences in two useful ways - as a percentage (%) and as a monetary value (£). Remember that a large percentage variance can be a small amount of money. Look at 'Other grant income', which increased by impressive-sounding 130% over budget. This sounds impressive, but represents £130 - just 0.08% of company income!

Despite this, **variance** is the most common measure used by organisations to review and reflect upon their financial performance. The first question to ask when you see an unexpected variance is 'why?' What has caused the difference (e.g. more sales, more staff, higher materials costs, incorrect estimates), and are the costs:

- reasonable, given the circumstances?
- favourable or adverse in their impact on the business?

At Green Dreams all traded incomes from recycling are over budget, with collection charges and processor receipts for steel accounting for the majority (75.6%) of the increase in traded income. Because of the increase in traded activity Green Dreams has two more employees, one more vehicle and has diverted more materials from landfill than anticipated. This apparent good fortune has also reduced their dependence on non-traded income from 62.6% to close to 50%.

Figure 6. Comparison of actual and predicted budgets

<b>Green Dreams budget monitoring sheet</b>					
<b>Financial year: 2002 to 2003</b>					
<b>Version: 4</b>					
<b>Date of version: Jan 12th 2003</b>					
<b>Actual to (date): 31st December 2002</b>					
	<b>Budget</b>	<b>Actual to date</b>	<b>Estimated full year</b>	<b>Variance (%)</b>	<b>Variance (£)</b>
<b>Income</b>					
<b>Traded activity</b>	37.40%	53.74%	51.04%		
Wood recycling collection charges	12000	12565	15100	25.83%	3100
Woodstore sales	18000	14233	19500	8.33%	1500
Kindling/firewood sales	1200	2265	2460	105.00%	1260
Resold pallets	600	665	800	33.33%	200
Steel recycling collection charges	12,000	18975	24000	100.00%	12000
Processors receipts	800	8100	10800	1250.00%	10000
Cardboard recycling collection charges	2400	2525	3460	44.17%	1060
Processors receipts	150	185	220	46.67%	70
Other traded income	100	0	0	-100.00%	-100
<b>Sub total traded income</b>	<b>47250</b>	<b>59513</b>	<b>76340</b>	<b>61.57%</b>	<b>29090</b>
<b>Grant income</b>	<b>62.60%</b>	<b>46.26%</b>	<b>48.96%</b>		
ESF income	64000	41000	58000	-9.38%	-6000
Local authority grant	10000	10000	10000	0.00%	0
Wastewatch Trust	5000	0	5000	0.00%	0
Other grant income	100	230	230	130.00%	130
<b>Sub total grant income</b>	<b>79100</b>	<b>51230</b>	<b>73230</b>	<b>-7.42%</b>	<b>-5870</b>
<b>Total income</b>	<b>126350</b>	<b>110743</b>	<b>149570</b>	<b>18.38%</b>	<b>23220</b>
<b>Expenditure</b>					
<b>Staff costs</b>					
Management	22000	23447	33900	54.09%	11900
Drivers and collection staff	10500	15300	18000	71.43%	7500
Depot staff	42000	30566	41400	-1.43%	-600
Administrative staff	5000	3577	4900	-2.00%	-100
Temporary staff	500	80	160	-68.00%	-340
Other staff costs (training, travel etc.)	900	458	800	-11.11%	-100
<b>Sub total staff costs</b>	<b>80900</b>	<b>73428</b>	<b>99160</b>	<b>22.57%</b>	<b>18260</b>
<b>Premises costs</b>					
Rent	14200	10650	14200	0.00%	0
Rates	0	0	0	0.00%	0
Heat, light and power	1200	986	1360	13.33%	160
Other premises costs	500	120	300	-40.00%	-200
<b>Sub total premises costs</b>	<b>15900</b>	<b>11756</b>	<b>15860</b>	<b>-0.25%</b>	<b>-40</b>
<b>Other costs</b>					
Marketing and promotion	2000	1200	2800	40.00%	800
Phones, post and communication	800	490	760	-5.00%	-40
Stationery and consumables	500	236	440	-12.00%	-60
Furniture, fixtures and fittings	600	137	300	-50.00%	-300
Transport	7000	11700	14000	100.00%	7000
Depreciation on fixed assets	1600	2000	3300	106.25%	1700
<b>Sub total other costs</b>	<b>12500</b>	<b>15763</b>	<b>21600</b>	<b>72.80%</b>	<b>9100</b>
<b>Total expenditure</b>	<b>109300</b>	<b>100947</b>	<b>136620</b>	<b>25.00%</b>	<b>27320</b>
Gross profit	17050	9796	12950	-24.05%	-4100
Provision for tax	3410	0	2590	-24.05%	-820
<b>Net profit retained</b>	<b>13640</b>	<b>9796</b>	<b>10360</b>	<b>-24.05%</b>	<b>-3280</b>

### Watching the cash flow by

Mary now looks back at the cash flow predicted at the start of the year (Figure 7) and compares it with a summary she generates of cash flow so far this year (Figure 8).

