



ENTREPRENEURSHIP

THE JOURNEY OF AN ENTREPRENEUR



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EXECUTIVE SUMMARY

The process, evolution and emergence of the entrepreneurial journey is an interesting topic that is widely researched and abundantly published on. If you search on the topic, you will find an abundance of case studies and success stories. However, when real-life examples are considered, there appear to be more failures than successes.

This is a common phenomenon, not just for Sri Lanka, but for all parts of the world. The sad truth about entrepreneurship is that not everybody succeeds in the journey. However, what everybody wants to know is whether there was a secret formula for those who succeeded. If so, what was it? Truth be told, this booklet will not give you a clear-cut answer to this pertinent question.

Honestly, we don't think that there is a clear-cut answer. As a matter of fact, we are as unsure as everybody else out there whether entrepreneurship is a set of skills that can be taught or whether it is some magical talent that only a few among us are born with. Regardless of the answer, what this booklet would like to bring about is a scientific approach to entrepreneurship.

By adopting such an approach, we become humble enough to accept the fact that, like with everything else in life, entrepreneurship carries the risk of failure. Thus, this booklet hereby lays out a set of guidelines and a disciplinary approach to reduce the risk of failure and increase the probability of success in the entrepreneurial journey.



INTRODUCTION

Life, in general, is hard work. A life well-lived takes great effort and excellent discipline. You must make a living whilst supporting your dependents. That itself is a whole day's work. Then, imagine, on top of all this, you are landed with the responsibility of managing a business of your own. For most people, that is almost impossible to manage. Therefore, the rules are quite simple here.

Entrepreneurship is not for everyone. It is definitely not recommended for the faint of heart.

1

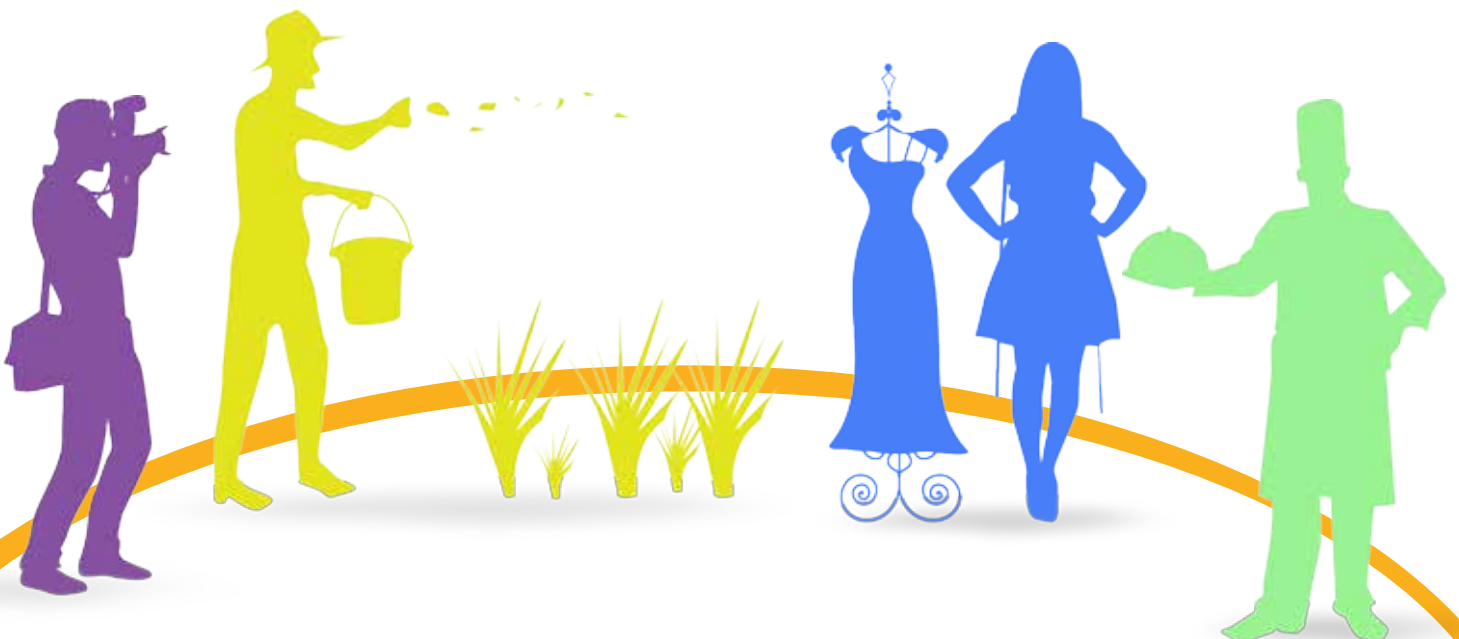
Finding the initial financing to support the business idea

2

Managing the day-to-day business for it to grow and increase in scale

2

Exiting the business at some later stage.



FINDING INITIAL CAPITAL



Where to find capital

Generating a business idea is not easy. However, when you look around Sri Lanka, there are many businesses, big and small, doing extraordinary deeds. Therefore, it seems that ideas are in abundance in Sri Lanka. What's even more encouraging is to see people having the courage to embark on those ideas and dreams.

