Section 2
Analyzing, Planning and Budgeting

Analyzing

What is the current status of your company? How are you currently reaching out to your customers? How will you determine the pricing of your product in a new market?

Planning

Developing both short and long-term business goals is to identify the things you want to achieve in the following years for your company's growth, financial goals, exit strategy, and more.

Budgeting

Budgeting for your business involves making informed predictions about your company's financial outlook. To make sound financial choices for the future, it's essential to analyze the financial data from the previous month, three months ago, and the same month from last year.

2.1 - Setting Short-Term, Mid-Term and Long-Term Goals

SETTING GOALS FOR YOUR COMPANY

Developing both short and long-term business goals is to identify the things you want to achieve in the following years for your company's growth, financial goals, exit strategy, and more. Don't be afraid to set big goals. If you set a big goal and fall short, you will still grow.

SHORT TERM – ONE-YEAR GOALS FOR

- Increasing sales.
- Expanding your market.
- Creating new products.
- your goals in each area.

WHERE YOU ARE NOW AND WHERE DO YOU WANT TO BE?

MID-TERM – 5-YEAR GOALS
Where are you now and where do you want to be in 5 years?

LONG TERM – 10-YEAR GOALS AND FURTHER

- Will you continue the business?
- Will you retire?
- Will you sell the company?
- Do you have a succession plan?

Ten year goals are good, but you can create goals that can be achieved as soon as one year, five years, or as far in the future as thirty years.

Goals should be reviewed and revised each year along with your business plan, and adjustments should be made and documented based on your revised goals.

2.1 - Setting Short-Term, Mid-Term and Long-Term Goals - Workbook

Where you are now and where do you want to be?

Short Term – one-year goals for

How will you Increase sales?

How will you Expand your market?

How will you Create new products?

What are your goals in each area?

Mid-Term – 5-year goals

Where are you now and where do you want to be in 5 years?

Long Term – 10-year goals and further

- **Will you continue the business?**
- **Will you retire?**
- **Will you sell the company?**
- **Do you have a succession plan?**

2.2 - Potential Revenue Streams

POTENTIAL REVENUE STREAMS

Consider all the revenue streams your company can develop.

- **PRODUCT SALES**
  -Primary Products
  -Accessories
  -Up-Sell or Add-on Products
- **SERVICES**
  -Training
  -Maintenance
  -Support
  -Setup
  -Management
- **LEASING**
- **SUBSCRIPTIONS**
- **COPYRIGHTS AND LICENSING**
- **DISTRIBUTION**
- **PARTICIPATE IN PROJECTS**

You will learn more about each of these potential revenue streams in future modules.

CREATING A BUSINESS BUDGET

Budgeting for your business requires making educated guesses about your company's financial future. To make wise financial decisions for the months and years ahead, it is necessary to examine what happened last month, three months ago, and this month last year.

When you predict a slow month, you can take steps to minimize expenses. When business is booming and that viral video you posted is bringing in customers, you may want to take a chance and invest in more inventory to satisfy those incoming customers.
It does not take a crystal ball to run a business, but it does take knowledge of how to develop a business budget. To keep everything running smoothly, you need a little intuition and educated guesswork.

The importance of a business budget

The creation of a budget can easily be overlooked when starting a business. If your business is operating with a significant amount of profit or is going through a boom, it might not seem important to create a business budget.

But a budget can help to ensure long-term success for your business. A budget helps you to see past next week and next month to next year, or the next five years, even.

2.3 - Purpose of Creating a Budget

WHAT IS THE PURPOSE OF CREATING A BUSINESS BUDGET?

Creating a business budget will make operating your business easier and more efficient. A business budget can also help to make sure that you're spending money in the right places and at the right time to stay out of debt.

More specifically, a business budget can help your business benefit by:
–Making it more efficient.
–Pointing out funds leftover that you can reinvest.
–Predicting slow months and keeping you out of debt.
–Estimating what it will take to become profitable.
–Providing a window into the future.
–Helping you keep control of the business.

