Will Your Business Be Profitable?

Business Blueprint And Marketing Mastery Guidebook 4

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Academy for Coaching Parents International

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How to Determine If Your Business Plan Will Be Profitable

Only the foolhardy and reckless forge ahead with a business idea before estimating if it will really be profitable. Once you have looked at all the details involved in implementing your business idea, you need to do an estimate of your break even point and return on investment (ROI). The breakeven point tells you how much income you need to cover your expenses, while the ROI can give you an estimate the actual profits you can expect to make for all the money and time you are investing.

1: Estimate your costs

Start by estimating all the costs that will be involved in your business. These can be broken down into both fixed and variable costs. Some costs may be spread across more than one project, in which case you can either divide the total cost by the number of projects you have or ignore them, since you'd have those costs in your business whether you implement your idea or not.

Fixed costs are those expenses that you have on a regular basis, whether weekly, monthly, or yearly. This might include your autoresponder, virtual assistant salaries, memberships to online forums or marketing tools, and your domain and hosting services.

Variable costs are any expenses that are one-off or only occur periodically. Examples include the price you pay to have a product written, a budget for purchasing PLR, or the amount you will pay to a graphic designer for headers and ebook covers.

2: Estimate your revenue

There are different types of revenue or cash that you can estimate will come into your bank accounts. This includes any income you have been getting in the past and expect to continue receiving, as well as how much that income might increase. Obviously, any increases in income will depend on additional marketing you are doing or changes you expect in the market. For example, if you are planning some new joint ventures for one of your existing ebooks, you'll have to estimate how much income you expect to receive from those partnerships.

The other revenue to estimate is the amount you'll earn from new business ideas. This is the most difficult and will be a very rough guess if you don't have any historical examples to base it on. You can gather information from people that have done these types of ventures before as a starting point. You can also look at the estimated size of your market and the average conversion rate for your business model.

For example, affiliate marketing usually has a conversion rate of 0.5% to 1%. If your competition is weak and you think you can get X number of visitors to your sales page, then you would calculate that you could receive the commission on your product times the number of visitors times your conversion rate. If you think you can get a higher conversion rate, the number goes up. It's difficult to do, but this kind of estimate can tell you whether it's worth putting in your time and money to get that number of visitors.

3: Estimate your own time investment

How many hours a day or week do you think you will have to spend on your business? For past projects, you can look at how much time you've put in

compared to the profit you made. This shows you exactly what your return was for your time. For future projects, look at how much time you think you'll have to spend each month.
You can calculate your time as an actual expense if you want to put a specific number value on your time. For example, do you value your time at $50 per hour? Is that how much you have earned per hour from your past projects? If so, then multiply that number times the number of hours you expect to put into your new project and add that to your total expenses.

4: Calculate your breakeven point and ROI

The final step in figuring out whether your business will be profitable is to compare your estimated revenue and expenses. This is just the simple math of subtracting expenses from income.

Look at your expenses each month compared to what you expect the income to be each month. How many weeks or months will it take for your revenue to cover your expenses? That's your breakeven point.

When will you start earning a profit on your business idea? What will your total profit be at the end of the year (total year's revenue minus expenses)? Divide your total profit by total expenses and you'll have your return on investment. For example, if you earned a total of $20,000 in sales in one year for one project and spent $5,000 (including your time), then your profit was $15,000. Your ROI was $15,000 divided by $5,000, which equals 3. Multiply that number by 100 to get the percentage. That's a 300% ROI! Pretty darn good.

Even a rough estimate of how profitable a business idea will be can help you avoid a major investment mistake. Many entrepreneurs get so excited about their great idea that they rush in and can lose a huge amount of money. By estimating your breakeven point and ROI, you can determine whether your business goals and plans are worth the effort and expense you will invest, and whether you should even move ahead with them.

The Essentials You Need to Know for Estimating Your Future Revenue

Estimating the revenue you will make in your business is probably one of the most difficult parts of creating any type of business plan. For any projects you have that already earn money, you can just look at the past to help predict the future. But for new projects, you'll need to look at a number of different factors.

Before looking at tips for doing your estimates, you first need to understand a few basic terms:

- **Revenue**. Your revenue is the amount of money you earn before any expenses.

- **Average Sale**. Calculate your average sale by taking your total revenue divided by the number of sales. So, if you have received a total of $1,000 for 50 sales, your average sale is $20. It doesn't matter if one sale was for $100 and another for $10. You have to take the average of all of them for estimating the future.

  It doesn't matter what business model you are using, you can still calculate an average sale amount. For example, if you make money from Amazon affiliate sales, just look at the total number of commissions (your revenue) and divide by the number of sales made that earned you those commissions.