So, where does the Sri Lankan entrepreneur get stuck in the process once their idea is in play?

It is at the stage of getting the financing to back their business idea. The financing required to fuel the rest of the business journey is harder to come by in the Sri Lankan entrepreneurship process.



Beyond friends, family, and fools

Most businesses, especially those that start small, are lucky enough in the Sri Lankan culture to find some sort of seed funding. This mostly comes through their family and friends. It's in the Sri Lankan cultural value system to help somebody they know to start a small business venture, especially if the venture is targeted towards helping and nourishing the people they love. Even without understanding the business, most family members and friends come forward to help you. Family members often are not interested in any return on the investment they make. Often, they are not aware that they have made an investment in a business where they can make a return if the business succeeds or lose their investment if the business fails. Friends would most probably account for the help they give through funding as a long-term loan with hardly any monthly or interest commitment. Then again, none of the initial investors (helpers) would track the loan they have given to see whether it was used for the intended purpose.

This book does not wish to offend the architects of such good deeds as fools as it undermines and insults their humanity and value system. However, from a financial literacy point of view, tracking your investments and the returns are essential features that should be inculcated in the local small- and medium-business eco system. Therefore, it is the duty of the entrepreneur to share the ownership and profits of the business with the initial investors. This would improve the discipline of the entrepreneur and teach him/her the importance of taking responsibility for the money taken from the initial investors.

From an early stage, the entrepreneur should realize that he/she is answerable for the investments that come into the business from external parties. The entrepreneur should realize that all money inflows have a cost and the person investing is expecting a return on their investment. This motivates the business leader to be disciplined in not only raising funds, but also utilizing them in a pre-determined and structured manner.

The next challenge beyond the seed financing phase is to find capital to scale the business. At this stage, if the entrepreneur has not made up his/her mind and willingness to share the ownership as well as profits of the business, he or she is bound to struggle with raising capital beyond family, friends, and fools. But, if the entrepreneur is ready to welcome external parties along with a solid business plan, acquiring expansion capital is not a very complicated process.

There are two main categories of investors that would fit the profile of the next-phase lenders/investors in a business looking to scale up.



What they can offer you

Types of loans or investments

The need for expansion and scaling up of the business is a choice of both internal business strategies and plans, and external market dynamics. At the same time, the business should have the infrastructure and resources (including funds either as cash or near-liquid assets) to support such an expansion.

The required resources can be both financial and non-financial. In the event of financial resources, at the expansion stage, whether one should go to a bank or a business partner is merely a choice of the entrepreneur. There are no hard-and-fast rules in selecting the order of choice. However, there is a very clear difference between the two forms of funding.

Business partner

In the case of a business partner, the entrepreneur should be willing to give up a part of the ownership (to the business partner) for the investment received. Further, the business partner may be passive or active depending on the type of business and the investment amount.

There are two main positives in working with a business partner. One is the ability to share the downside of the business. Second is the ability to tap into the external knowledge and resources they

may have. However, the main negative in working with a business partner is that the entrepreneur may not be able to do as he or she pleases with the business.

This is especially true if the investor is active. Even in the event of a passive investor, there would be some form of a feedback loop that the passive investor would want in place that may restrict the free will of the entrepreneur.

Active partners

If the investment is large in comparison to the total value of the company, then most probably the business partner would be active. Such a partner would request for either some control over the day-to-day operations of the business or control over the long-term strategic direction of the business.

In such an instance, the entrepreneur should be open to the idea of having another set of eyes watching the business. Further, the entrepreneur should be open to receiving ideas and suggestions from a new party, which can be helpful in developing the business.

Therefore, two essential attributes an entrepreneur should develop to strike a formidable partnership with an active business partner are;

Being open to the idea of receiving input from an external party

Being open to the concept of taking outside input constructively to improve the business

Passive partners

If the business partner is passive, then the involvement of the investor in the business operations and decision-making would be almost non-existent. This is a preferred scenario for some entrepreneurs. However, even the passive investors would still require a part-ownership of the business for the investment they make.

Banks

When it comes to banks, in most cases, an entrepreneur would have to agree on a continuous stream of monthly payments in return for the loan given. This, as we all know, is the interest rate or the interest cost of the loan. In addition, often, most banks would require some form of collateral as security.

If the entrepreneur is not able to provide some security, the borrowing cost or the interest rate would increase significantly. Therefore, the business owner should understand that the business improvements that will happen through the loan proceeds need to generate enough extra cash for the business to repay the loan interest and capital to the bank.

Therefore, he/she should have a clear-cut plan for the usage of the loaned funds.



Pros and cons of debt, equity, and other investment vehicles

The main positive in obtaining bank funding comes from the fact that all business and profit improvements that come through the use of the bank loan is retained with the entrepreneur.

The claim of the bank is limited to the loan given along with the agreed interest payment stream. Moreover, the entrepreneur is free to execute his/her own plans in developing their business ideas. The main negative in bank funding is that, in the event of any losses or decline in the business activities, those losses are borne by the entrepreneur. The bank only shares a limited amount of the risk that the business faces. Therefore, the greater the risk of the business, the higher would be the cost of the borrowings for the business.

Therefore, when requesting funding, either through debt or equity, it is important the entrepreneur answers two critical questions;

When do you need it?