Know your revenue
–The first step to budgeting is to identify all of the sources of revenue (aka income) from your existing business. Combine all of those income sources to discover how much money is coming into your business each month.
–Be sure to calculate your income based on revenue, not profit. A business's revenue is what it receives before expenses are deducted. Expenses are deducted to determine profit.
–Calculate your monthly income once you've identified all of your income streams. Make sure you analyze the data for multiple months, preferably for the previous 12 months.
–When you have 12 months (or more) of income information, you can track how it changes over time and look for seasonal patterns. After the holidays, or during the summer months, your business might experience a slump. The more you know about these changes, the better prepared you will be for the slower season and the better off you will be.

2.3 - How To Create a Budget

HOW TO CREATE A BUSINESS BUDGET?

Subtract fixed costs

To create a business budget, you must first add up all your fixed costs. The term fixed costs refer to recurring costs necessary for the operation of your business. Take note that fixed costs might occur daily, weekly, monthly, or even yearly, so get as much information as possible on these costs.

Examples of fixed costs within your business might include:

–Rent
–Supplies
–Debt repayment
–Payroll
–Depreciation of assets
–Taxes
–Insurances

The fixed costs of your small business will differ from those outlined here. Make note of any other fixed costs associated with your business. The next step will be to subtract your business's fixed costs from its income.

Determine variable expenses

In your search for data to list your fixed costs, you might have also noticed that your business has some variable costs.
A variable expense is one that changes based on the amount of service you use. Like utilities, many of these are essential to the operation of your business.

2.3 - Startup Costs- Video by Intuit

WATCH THE VIDEO

EVERYTHING YOU NEED TO KNOW ABOUT STARTUP COSTS

BY INTUIT QUICKBOOKS

2.3 - Examples of Expenses

EXAMPLES OF EXPENSES

There are also expenses here that aren't necessary for the function of your business, but are nice to have, like education, or extras that can increase profitability. These expenses are called "discretionary expenses" and can also be added to your variable expense fund.

Some examples of variable expenses are:
–Owner's salary
–Replacing old equipment
–Office Supplies
–Professional development
–Marketing costs
–Utilities

During slow months, you'll want to lower your business's variable expenses, starting with discretionary spending. During profitable months when there's extra income, however, you can increase your spending on variable expenses for the long-term benefit of your business.

Set aside a contingency fund for unexpected costs
It doesn't matter whether you've run a business before or not, one-time costs never come at a convenient time. Put some of any surplus income aside into an emergency fund instead of spending it on variable expenses. In this way, you'll be prepared when equipment breaks down and needs replacing, or inventory is damaged by flooding and needs to be quickly replaced. Small business loans are always an option – but it's better to have more options rather than fewer.

2.3 - Create a Profit and Loss Statement

CREATE A PROFIT AND LOSS STATEMENT

Create your profit and loss statement

- Create your profit and loss statement, or P&L, based on all the information you have collected.
- Calculate your monthly income and expenses.

If you subtract the expenses from the income, **you should end up with a positive number.** If you do, you have made a **profit! If not**, then that is a **loss.**

There is no guarantee that small businesses will be profitable every month, let alone every year. In fact, this is especially true when you are just starting out.

Future business budget

You can't predict what will happen to your business in the future unless you've done it before. The more experience you have in business, the more accurate your guesses will be (as you might imagine).

2.4 - Pricing Strategy

WHEN DETERMINING A SALES PRICE, WHAT ARE THE FACTORS TO CONSIDER?

