

Setting up a small business

How do I plan the business?

How do I find out how much to charge per hour?



How many orders do I need?

How can I estimate, whether I can earn enough?

How are the risks involved?

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Type of business: Home based services

Examples:

Home tuition (language, instrument lessons)
Cleaning Services
Software Writing,
Massage...

Common characteristic:

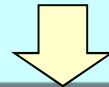
No "hardware" sold.

Therefore:

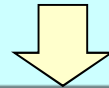
- Cost of sales $COS = 0$
- Gross margin percentage $GMP = 1$

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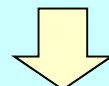
Step 1: Calculate your operating expenses *EXP*



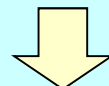
Step 2: Calculate your working capacity



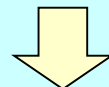
Step 3: Fix a reasonable *PPC*



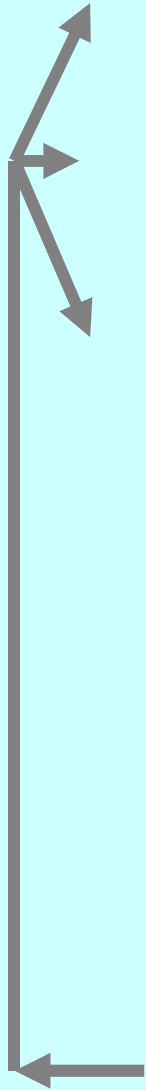
Step 4: Calculate *CPO*, required *OI* and hourly rate



Step 5: Check Competitiveness, *OI* variation, *OI* risk



Step 6: If ok, start business, else go back to Step 1-3



Step 1: Calculate the expected operating expenses

a	Fix your targeted monthly salary (income) Target (personal) income/salary	\$ 5,000
b	Investments and monthly depreciation Computer, SW: \$20,000; Lifetime:36 months Monthly depreciation: $\$ 20,000 \div 36 =$	\$ 560
c	Estimate marcom costs Advertisement, Internet $\$1,800 \div 12 =$	\$ 150
d	Other expenses Stationary, others monthly	\$ 90
Result: Total expenses <i>EXP</i> =		\$ 5,800

Step 2: Calculate your working capacity

a Maximum working hours per day?

8 h

b Maximum working days per week?

6 d

c Working hours efficiency?

2 h per day: e-mail, breaks,
travel time, ... : $(8-6) \div 8 =$

75%

d Effective working hours per month

$(8 \text{ h} - 2 \text{ h}) * 6 \text{ d/wk} * 4 \text{ wk/mth}$

Effective *working hours* per month:

144 h

Step 3: Fix a reasonable PPC

a

Select a $PPC > 10\%$

b

Start using $PPC = 30\%$

$PPC < 10\%$ is dangerous, as a variation/uncertainty of 10% in Orders will result in losses

$PPC \geq 30\%$ gives flexibility in seasonal order income variations, staying profitable.

If **PPC is between 10% - 30%** check relative order size OSR to be lower than selected PPC , and customer/project risk $RSK_{C/P-n}$ to be lower than 100%

Result: **PPC**

30%

Step 4: Calculate CPO, necessary OI and hourly rate

a Calculate $CPO = GMP / (PPC + 1)$; $GMP = 1$

$$CPO = 1 / (0,3 + 1) =$$

$$CPO = 77\%$$

b Calculate $OI = EXP / CPO$

$$OI = EXP / CPO = \$ 5,800 \quad 77\% =$$

$$OI = \$ 7,540$$

c Calculate $\Delta OI_{B-E} = OI * PPC * CPO / GMP$

$$\Delta OI_{B-E} = \$7,530 * 30\% * 77\% \quad 100\% =$$

$$OI = \$ 1,740$$

d Calculate your hourly rate as $OI / (\text{working hours})$

$$\text{Hourly rate} = \$ 7,530 \quad 144 \text{ h} =$$

$$\$/h = \$ 52$$

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Basic parameters for the business plan

Planned order income OI_{plan} \$ 7,530

Operating Expenses EXP_{plan} \$ 5,800

Profit per Cost PPC_{plan} 30%

Cost per Order CPO_{plan} 77%

Effective working hours 144 h

Hourly Rate \$ 52

Delta OI break-even \$ 1,740

Step 5: Check Competitiveness, *O/* variation, *O/* risk

To do step 5 we have to look at the concrete business: order size, potential orders, effort per order etc.

Example:

We want to earn the money by giving private lessons (tuition)

Hourly Rate

\$ 52



You need to charge \$ 52 per hour to your customers in order to achieve your plan. Check first the market, whether this is reasonable and competitive

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Number of orders

1 Lesson; order size OS: **90 min (1.5 h) lesson for \$ 78**

Max number of lessons per month: $144 \text{ h} / 1.5 \text{ h} = \mathbf{96}$
per day: $96/4/6 = \mathbf{4}$

Min number of lessons per month: $96 - \$1,740 / \$ 78 = \mathbf{84}$
per day: $84/4/6 = \mathbf{3.5}$

Maximum: 4 lessons per day – 96 per month

Minimum: 4 and 3 lessons every other day – 84 per month

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Order Income Potential and Variations

Packaging

Package 1

2 lessons weekly, 4 times/month

Max no of customers:

$96/8 = 12$

Order Size OS

$8 * \$ 78 = \$ 625$ per customer/month

Order Income Risk

$RSK_{c-1}: \$ 625 / \$1,740 =$

36%

$RSK_{c-2}: \$1250 / \$1,740 =$

72%

rel. order size *OSR*: $\$ 625 / \$ 7,530 =$

8,3%

For more visit <http://bpmsg.com>

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Now we have the remaining **basic parameter for the business plan.**

Customer Risk RSK_{C-1}

35%

Customer Risk RSK_{C-2}

73%

Rel. Order Size OSR

8%

<100%



< PPC



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Result: The plan looks reasonable, we set-up the targets and start the business

Business Plan “Private lessons”

Target Income:	\$ 7,600
COS	-
<hr/>	
Grossmargin	\$ 7,600
Expenses:	
Salary	\$ 5,000
Advertisement:	\$ 150
Other	\$ 90
Depreciation:	\$ 560
<hr/>	
	\$ 5,800
Operational Res.	\$ 1,800
Profitability	23%

Offer

60 min lesson for \$ 60
90 min (1.5 h) lesson for \$ 80

Package 1: Two lessons weekly
625\$ per month

Package 2: One lesson weekly
310\$ per month