It is critical that the business owner identifies the requirement for external help very clearly. It is even more important that he or she identifies the need to obtain or request help beyond his or her closest circle. The help can be both financial and non-financial. In terms of financial help in the form of funding, the best way to understand the requirement is to adopt a good bookkeeping system (discussed in detail in sections 4.1 and 4.1.1) from the very first day of business. Thereby, the decision to obtain help would come through scientific reasoning rather than purely through the instincts of the entrepreneur. If there is a mismatch between the capital required to expand the business and the financial resources available within the business to do that, then the entrepreneur could clearly decide that he or she would require new funding for the business.

When should you avoid it?

If the entrepreneur fails to justify the step-by-step process of using the investment or loan proceeds with very clear-cut business objectives aimed at utilizing the funds, he or she should avoid obtaining funding from external sources. Therefore, it is very important that the entrepreneur develops a sense of financial discipline and a strong sense of accountability as mentioned earlier. Otherwise, the entrepreneur would needlessly become immersed in debt to a point where their entrepreneurial skills go unexploited due to their daily struggle to repay the liabilities that are built unnecessarily.

How to approach a potential investor/bank

Once you have decided that a requirement exists for new funding, approaching the funding partners in a convincing manner is crucial. To develop the approach, whether it's a bank or a private investor, you must know what the bank or investor expects.

What they expect from you

What the investors and banks expect from an entrepreneur can be both financial and non-financial.

Non-financial Expectations

From a non-financial perspective, as mentioned earlier, investors outside the immediate circle (what we would call the circle of trust consisting of family, friends, and fools) are most interested in the following;

Do we have confidence in the entrepreneur?

Can the person be trusted?

Financial Expectation

As far as the monetary expectations are concerned, what the external funders demand is some security of the investment and a reasonable return based on that. This would be a first for the entrepreneur who would not have come across such demands at the seed stage of funding.

Therefore, the funding you get beyond the seed stage becomes more a liability than a helping hand. Therefore, persuading someone to fund your business at this stage of funding becomes challenging unless the process is handled with care.

How to persuade them

To convince a stranger or a bunch of strangers to lend or invest in your business, you should be able to sell your business idea. This is a very important skill for an entrepreneur. This would be the real testing phase of the selling skills of an entrepreneur. However, to do a proper sale of the business ideas, it is important to have certain supporting documents and numbers.

Writing business proposals

It would be pertinent to write a comprehensive business proposal to external investors (people outside your trust circle). This would be the initial access point for you to develop the trust and confidence with the party potentially funding your business. Business proposals for early-stage business entrepreneurs are mostly in the form of unsolicited proposals. However, as the business grows, the entrepreneur can expect to tender solicited business proposals as well as those that are replies to a request for proposals issued by potential business

partners. For the business proposal writing phase, there is no harm in getting outside help. This can be somebody in the trust circle. It can also be an outside party you would know who can help you with developing a professional business proposal. A good business proposal is important to get the first discussion/meeting with potential funders. Therefore, investing time and resources on a good business proposal will be crucial in securing funding from external investors.

Financial feasibility studies

These are similar to writing business proposals. However, financial feasibility studies would encompass mostly the financial and accounting numbers that come with a business whereas the business proposals are dominated by business ideas.

Most entrepreneurs would not have the skills, knowledge and the experience to write comprehensive business feasibility studies. Often, this is a

specialized field that should be dealt with through expert help. Getting third-party professional or personal help from a dependable and knowledgeable source is prudent/advisable.

Negotiations

This is probably not something that needs to be taught to entrepreneurs specifically as most businessmen or businesswomen are decent negotiators. The background that creates entrepreneurship also creates the background required to succeed in business negotiations. However, having relevant knowledge on the negotiation matter is of paramount importance: The negotiator must go into a negotiation meeting prepared for the discussion. Better preparation and continuous development of business knowledge helps in becoming a good entrepreneur.

Therefore, being up-to-date on general knowledge, and economic and business trends is a must. Hence, the best advice anybody can give to those looking to improve the required knowledge for successful business negotiations is to read daily newspapers and business developments. The rest of the negotiating skills such as interpersonal skills, reading business situations and opportunities, networking, communication skills, etc., can only be developed through practice and experience. There are no shortcuts for that, unfortunately.

How to choose the best deal for you

When you go for a negotiation, one thing you need to understand is that all who have come to the negotiation table look for the best deal for themselves. Therefore, a certain degree of compromise is required. Hence, focusing on getting the best deal for all involved is a successful way of closing a discussion rather than just looking for the best deal for yourself. However, through experience and scale-up, one is generally able to tilt the advantage of a negotiation towards their own business objectives. Such skills are hard to define and can only be learnt by experience of doing it again and again.

A person in a dark suit is holding a white document. The document features a table with multiple columns and rows of text, and a barcode at the bottom. The person's hands are visible, and they are looking at the document. The background is slightly blurred, showing what appears to be a framed picture on a wall.