- Profits required, plus manufacturing costs
- Comparison of the product's price with that of its competitors on the market Costs related to risks (broken goods, decay, rot)

Pricing strategies

- Pricing based on competitor's prices
- Cost-plus pricing – Cost-plus models add a percentage of profit to costs. Cost-plus pricing is often considered one of the simplest methods on offer. A key disadvantage of cost-plus pricing is that it doesn't consider your competitors. In ignoring competitor pricing, you might end up charging substantially more and achieving small profits or charging considerably less and giving away potential profits.
- Target costing – "a product cost estimate derived from a competitive market price."
- How to calculate gross profit margin.
- In general, you should aim for a margin of 40-50% for your product. However, there is no easy solution to determining what margin you should use for your product. If your product is unique, you'll be able to charge a higher margin.
- The gross profit margin percentage is calculated by subtracting the cost of goods sold (COGS) from the net sales (gross revenues minus returns, allowances, and discounts).
- Using this figure, divide it by net sales and you will get a percentage of the gross profit margin.

2.4 - Profit Margin and Wholesale Pricing

WHY IS PROFIT MARGIN IMPORTANT TO INVESTORS?

- The net profit margin allows investors to determine if your company generates enough profit from its sales.
- Overhead costs and fixed costs should be considered when calculating your net profit margin. Among them are raw materials, salaries, insurance, utilities, etc.

How to determine your wholesale product pricing?

The markup percent is converted to a decimal as follows:
- 55% = .55
- Subtract .55 from 1 (to get the inverse): 1 – .55 = .45
- Multiply .45 times the retail price
- The answer is your wholesale price

2.5 - Pricing (SaaS) Software as a Service

HOW TO PRICE SOFTWARE AS A SERVICE (SAAS)

- It is common for new products to be priced shortly before launch. The pricing of software-as-a-service (SaaS) products presents unique challenges and opportunities. SaaS products require early pricing consideration as part of their product, marketing, and business model.
- SaaS products are licensed on a recurring basis, unlike traditional software. You now have a variety of pricing options to choose from. Furthermore, because the product is hosted centrally, you are able to offer unique packages for your product.
- Price Based on Customer Value
- Pricing SaaS products is based on customer value. Software pricing is important for all products, but especially for SaaS. It's critical to understand the value your product provides to your buyers and users. Rather than features, costs or what your competitors charge, this value should be the primary consideration for your price and pricing model.
- Recurring subscriptions are the most common pricing model for SaaS products. The decision to continue subscribing is reevaluated every month or year by your customers. It becomes even more important to make sure your pricing aligns with the value your customers receive.

2.5 - (SaaS) Software as a Service Pricing Models

HOW TO PRICE SOFTWARE AS A SERVICE (SAAS)

Think Differently About Pricing Models

- There is no longer a one-time purchase requirement for your product. Among the SaaS models you can consider are:
- The subscription fee is based on the number of users or a bundle of multiple users.
- Storage-based pricing
- Package prices differ based on features
- Free base product with paid upgrades, functions, or services

Your customers can now discover a pricing model that aligns with their goals with so many options available.

It is tempting to set your price according to the competition when pricing a new product. Many new products are priced using the same model as their competitors, but at a slightly lower price. Perhaps that's the price your customers expect, so you can charge the same as your competitors. Nevertheless, you have the ability to stand out in the market by thinking differently when it comes to SaaS. Don't be afraid to take risks your competitors haven't considered.

2.5 - Additional Considerations for SaaS Pricing

ADDITIONAL CONSIDERATIONS FOR SAAS PRICING

Keep it Simple

- The pricing process shouldn't be overly complicated. With so many SaaS pricing options, it can be tempting to offer a variety of packages.
- A common arrangement is to offer three packages of low, middle, and high prices (for example, bronze, silver, and gold). According to studies, buyers consistently choose the middle package because of this approach. Pricing schemes that are too complicated can confuse customers and cause headaches for your finance department. In the long run, keeping it simple may even lead to more revenue.

Additional Considerations for SaaS Pricing

- Ensure that your pricing model provides opportunities for upselling. The ability to offer upgrades and services as part of SaaS is one of its advantages. Pricing these factors into your pricing model can make a significant difference in your long-term revenue.
- Free trials may be worth considering. It's common to offer 15- and 30-day trial options.