

# From the Handbook for Business, the Bible

## # 3: Know the state of your numbers

Starting a business is our theme for February. Today's session is based on **Proverbs 27:23...**

*"Be diligent to know the state of your flocks, and attend to your herds"*

Flocks & herds are represented by your numbers. From my experience, few people truly understand business numbers - which are most important, when to generate them and what they mean!

**There are 3 practical numbers intenders should use to assess their business idea:**

### 1. Calculate the breakeven sales units using the Peter Fitz Chook Test:

As an example, I remember advising a couple who wanted to start a BBQ chicken shop. We did a simple calculation to work out how many chickens they needed to sell to make their dream work

Here is an **example** of the Chook Test we used to plan their first year of operation:

	Buy & sell product	Service	YOURS
Type of operation:	Retailer	Tradie	
What is the primary unit being sold?	Chooks	Time	
How much do you want to make in total	\$120,000	\$ 80,000	
Plus, Operating Expenses (excl trading stock)	\$260,000	\$ 50,000	
= Target GROSS PROFIT	<b>\$380,000</b>	<b>\$130,000</b>	
Divide by average gross profit per unit sold	\$10/chook	\$100/hour	
= Number of units to be sold in the YEAR	38,000 chooks	1,300 hours	
= Number of units to be sold every WEEK	730	25	

**That seems like a lot of chooks to sell every week...and it is!**

### 2. Look realistically at those target units - can you sell that number of units?

- \* The chook people thought hard about the opportunity, even observing activity in other shops in town before finally deciding it wasn't for them (only cost: time & my course fee)
- \* Imagine you want to start Bendigo's 200<sup>th</sup> coffee outlet; how many cups a week would you need to sell to make it work? Do the calculation then decide, if there's a need & is it possible
- \* Imagine you're a tradie wanting to go out on your own; how many hours do you need to sell and get paid for, every week? Do the calculation and decide if it's possible.
- \* The key is, is there a real market need for the product or service you intend to sell? Or would you be just become another seller in an already crowded market?

### 3. Calculate if you have enough cash to startup and then to fund growth:

- \* Running out of cash would be a huge problem & can put all your personal assets at risk
- \* You need sufficient cash reserves to cover startup costs and the situation where sales or customer payments are slower than expected...so you are able to pay all your bills on time
- \* Cashflow projections covering various 'what-if' scenarios are vital...a good accountant will be able to run these for you as a valuable part of your 'prepare-get-ready-build' team.

**The bottom line:** *You have to know your numbers, which at this stage are all targets. If they don't work, run Plan B, then Plan C; if they still don't work, it surely means you can't proceed, a good result.*