Where to find legal help

Legal help is always recommended to be found through a professional party. As with financial feasibility studies, legal work is a specialized job. Therefore, it is wrong to assume that we know law, especially business law. In addition, as the business grows, use of external expertise on tax laws and other important sub-categories of laws becomes critical. Thus, it is always important to understand that you are not the expert in these matters. Thinking you are the expert and acting upon that perception will most certainly result in outcomes that are disadvantageous to the entrepreneur.

Managing a business

Once the business is operational, the most demanding and important element of the entrepreneur's involvement comes in the form of managing the business daily. This could range from strategic decision-making to making calls on daily operation-related events. In doing so, like we discussed earlier, having a scientific and structured approach is useful for the leader.

To do that, two things are of the greatest value – knowledge and data.

Knowledge and the know-how of the business should be the first reason why the entrepreneur has ventured into a

business process.

In this process, data plays a critical role in helping make the whole exercise structured and scientific. For an early-stage entrepreneurial venture, the main source of data comes in the form of financial records. The process of collecting, storing and presenting this data can be termed broadly as bookkeeping. Jargon aside, for any business, one needs to know how much money is coming in and going out. This is especially true for small businesses if they are to stay afloat.

Therefore, bookkeeping is a must in the business management process.

Importance of record keeping

As discussed earlier, it is important that the entrepreneur develops both business and financial discipline from the outset. This increases the confidence of all stakeholders involved in the venture. Even the early-stage seed investors would feel gratified to see discipline in a venture they helped to start. Having a proper set of records to back the day-to-day business is one such form of discipline but is rarely found in small businesses. A proper set of records in terms of collecting, storing and analyzing gives the following advantages amongst many others;

- Easy to track the progress of your business
- Preparation of the financial statements is less cumbersome
- Easy to Identify the main income sources
- Easy to Identify the main cost structure
- Easy to track the assets and liabilities of the business
- Easy to Identify the tax position of the business
- Easy to understand the current borrowing position and future borrowing ability of the business
- Easy to understand the expansion opportunities and challenges of the business




Basic accounting and documentation

Basic accounting principles are simple. In very basic terms, one needs to understand the concepts of income, expenditure, assets, liabilities and equity. The entrepreneur is advised to use proper documentation to sort daily business transactions within those

five categories. Documentation can be both external and internal. External documents are used as proof of the transactions the business does with external parties. Internal documents are used to principally establish internal controls and procedures.



External Documentation

Some basic types of documents that every business should maintain regardless of its size;

-  Purchase order – sent out to suppliers for a request to purchase goods or to supply services
-  Sales invoice – sent out to customers for the goods purchased or services rendered
-  Official receipt – sent to customers evidencing the receipt of payments for the goods delivered or services rendered

Internal Documents

Some examples;

-  Cash/cheque voucher – maintained to prove the disbursement of funds from the company
-  Delivery receipt – produced by the company for deliveries of goods or services rendered for its customers

Periodical financial evaluations: How to do it

The whole purpose of having a structured record-keeping process is to help the business grow. Therefore, frequent evaluation of financial performance is a good practice to have regardless of the business size. In entrepreneurial ventures, most become preoccupied with improving or resurrecting day-to-day business activities without understanding the financial implications.

However, it is important to understand that financial evaluations in terms of revenue and cost trends, improvements or decline in business volumes, increases in labor costs, changes in the taxes in the country, etc., give us a good understanding of the business direction.

Further, entrepreneurs are often keen to take risky measures, which are dependent on the risk tolerance of the entrepreneur. Therefore, it is advisable to also consider the risk tolerance of the business as well when making such business decisions.

On such occasions, knowing how the financials of the business stand in terms of profitability, asset base and liabilities helps the entrepreneur make a reasonable assessment of the risk tolerance of the business.

Is the business headed in the right direction?

Financial evaluations can give you early signals of how a business is shaping. This is crucial if you want to be proactive in day-to-day decision-making. Also, it reduces the risk of losing control of the day-to-day overall operations that often happen due to entrepreneurial excitement.



How you can improve it

The trends on the financial position may tell you whether the business is heading in the right direction or not. If it doesn't, the financial position will also tell you how to improve it. In an instance where you see a continuously declining trend in revenue, you can proactively look at the reasons why the revenue is declining. The reasons can be lack of customer focus, lack of products offered, increase in competition, unreasonable pricing, changes in

the customer preference, or simply greater inflation in the economy due to no fault of yours. Thereby, one can get to the root cause of the issue to correct the declining trend of the revenue. The same goes for the cost structure and liability position. Likewise, periodic financial evaluations help you identify both positive and negative signs and trends well in advance.

Why are you making losses and how can you rectify it?

This is one of the most important warning signals the financial evaluation would provide. Making losses doesn't necessarily mean the entrepreneur is in danger of losing the business, especially if you have the cash flow to run a business.

However, if you continue to make losses, your investment is eroded by the losses you make. This pushes you towards deeper troubles or to raising further funds to run the business. Getting further funding is of no use until you plug the holes that result in losses.

Therefore, financial evaluation is a must for a business that is losing money. In the instance of a small business, at times, the only way to stay financially



There may be a few reasons why you are leaking money or making losses;



! Bad accounting practices –

As an example, if you delay recording the expenses the business incurred for the supplies, the accounting books would show you more cash in the business than you have. This will encourage you to spend money that the business doesn't have resulting in negative cash flow to the business. Similarly, if you don't record the information correctly in the books, the position you see in the records will be significantly misleading. Therefore, closing and reconciling books, conducting internal audits and using a professional accountant (no sooner you can afford one) are advisable in developing good accounting practices as an entrepreneur.