- **Average Revenue**. Your average revenue is the average amount you get paid for each sale times the number of sales. For predicting future revenue, you can take the average amount per sale as your standard. Then estimate how many sales you think you can make each week and month. Multiply your estimated number of sales by your average revenue per sale to get the average revenue each month.

For example, say your average sale is $20 and you think you can make 10 sales your first month, 30 the second month, and 50 the third month. That means your average revenue for each of your first 3 months is $200, $600, and $1,000 respectively.

- **Target Market Size**. The size of your target market is the number of people who would be interested in buying what you are selling. If you are selling training programs for owners of Yorkshire terriers, then your target market size is probably the number of people who have recently purchased a Yorkshire terrier and need help with training, not all owners.

- **Market Share**. Your market share is the percentage of your total target market who buy from you rather than your competitors. For example, say there are about 1,000 sales per month of the type of product you are selling or something similar. If you think you can get 100 of those people to buy from you, you will have 10% of that market.

- **Conversion Rate**. Conversion rate is the number of sales that are completed compared to the number of people who see your offer. For example, imagine you have a sales page where you are encouraging people to buy your weight loss product. If you get 500 people to visit that page and 5 people buy the product, then your conversion rate is 1%.

You can also look at conversion rates for other actions you want people to take. For example, you can look at the number of people who sign up for your email list out of the number who actually visit your site. If you are doing offline marketing, you could look at the conversion rate for people who receive your direct mailing vs. the number who respond to that mailing.

Tips for Estimating Your Revenue

When you get down to the nitty gritty of estimating your future revenue, here are three tips to help guide you:

1. Don’t go with your gut

With many things in life, people will tell you to go with your instincts. However, when it comes to business, you need to get as many facts and figures as possible before sinking funds into a project or venture. Thinking you can sell 1,000 widgets is all very well, but you’d better make sure there are that many people who actually want them.

2. Take a history lesson

Find out as much as possible about how much people have earned in the past from the type of business or project you want to start. If you are starting a project similar to one you’ve done in the past, then you already have some of that information. If not, then you’ll have to research data online and ask people who are already in that business. Find out how long it took to start really earning anything and what problems they had along the way. You’d be surprised at how many people will be willing to help you and give advice.

3. Don't worry about precision

An estimate is a rough guess based on whatever facts you can gather. If you don't have much to base your estimate on, go with your best guess and move on. Unless you are applying for a small business loan, you don't have to spend hours coming up with precise numbers. Just make sure you know there are people who are making money from your proposed business or product in the past. Then make sure you have the funds to invest.

Putting It All Together

In order to do your actual revenue estimate, you just need to multiply your average estimated revenue per sale times the number of sales you think you can make each month. Depending on your marketing plans, that number would hopefully go up each month. Plot out your estimated revenue each month for each project and you'll have your estimate for the year.

As you put together your revenue estimate and other parts of your business plan, remember that it will grow and change over time. You may find that your market share is much larger than you thought and your revenue estimate can go up. With good marketing, you might also raise your conversion rate and increase sales. Go back to your estimates and periodically update them, but don't obsess over being completely accurate. These figures are for your own planning, not for your accountant.

Monthly Income Plan

Do you know how much money you make on a monthly basis? Do you know where the income streams are coming from?

You might be surprised to learn that many small business owners don't really know what products or services make them the most money. They know how much they make each month but not where it is coming from.

This is important information. Consider this example; a graphic designer makes her income providing a service. She has anywhere from 25 to 50 clients each month and is kept quite busy. She designs logos, blog headers and ebook covers. She also has a referral business where she earns commissions by referring her clients to a ghostwriting service.

Imagine if this graphic designer were to keep a monthly income plan. She might learn that 50% of her income comes from repeat clients. She might also learn that while she enjoys designing logos, that type of work accounts for only 3% of her income. This information might help the designer modify her services and policies to help her earn more. She might offer discounts for repeat business or stop offering logo design service and focus on offering custom blog headers.

A monthly income plan is a valuable business planning tool.

Traditionally, a monthly income plan is a plan for people who don't have a regular income coming in, such as some retired persons. However, you're going to use it as a planning tool to stay out of debt, become profitable and control your cash flow. Before you get started with this planning tool, decide how you're going to track the information. If you've already created your monthly budget then you're halfway there – consider using the same format and system to keep information consistent and easy to access.

1. Outline Your Income Sources

You may be able to essentially cut and paste this information from your monthly budget. However, also consider adding income sources that you'd like to have in the future. For example, maybe you're a service provider who plans on making advertising revenue or affiliate commissions in a few months. Add those categories to your monthly income plan. Or perhaps you're writing an ebook that you're going to release next month. Add that income category too.

You're tracking gross profit here, which means you're not including your expenses. This is the amount you made before PayPal fees, before contractor fees, web hosting and similar fees.