Figure 7. Green Dreams' predicted cash flow for 2002 to 2003. The figure in 'Grants and donations' differs from the budget due to the ESF payment cycle.

Green Dreams cash flow planning sheet												
Financial year April 2002 to March 2003												
Month	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Cash in bank	2800	17800	21800	27800	23800	24150	20150	16150	23950	19200	15200	9550
Revenue from sales	4000	4000	4000	4000	4000	4000	4000	4000	3250	4000	4000	4000
Grants and donations	19200	8000	10000	0	11000	0	0	11800	0	0	5000	0
Total cash in hand	25800	29800	35800	31800	38800	28150	24150	31950	27200	23200	24200	13550
Running costs	8000	8000	8000	8000	14650	8000	8000	8000	8000	8000	14650	8000
Capital expenditure	0	0	0	0	0	0	0	0	0	0	0	0
Total cash out	8000	8000	8000	8000	14650	8000	8000	8000	8000	8000	14650	8000
Bank balance	17800	21800	27800	23800	24150	20150	16150	23950	19200	15200	9550	5550

Figure 8. Green Dreams' cash flow for 2002 to 2003, reviewed in December 2002

Green Dreams cash flow planning sheet												
Financial year April 2002 to March 2003												
December 2002 review												
Month	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Cash in bank	2800	17800	12000	16000	10000	11350	8350	5350	8150	1400	-600	-4250
Revenue from sales	4000	1200	4000	4000	7000	7000	7000	7000	3250	8000	8000	8090
Grants and donations	19200	8000	10000	0	11000	0	0	5800	0	0	5000	0
Total cash in hand	25800	27000	26000	20000	28000	18350	15350	18150	11400	9400	12400	3840
Running costs	8000	8000	10000	10000	16650	10000	10000	10000	10000	10000	16650	10000
Capital expenditure	0	7000	0	0	0	0	0	0	0	0	0	0
Total cash out	8000	15000	10000	10000	16650	10000	10000	10000	10000	10000	16650	10000
Bank balance	17800	12000	16000	10000	11350	8350	5350	8150	1400	-600	-4250	-6160

The year began with a predicted positive cash flow throughout the year but, despite a healthy profit and increased levels of business, Green Dreams has a negative cash flow in the first three months of 2003. How can this be? There are several reasons:

- the CanRoute scheme only pays thirty days after an invoice is sent, whereas the local yard used to pay cash for scrap when it was delivered
- less training activity means less ESF grant is receivable, and these payments subject to the ESF payment cycle
- there is significantly lower sales revenue in May
- the new vehicle purchase in May
- new staff from June.

These highlight the need to regularly review the cash flow position of your business. It is important to recognise that cash flow is not the same as profit and to be aware that most small business failures are due to poor cash flow not lack of profit. Oddly, cash flow crises are often due to increased levels of business.

Green Dreams could have improved their cash flow by £5,000 by acquiring their new vehicle on a lease purchase basis and removed it altogether by delaying the appointment of the training manager by a month.

### Get it right next time

Based on her assessment of the revised trading position and cash flow, her knowledge of the markets and Green Dreams' plans for growth, Mary assumes that Green Dreams will need to:

- replace one vehicle with an HGV unit to reduce time and cost transporting steel packaging to the new recycling depot and create capacity for a new £14,000 contract in May 2003
- train both drivers to HGV standard immediately
- sell the expertise and time of the Training manager to other eligible organisations in order to raise ESF funding to £70,000
- make the administrator post full time
- assume recycle prices remain at 2002/2003 prices
- assume this is the last year of local authority grant
- budget for a 5% increase in collection charges across all recycle sectors
- budget for a 4% increase in staff costs due to a cost of living rise.

Using these assumptions, Mary calculates a budget (Figure 9) and cash flow (Figure 10) for the next financial year:

Figure 9. Green Dreams' predicted budget for the 2003 to 2004 financial year

<b>Green Dreams budget monitoring sheet</b>					
<b>Financial year: 2003 to 2004</b>					
<b>Version: 1</b>					
<b>Date of version: Jan 14th 2003</b>					
	<b>Budget (2002 to 2003)</b>	<b>Estimated full year</b>	<b>Variance (%)</b>	<b>Variance (£)</b>	<b>Budget (2003 to 2004)</b>
<b>Income</b>					
<b>Traded activity</b>		51.04%			54.39%
Wood recycling collection charges	12000	15100	25.83%	3100	15855
Woodstore sales	18000	19500	8.33%	1500	20000
Kindling/firewood sales	1200	2460	105.00%	1260	3000
Resold pallets	600	800	33.33%	200	1000
Steel recycling collection charges	12,000	24000	100.00%	12000	35200
Processors receipts	800	10800	1250.00%	10000	14800
Cardboard recycling collection charges	2400	3460	44.17%	1060	3633
Processors receipts	150	220	46.67%	70	250
Other traded income	100	0	-100.00%	-100	5600
<b>Sub total traded income</b>	<b>47250</b>	<b>76340</b>	<b>61.57%</b>	<b>29090</b>	<b>99338</b>
<b>Grant income</b>					
		48.96%			
ESF income	64000	58000	-9.38%	-6000	70000
Local authority grant	10000	10000	0.00%	0	10000
Wastewatch Trust	5000	5000	0.00%	0	3000
Other grant income	100	230	130.00%	130	300
<b>Sub total grant income</b>	<b>79100</b>	<b>73230</b>	<b>-7.42%</b>	<b>-5870</b>	<b>83300</b>
<b>Total income</b>	<b>126350</b>	<b>149570</b>	<b>18.38%</b>	<b>23220</b>	<b>182638</b>
<b>Expenditure</b>					
<b>Staff costs</b>					
Management	22000	33900	54.09%	11900	35256
Drivers and collection staff	10500	18000	71.43%	7500	18720
Depot staff	42000	41400	-1.43%	-600	43470
Administrative staff	5000	4900	-2.00%	-100	16000
Temporary staff	500	160	-68.00%	-340	2500
Other staff costs (training, travel etc.)	900	800	-11.11%	-100	3000
<b>Sub total staff costs</b>	<b>80900</b>	<b>99160</b>	<b>22.57%</b>	<b>18260</b>	<b>118946</b>
<b>Premises costs</b>					
Rent	14200	14200	0.00%	0	14910
Rates	0	0	0.00%	0	0
Heat, light and power	1200	1360	13.33%	160	1500
Other premises costs	500	300	-40.00%	-200	500
<b>Sub total premises costs</b>	<b>15900</b>	<b>15860</b>	<b>-0.25%</b>	<b>-40</b>	<b>16910</b>
<b>Other costs</b>					
Marketing and promotion	2000	2800	40.00%	800	3000
Phones, post and communication	800	760	-5.00%	-40	800
Stationery and consumables	500	440	-12.00%	-60	500
Furniture, fixtures and fittings	600	300	-50.00%	-300	500
Transport	7000	14000	100.00%	7000	10750
Depreciation on fixed assets	1600	3300	106.25%	1700	3200
<b>Sub total other costs</b>	<b>12500</b>	<b>21600</b>	<b>72.80%</b>	<b>9100</b>	<b>18750</b>
<b>Total expenditure</b>	<b>109300</b>	<b>136620</b>	<b>25.00%</b>	<b>27320</b>	<b>154606</b>
<b>Gross profit</b>	<b>17050</b>	<b>12950</b>	<b>-24.05%</b>	<b>-4100</b>	<b>28032</b>
<b>Provision for tax</b>	<b>3410</b>	<b>2590</b>	<b>-24.05%</b>	<b>-820</b>	<b>4940</b>
<b>Net profit retained</b>	<b>13640</b>	<b>10360</b>	<b>-24.05%</b>	<b>-3280</b>	<b>23092</b>

Figure 10. Green Dreams' predicted cash flow for the 2003 to 2004 financial year

Green Dreams cash flow planning sheet												
Financial year April 2003 to March 2004												
Month	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Cash in bank	-6160	10840	6040	4040	18840	7440	5240	2840	18440	12440	9840	2140
Revenue from sales	7000	7000	7000	8600	8600	8600	9000	8600	5000	9000	9000	9000
Grants and donations	20000	0	1000	18000	0	0	0	18000	0	0	3300	10000
Total cash in hand	20840	17840	14040	30640	27440	16040	14240	29440	23440	21440	22140	21140
Running costs	10000	11800	10000	11800	20000	10800	11400	11000	11000	11600	20000	12000
Capital expenditure	0	0	0	0	0	0	0	0	0	0	0	0
Total cash out	10000	11800	10000	11800	20000	10800	11400	11000	11000	11600	20000	12000
Bank balance	10840	6040	4040	18840	7440	5240	2840	18440	12440	9840	2140	9140

Consider carefully the new budget and cash flow predictions that Mary has constructed. (Figures 9 and 10) You will note that Green Dreams seems to have learnt from the experience of purchasing the last new vehicle for cash, and have elected to opt for a lease arrangement this time. The use of temporary staff will provide cover to allow for the HGV training of both driver/collectors and cope with any unanticipated peaks in the company's workflow.

As a result of the assumptions that Mary has made, Green Dreams looks set to increase profits in the coming year. Despite significant costs in staff training, temporary staff and trading up to a larger vehicle, Green Dreams should retain a positive cash flow throughout the year, largely due to an increase in ESF funds and a new contract worth £14,000 per year.

However, if Mary's assumptions are not realistic, these figures will not be achieved. Clearly, this might not only be potentially bad news for Green Dreams, but makes it difficult, if not impossible, for the company to plan or implement plans. It is important, that whilst "it's only a budget", that Mary makes accurate and realistic forecasts on which to base her budget. The saying "rubbish in equals rubbish out" is equally true of recycling firms as any other!