! Combined bank accounts for personal and business purposes –

This is a sure way of losing track of your own personal financial position as well as the business'. The money in the account will be muddled. Therefore, every entrepreneur, even in a sole ownership, should always maintain a separate business account.

! Your product prices being too high or too low –

Very high pricing will scare away your customers or clients towards the competition. Prices that are too low will most certainly reduce the profit margins and, on certain instances, may result in losses. Therefore, it is recommended that you do market surveys, competitor pricing studies, and customer feedback exercises to help price the products properly.

! Not managing the working capital efficiently –

Working capital management is key for a startup. This can be in the form of managing funds locked in inventory, money that is due to your business from other parties, and money that is due to other parties. Having too much inventory for too long without generating revenue is detrimental to the entrepreneur. In the same way, not being able to collect money on time is bad for the business. Not being able to collect the cash on time will result in delays in the payments that you should make to outside parties, which will harm the relationships you have with them. Therefore, not managing funds locked into working capital can be very harmful for the business.

! Not having access to funds –

When the business needs money to expand, not having access to funds can be bad. When the business is required to offer more products to make profits, not having access to further funds or financing to offer the required products to the target market will stagnate the operations. Therefore, having limited access to funding can eliminate you from the business. Therefore, as discussed earlier, getting support from prospective and suitable funding sources is a must in developing and growing a small business.

How to manage working capital

The best way to manage working capital regardless of the size of the company is to have a proper system, structure and procedure. When you say a system, it need not be an expensive back office system that an entrepreneur would not even think of investing in during the first few years. A good system need not be IT-based. It certainly need not be something that will cost beyond the entrepreneur's capacity. Record-keeping and note-taking in a handwritten book is a good system if the data is updated.

and clearly written. What needs to happen is the elimination of the tendency for the entrepreneur to intuitively plan, monitor and control the working capital process. Further, reliance on oral agreements, assuming inventory limits, reliance on memory, credit given to related parties, informal planning, etc., are further attributes that need to be removed from the working capital management process of the business.

Financing methods

In the long term, the best sources of working capital management come in the form of;

Free cash flow

Equity

Debt financing

However, businesses at the early stage of growth may not have access to all these forms of financing. Most early-stage businesses may not have the luxury of tying up free cash flow in working capital whilst equity funding is scarce.

Therefore, for most such small businesses and entrepreneurs, debt-based funding is the most affordable and practical form of funding. Having said that, to reduce the working capital burden along with financing burden, it is vital that you develop smart working capital management strategies.

Managing strategies

There are a few options one can look at to ease the burden of financing the working capital:

1

Ask for a deposit, an advance or a milestone payment – not all entrepreneurial ventures can do this. However, this is an option that must be explored for businesses that require a substantial amount of effort, time, commitment, and monetary sacrifice before a product or service gets delivered. The balance payment can be taken upon the product or the service being delivered. Thereby, the entrepreneur can reduce his/her working capital cost to a certain extent.

2

Ask or incentivize the customers to pay faster – giving customer discounts is a good start. However, one may not be able to do this at the beginning across all sales. Therefore, what an entrepreneur can do is basically give a discount of a certain percentage for early settlement, not necessarily as a discount on the selling price. The business owner can also promote loyalty schemes and special promotions for early cash settlements.

3

Request favorable payment terms from creditors – while you negotiate with the customer for early cash collection, the entrepreneur should also strive to negotiate with the suppliers for favorable payment terms and conditions. A good balance in days between the payment and settlement cycles is a must in this regard. It is always advantageous to have more time to pay than the time taken to collect customer dues.

4

Delay or cut expenses – cutting down on unnecessary expenses is a must for any business. For a small-scale business run by an entrepreneur, this becomes a life-and-death situation. In simple terms, cutting down expenses virtually means longevity to the business. Therefore, discipline is important to identify the unnecessary costs borne by the business. A good bookkeeping system, help from an accountant, and an audit certainly help in this regard. In addition, if the collection of payments is getting delayed for reasons that are beyond the control of the business, sometimes it is prudent to delay some of the expenses without harming those external relationships (within the extents of the law of the land).

5

Adopting flexible working schedules – for certain types of small-scale businesses, flexible working methods make a lot of sense. The reason is, certain businesses are cyclical. At times, they make a year's worth of revenue over a period of a few months. Tourism is a good example of this. For such businesses, having a permanent staff working for all 12 months may not make sense. The same goes for certain agricultural products where the crops have seasons. Having labor all 12 months may not make sense in the agriculture industry. Such mechanisms of flexible working and resource allocation patterns may help entrepreneurs cope better with working capital.

6

Improve the margins – depending on the competitor analysis and business experience, the entrepreneur may use margins to help cope with the working capital strain. Improvements to the margin that do not affect the sales volumes is one of the best free cash-flow forms of managing working capital, if the customer collection days are acceptable.