2. Track it Monthly

Your monthly income plan is where you document your actual income, not a prediction or a guess about how much you will make. It's a running record of your month to month income. Make sure you can easily see a side by side month by month comparison. You want to be able to see, at a glance, how much you made in January compared to how much you made in July.

It might look something like this:

	January	February	March
Sales			
- Logo			

- Blog Headers			
- Ebook Covers			
Affiliate Commissions			
Advertising Revenue			
Ebook Sales			

3. Review the Data

Your monthly income plan isn't useful if you don't look at it and review the data. Ideally, you sit down at least quarterly to plan your business. You decide what your goals are and how you're going to achieve them. Your monthly income plan can be a valuable asset to your quarterly planning. Make sure you create a system to enter the data and review it. An easy way to enter the data is to transfer the totals when you're completing your monthly budget.

Monthly Budget Plan

Your monthly budget is the foundation of all of your business finances. It puts you in control of your cash and your financial future. It's important to remember that a monthly budget isn't a hard and fast system that you have to follow rigidly. Many people avoid creating a budget because they feel it is too restrictive. The truth is that a budget is liberating. It's a plan that grows and adapts with you as your needs change. Keeping a monthly budget make it easier to:

- Plan
- Stay out of debt
- Hire the right people and services
- Make sound business decisions
- Get and stay profitable

And much more. There are a few simple steps to create your monthly budget plan.

1. Choose Your Planning Medium/Tool

The first step is to decide which type of planning tool will work best for you. If you like to sit down with pen and paper, you can find simple accounting notebooks at your local office supply store. Or you can use your word processing software or spreadsheet software.

There are also many small business accounting programs that include a budgeting feature. If you're unsure, consider the other tools you use to plan your business. For example, if your business plan is written longhand in a notebook then you may find that pen and paper works best for your budget, too.

2. Your Income

There are three main categories to any budget and within those categories there will be a few columns. The first main category is your income. Create a list of your income sources. You probably know what they are already. However, if you're uncertain of all the ways you make money, take a look at the monthly statement from your bank or payment processor (such as PayPal) and review your monthly income.

For example:

- Sales
- Commissions
- Advertising Revenue
- Other

You'll want to create four columns next to each category. They include:

- Actual – How much did you actually make?
- Budgeted – How much did you think you'd make?
- Over Budget – How much did you earn over what you budgeted (if any)?
- Under Budget – How much did you earn under what you budgeted (if any)?

3. Your Expenses

The next step is to list your monthly expenses. These may not be so apparent, and some of them may not occur on a regular basis. For example, you may only pay for your website hosting once a year.

Review your bank statements to help you detail your regular expenses. If you're just getting started in business and aren't sure what your expenses will be then make your best guess. It's always better to overestimate your expenses than to underestimate them. List your expenses by category. For example, under the category "Utilities" you might list electricity and gas as expenses.

Common expenses might include:

SELLING

- Affiliate commissions
- Advertising
- Shipping & delivery
- Total sales expenses:
- Percent of total:

ADMINISTRATIVE

- Virtual administration
- Ghostwriter
- Insurance
- Loans
- Office supplies
- Postage
- Dues
- Other
- Total administrative expenses:

Percent of total:

SERVICE & EQUIPMENT

- Accounting
- Legal
- Utilities
- Telephone
- Hosting
- Domain name
- Other

- Total S&E expenses
- Percent of total

Now you notice there is also a place for the total expenses and a percentage of the total. This is useful planning data, but it certainly isn't required. It may be useful for you to know if you're spending 50% of your budget on service and equipment when you'd rather be spending it on sales.

Again, as you did with income you'll also want to include columns to track:

- Actual
- Budgeted
- Over Budget
- Under Budget

4. Monthly Summary

The final step is to review all of the information at the end of the month to see how well you anticipated and planned. Your monthly summary can be positioned at the top of your budget or at the bottom of your budget. This information will help you create the next month's budget.

You'll want a line for your total income and your total expenses along with a line that details your income less expenses (aka profit). Again, also include columns for actual, budgeted, over budget and under budget.

5. Putting Budgeting Plan into Action

A budget is only worth the paper it is printed on if you actually use it. Create a system to keep your income and expenses organized. (No, a pile of receipts in the shoebox isn't a great idea.) Consider sitting down at the end of the day, or the end of the week, and adding up your expenses and income.

Staple the day's or week's receipts to a piece of paper with the total written on it. That way, when you sit down at the end of the month to review your budget and plan for the next month, you'll have all of the information readily available.

The first few months you may be off by quite a bit. However, as you learn to predict and anticipate income and expenses your budget will become more accurate.

Quarterly Tax Planning

If you're self-employed or own a business then you are responsible for paying your own taxes. In contrast, if you work for someone else then taxes are automatically taken out of your weekly paycheck. Depending on your annual income and your circumstances self-employed individuals and business owners may be required to pay taxes on a quarterly basis.