7

Benchmark – another indirect means of improving working capital is benchmarking. It is always prudent to see what the industry and the competition are doing. This is one of the best ways of improving yourself even during good times when everything is flowing smoothly. Striving for continuous improvements through benchmarking against the best industry practices is a must for an entrepreneur.

Refinancing

Refinancing the funding structure is as important as the financing mechanism. This keeps the entrepreneur on his/her toes in terms of funding sources and costs. This also helps the entrepreneur restructure the funding composition in terms of debt and equity. During times of low interest rates, debt (loan) composition may be higher and vice versa. It is also understood in finance that the cost of raising equity through

investors is generally higher than raising funding through loans. Therefore, during the refinancing stage, the investor needs to balance the overall cost of funding in the most advantageous manner to the business.

When do you need it?

In simple terms, refinancing is taking a new loan to settle an earlier loan, ideally at more favorable terms and conditions. Refinancing becomes important in a country like ours where the interest rate is cyclical. Therefore, your interest cost also becomes cyclical. Hence, as small-scale business owners, entrepreneurs should be attentive to the interest rate movement. It is ideal to borrow when the rates are low. However, this is not always possible as business requirements for funding

comes outside the interest rate cycles. Therefore, even during times of high interest rates, the entrepreneur will be compelled to borrow from various parties at rates higher than the average, acceptable interest rate. For such borrowings, it is vital the entrepreneur refines the borrowings at a lower rate when/if the interest rates in the country come down with the repayment cycle.

How to refinance


There is no better way of refinancing than being in touch with the market interest rate movements. No sooner you see the borrowing rates in banks, finance companies or any other alternative forms come below your average borrowing costs in the books, you should act steadfastly to pursue refinancing options. That is to seek the option of taking a new loan at a lower rate (including the early settlement fee of the existing loan) to settle the existing loans. Having a good relationship with the banking and financing community helps in these times to make the process faster. Especially for an


entrepreneur, a good relationship with possible funding parties (debt and equity alike) is as good as having an excellent business track record.

Further, you should not restrict yourself to a few borrowing options. It is vital to seek all possible funding options in the market even at the stage of refinancing because, at times, the interest rates could go so high that you may come across certain equity investors that are cheaper than debt financing. In such instances, equity can be used to refinance your debt. Keeping an open mind therefore is important.

How to manage your excess profit

The early years of any business is tricky. Proper management during these times will ensure success in the long run. Cash flow problems and mismanagement of finances are the most common reasons for startup and entrepreneurial venture failures within the first few years. In this context, what you do with profits and excess cash becomes crucial. Managing cash and profits should be at the heart of any business venture, big or small. Following are a few high-level strategies to follow to better manage cash/profits;

 Use financial planning and forecasting – as discussed earlier, proper financial management and evaluation may ensure excess profits and cash flow are directed towards the most beneficial causes as far as the business is concerned. What is important to understand is that every business is unique. Therefore, each should come up with their own plan. E.g.: 60% of the cash flow/revenue will be spent on all expenses, 20% of the cash flow/revenue will be spent on business expansion and the remaining 20% will be spent on developing new products and services.

 Chart your cash flow – along with forecasting, charting the financial numbers gives you a more graphical understanding of the business progress. It also helps understand business and financial patterns and trends such as seasonality. Sometimes, good accountants and accounting software can help you do this efficiently and productively. As we discussed earlier, getting help from the experts and professionals at an affordable cost is always the best way forward for an entrepreneur.

Following are some key aspects (among many other aspects) one needs to forecast for small businesses through charting;

What is the difference between income and expenditure?

How is the difference between income and expenditure expected to vary over the next 12 months?

Does it get into negative territory at times (where income drops below expenditure)?

During which months can this be expected to happen?

What are the primary reasons the revenue drops below income for these specific months or during this phase of the year?



Understand the true cost or value of money – getting the best value for money on the costs as well as on the revenue is an important feature that any entrepreneur should focus on.

Pay all the bills on time to avoid penalties and negative credit scores

Evaluate the pros and cons of different payment options such as cash, credit cards, PayPal, bank transfers, etc. Reduction in transaction costs makes a significant impact to the bottom line.

Look at the option of leasing or buying any equipment

Save money by educating yourself on tax legislation, insurance regulations, and industry standards and norms that may help improve business efficiencies whilst reducing expenses.

Reinvesting and excess cash management options

Once you put in a high-level strategy and a system in place to optimize the profits and cash flow, it is vital that you look at excess cash or profit management options such as;

Business improvements – Most early-stage entrepreneurial ventures require excess cash and profits to be 100% reinvested in the business. The key here is to have a proper reinvestment strategy in place for future business expansion. Thereby, the business owner can invest exactly where the excess money is most needed.

Investment in the team and hire coaching – One of the key features of a successful small businesses is the significant amount of investment that goes into improving the team running the day-to-day operations. Improving skills, knowledge and supporting technology for the team is of great importance. You should have a clear idea of how to go about this with continuous trainings and skill development programs using third-party trainers.

Marketing – Most early-stage businesses don't invest in marketing during the early years of the business. At times, the reason is that the entrepreneur just doesn't know where to start. Therefore, it would be advisable to not only focus on marketing from the beginning, but also to seek help from parties who are well - versed in marketing aspects (paid or unpaid help) to promote the overall business from the outset. You should not hesitate to spend or invest on this.