Check with your accountant or refer to past tax returns to determine if you can pay annually or need to pay quarterly. There's no disadvantage to paying quarterly. You can on the other hand, be assessed fees if you decide to pay annually but earn too much (and should have paid quarterly).

The 1040ES is a form that will help you estimate your quarterly taxes. It's available here –
http://www.irs.gov/uac/Form-1040-ES,-Estimated-Tax-for-Individuals-1

You can also learn more information about quarterly tax payments and what is required here - http://www.irs.gov/businesses/small/article/0,,id=110413,00.html

Once you know how much you need to pay every three months, it's time to create a plan to save for it. This isn't your emergency savings plan. This is a different savings plan designed to take the financial pain, and stress, out of paying your taxes.

1. Where Will You Save The Money?

Unlike an emergency savings plan, your tax savings doesn't need to be stored in a separate account. If you keep good records you can simply keep your tax savings in your standard business checking account. If you believe you might be tempted to spend the money, then open up another savings account specifically for your quarterly taxes.

2. Weekly or Monthly?

The easiest way to build your savings is to establish automatic deductions. For example, you may have $200 deducted from your business checking account each month and added to your tax savings account. To determine how much to deduct, simply divide your anticipated quarterly tax payment by three months or 12 weeks.

If you are keeping all of your money in one account you'll want to make sure you build up the amount in your account on a monthly basis so when tax time comes around you have enough money at the ready.

3. Add It To Your Budget

Treat your quarterly taxes as any other business expense and incorporate your monthly tax savings into your monthly budget. By doing this, you'll make sure that you always account for the expense and never fall short. When tax time rolls around you'll be stress free and in the black.

Saving for your quarterly taxes may not be fun, and there are certainly other things you'd like to do with the money. However, by creating your quarterly tax plan you do remove the stress of paying taxes and you make sure you're not hit with a large payment (and possibly even financial penalties) at the end of the year.

Emergency Savings Fund Plan

An emergency savings account can be the difference between closing the doors on your business and continuing to thrive. Surprise expenses come up. That's the way life works. Yet when you have an emergency savings fund, these surprises have minimal effect on you and your monthly income. You don't even notice them because you have cash set aside to fall back on. When the emergency has passed you can resume business as usual.

But if you don't have the cash set aside, a surprise expense can derail you. It can impact your ability to pay bills and keep your business up and running. Not to mention, it can be extremely stressful.

Imagine having to take a month off from your service business because you're sick. Not a fun scenario, but it happens. What would happen to your income? If you're unable to provide your service then you're not making an income. And you still have bills to pay. If you're not bringing in any cash then you either have to turn to credit or not pay your bills. Neither is an attractive choice. Yet if you have cash set aside then you can pay your bills and rest comfortably confident that you'll be able to get back to work when you're healthy.

Here's how to create your emergency savings fund plan…

How Much Do You Need?

Take a look at how much you make on a monthly basis. This is the minimum you want to have in your emergency savings fund. If you gross $1500 a month then that's how much you want to initially get into your fund. Ideally, you'll eventually be able to save up to six months worth of emergency savings. However, that number can seem overwhelming at the outset. Start with a month of income.

Where Will You Save It?

The next step is to decide where you're going to save the money. One very easy way to build an emergency savings account is to establish automatic weekly or monthly deductions from your main account into another account. The money shouldn't be too easy to get to but it also shouldn't be impossible to access. Consider an online savings account. They have low fees and automatic transfers and deductions are easy.

Setting Up Your Savings Plan

The next step is to take a look at your budget and decide how much you can set aside each week or each month. For example, can you save $25 a week? If so, you'll be able to save approximately $100 a month. Look at items in your budget where you may be able to cut back. You can also take a look at your income plan to see if there are easy ways you can increase your income.

Whenever you come into extra income (you get your tax return or you have a particularly profitable month, for example) set a little bit aside for your emergency savings fund.

Set it and Forget It

Once your account is funded with six month's worth of income, you can stop paying into it. Just set it and forget it. If you have the money in an interest earning account, you'll earn a little extra each month. That's just icing on the cake.

When You Use the Money

You will use the emergency savings money eventually. When that happens, you'll want to reinstate the monthly deductions to replace the money you used. For example, say you have $5000 set aside in your account and you need to replace your computer. You use $1000 to buy a new computer. You'll want to repay that $1000 back into your emergency savings account.

Starting an emergency savings account is smart business. It's also good for your peace of mind. You can live your life and grow your business without worrying about what's around the next corner and how you'll afford it.

Resources

Financial Management Software

mint.com: Free software for managing your finances.

PulseApp: An easy-to-use tool for managing cash flow