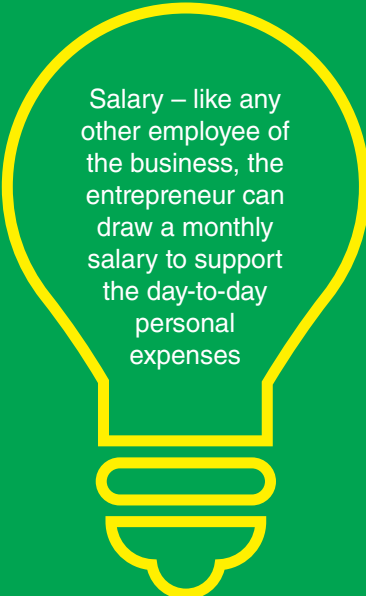
Outsourcing or hiring help – For specialized areas such as marketing, tax, accounting, legal and compliance, it is always advisable to invest and seek professional guidance and opinions. The entrepreneur should be open to this concept. This not only helps the overall internal efficiencies, but it may result in cost reductions as well in the long run.

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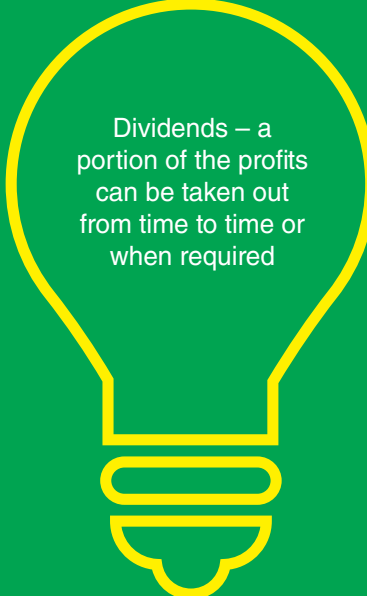
How to distribute your profit

In addition to the bigger dream of building a business that would change history, supporting the family and the dependents through the cash flows generated from the business is a major need of an early-stage entrepreneur. Therefore, you will need to find some

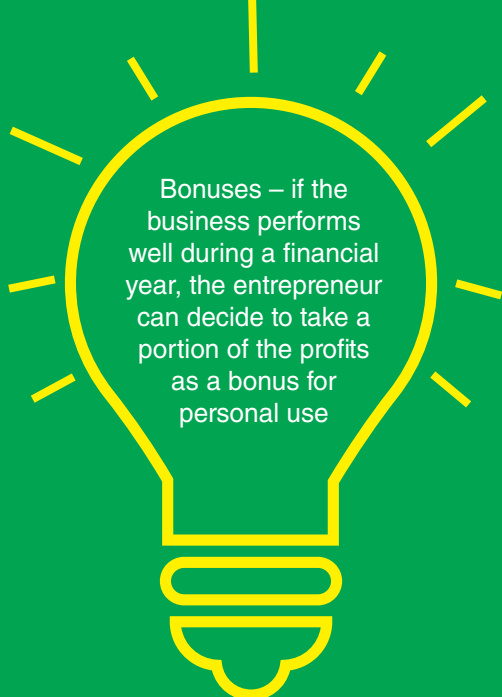
mechanism to draw cash out of the business to support personal needs without harming the overall day-to-day operations and smooth running of the business. There are three ways to do this:



Salary – like any other employee of the business, the entrepreneur can draw a monthly salary to support the day-to-day personal expenses



Dividends – a portion of the profits can be taken out from time to time or when required



Bonuses – if the business performs well during a financial year, the entrepreneur can decide to take a portion of the profits as a bonus for personal use

In addition to personal circumstances of the business owner, the tax regime is also an important matrix to decide the method of payment. In other words, you should strive to look at the best method of paying yourself that has the lowest tax liability as well. Let's say for example, if Sri Lanka's dividend taxes are lower than the lump sum payment tax rate, then you should pursue the dividend payment method to distribute profits over bonuses.

If there are other shareholders or people that require shares of profits, then you may opt to pay dividends to those investors. This becomes applicable for

equity investors who do not get a periodic promised payment. However, unless agreed otherwise at the point of investment, the payment of dividends to equity investors is solely your decision.

In addition to all this, it is important that you get expert advice and guidance before deciding on the methods of distributing profits. This guidance should come from the accountants, legal team, human resources, and tax experts. Like we mentioned earlier, it is always prudent to invest in getting such help as much as possible even for early-stage businesses.

How to manage your taxes and where to find help

Like with all other expert areas, tax guidance is a must for any business regardless of the size. When it comes to accounting, law or even human resources, what we find is that every entrepreneur or business leader has some form of basic understanding in terms of day-to-day operations. But, when it comes to taxes, most normal business people are completely unaware of the best possible paths and strategies. However, what's important to understand is that this is completely normal. Therefore, the entrepreneur should accept the fact that external help is a must in taxes.

Further, it is important to respect the law of the land in terms of taxes. In

any tax jurisdiction, tax evasion is illegal whilst tax avoidance is not. Tax avoidance is the legitimate method of reducing taxes working within guidance of the country's tax code. However, if one evades taxes, you will be penalized or punished under the law of the land. Therefore, getting proper and professional tax advice is pertinent from a legal perspective for the entrepreneur. As the small business grows to become a large corporate, you may probably be able to build internal tax expertise within the company. By and large, what even the largest of the companies in the world do is, they increasingly outsource any non-core business expertise such as legal, accounting, taxes, HR, etc.

Challenges and complexities with growth and scale

Any new business venture can benefit from three key elements;

**Start
small on the
entrepreneurial
idea or venture**

**Decide quickly
to start a business without
spending too much time pondering**

**Scale up fast once
the idea is established
and commercially proven**

In this journey of these three steps, we have already covered step 1 and 2 through prior content. As we discussed, once the business is established, scaling up becomes crucial to growing the business, facing competition and staying relevant in the business world.

Comfortably and consistently surpassing previous goals – Like we discussed earlier, it is pertinent that the business sets its sights on future goals and aspirations both strategically and financially.

As much as it keeps us in-line with our plans, it also helps us monitor our progress.

This becomes important to see whether you are comfortable achieving the

targets you set for the business. Likewise, if the business continues to achieve the targets comfortably over and over, then it is high time that the business scales up to reach the next level.

Strong cash flow and repeatable sales – Like we discussed earlier, financial planning, evaluation and forecasting is a must for a business regardless of the stage of maturity.

In this regard, forecasting becomes a key aspect of

your financials and cash flow once you become confident of the business model and growth drivers.

A strong understanding of the business model will result in a more trustworthy financial forecast. In such a forecast, if the entrepreneur sees continuous generation of cash flow and repeatable sales, then, it too is an indication that the business can comfortably look at expansion.

How to identify when you need to scale up

There are a few ways to identify whether the business should scale up and grow to the next level.

Do I have a proven concept for the product/services on offer and do they sell?

Do I have the infrastructure in place to scale up?

Do I have the resources in place to scale up?


Am I ready to do that?

If the answer is yes to the above set of questions, then the business is ready to expand. Further, the last question brings out the most critical of the questions to light; whether the entrepreneur is ready to scale up. As this is a business that was developed on passion, a dream


and an idea of an entrepreneur (or few entrepreneurs), the continuous commitment and push of the business owner/s is key for the scaling-up stage as well. As a matter of fact, commitment of the owner is the first step towards the scale-up journey.

How to scale up effectively


There are a few steps that you can follow to effectively scale up the business:




Business starts to turn down potential demand or the supply is lower than the customer demand – If the business continuously falls short of the market demand whilst internal output is functioning efficiently and at full capacity, it is a very clear sign that the market is seeking more of your products or services than you can deliver. This could be due to lack of internal resources, manufacturing capacity, labor or expertise, or value chain integration both backward and forward. Therefore, identifying the impediments that contribute to the lack of scale is the next step. Then, you must strategize towards fulfilling those drawbacks by scaling up.




Build management and technical skills of human capital – Often, the main reason for expansion failures is a lack of human resources, and not a lack of capital or technology. Human resources with the depth and breadth of handling the post-expansionary business demands is a must for the scale-up process to be viable and successful.



Build partnerships and networks – The growth and expansion of a business comes via broad partnerships and networks. As discussed earlier, expanding the funding base is a form of expansion of partnerships. Expansion in the suppliers is an evolution of the partnerships of the business. Increasing the customer base is an improvement to the overall business network. Therefore, scaling up is almost impossible without strengthening the partnerships and networks of the entrepreneur and the business venture.



Identify the core competency – Despite most businesses being successful at the early stage of its entrepreneurial venture, they don't have a thorough understanding of its core competency. Often, most go on for years doing business successfully without really identifying its core competency or unique selling point. However, at a stage of expansion and scale-up, identifying what makes you successful amongst the competition is key. This is the only way the entrepreneur can invest in focused growth of the future business.



Standardize the procedures and processes – The standardized procedures and processes can be the sole enemy of an entrepreneurial venture. However, when the business comes to a level of maturity and decides scaling up is a must to stay relevant in the business, procedures and processes become crucial. This is important for consistency and sustainability, and to reduce the dependence on individuals for the day-to-day operations of the business.

CONCLUSION

All in all, this booklet has brought you through the entrepreneurial journey from idea-generation to the point of scaling up of the business once the established business idea starts generating substantial returns for you. We have intentionally left out the next important step of deciding the exit from the business once you have scaled up. However, as you can imagine, this is very much a choice of the entrepreneur. Further, the decision to exit the business depends on the personal circumstance of the entrepreneur's personal life more than the situation of the business. We believe that this is a topic for a separate discussion and a matter where you are advised to seek external professional advice. Professional investment bankers in Sri Lanka will be able to help the entrepreneur in this part of the conversation.

In conclusion, the work that goes into creating a successful business that can stand the test of time is extremely hard. Like we mentioned at the beginning, it is not for the faint of heart. Therefore, this may not be for everybody. However, if you would like to embark on this journey of entrepreneurship, it is guaranteed that your life will never be the same again. Therefore, we invite you to try this out. But, do it scientifically. Do it with a proper structure. Most importantly, like we have mentioned throughout, do it methodically. You will be able to write and rewrite history the way you always wanted.



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