



## STEP 3 LESSON 7 FINANCING YOUR BUSINESS

The financial planning of your business is one of the most important parts of starting up - you need to work out what money you need to start your freelance business, how much it is going to cost you on a day-to-day basis to run the business, and where you are going to get the money to pay for the start-up costs and the day-to-day expenses.

### Start-up costs

The good news is that starting your own live music crew business should not cost you a great deal. Certainly you do not need to manufacture products, hold stock or buy raw materials. There are no employees to hire (yet) and most services you need can be hired by the hour or a similar period of time.

Having said that, you should write down all your possible start-up expenses and study them to see how you can afford them, however inexpensive they may appear. This will tell you how much money you need to save or borrow to make the jump into self-employment.

Figure 7.1 shows a list of start-up costs. I have used a six-month timescale, as this is a realistic time-frame to get your business up and running.

<b>EXAMPLE START UP AND RUNNING COSTS</b>			
<b>CATEGORY</b>	<b>ITEM</b>	<b>AMOUNT</b>	<b>NOTES</b>
<b>Premises</b>	Apartment rent	<b>\$3,000</b>	<i>Working from home for 6 months</i>
<b>Utilities</b>	Gas	<b>\$250</b>	<i>for 6 months</i>
	Electricity	<b>\$250</b>	<i>for 6 months</i>
	Cell	<b>\$240</b>	<i>for 6 months</i>
	ISP	<b>\$80</b>	<i>for 6 months</i>
<b>Financial &amp; legal</b>	Book keeper	<b>\$150</b>	<i>Once a month for 3 months</i>
	Public Liability Insurance	<b>\$450</b>	<i>Annual, payable at start of business</i>
<b>Marketing</b>	Business cards	<b>\$35</b>	
	Directory listing	<b>\$150</b>	<i>For 3 months</i>
<b>Equipment</b>		<b>\$250</b>	<i>Headphones, Mag-lite, multi tool etc</i>
<b>Misc</b>		<b>\$100</b>	<i>Office stuff</i>
	<b>TOTAL START UP &amp; 6-MONTH RUNNING COSTS</b>	<b>\$4,955</b>	

FIGURE 7.1 - *Start-up costs for your new roadie crew business*

You may tot up your start-up costs and realise you need more Money than you thought. If your savings won't cover the costs you might need to borrow the money. Borrowing should be a last resort and if it is then the easiest way is to arrange an overdraft with your bank.

Overdrafts are perfect for small business start-up as a they are usually fairly cheap to set up and run, they are usually for small amounts, (a couple of thousand dollars at the most) and are ideal for short-term borrowing. The downside is that a bank can ask for repayment of the overdraft, in full, at any time - although his rarely happens. You may also have to guarantee the overdraft - which may mean proving you have steady income - something that is difficult if you are starting a business. However, as I keep saying, overdrafts cannot be that hard to get, otherwise millions of small businesses would not have them! Just be careful and set a sensible overdraft limit with your bank and you should not run into too many problems later on.

#### [Public Liability Insurance.](#)

One cost you should definitely include in your start-up costs is that for insurance, especially 'Public Liability' insurance ('PLI'). Setting up a freelance road crew business means you are

liable for medical and legal costs if a member of the public, your client or someone else who works for your client is hurt or killed as a result of something you do while working. Likewise, you are liable if you damage or lose a piece of the client's equipment or property. Public liability insurance protects you from having to pay these costs if there is an accident. More and more live production suppliers (sound, light and staging companies) now require the freelancers they hire to have this kind of insurance. Public liability insurance can be very expensive, especially for people involved in entertainment industries, and there are several dedicated insurers and trade unions who can negotiate discounts on your behalf. You should Google 'freelance public liability insurance' for a list of companies that deal with PLI.

### Cash flow

Business people always say, 'cash is king'. You know what? They are right! A business with plenty of cash can survive even if it is not making a great deal of profit. Conversely a business with no cash reserves will not survive - even if it is making a profit. Your freelance tour crew business will be no different. As an example, Figure 7.2 shows the 'profit' on paper for a business selling \$1000 of goods or services a month and with expenses of \$500 a month. Looks healthy doesn't it? But, the figures do not take into account when money actually comes in to your account and so may be slightly deceptive.

EXAMPLE PROFIT AND LOSS STATEMENT						
ITEM	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Expenses	\$500	\$500	\$500	\$500	\$500	\$500
Sub-total	\$500	\$500	\$500	\$500	\$500	\$500
plus brought forward from last month	\$0	\$500	\$1,000	\$1,500	\$2,000	\$2,500
<b>PROFIT</b>	<b>\$500</b>	<b>\$1,000</b>	<b>\$1,500</b>	<b>\$2,000</b>	<b>\$2,500</b>	<b>\$3,000</b>

FIGURE 7.2 . A profit statement – looks fairly healthy doesn't it?

Figure 7.3 shows the same business, measured by its cash flow. This shows when money actually comes in and goes out of the account. As you can see, the business does not receive any money until month 4, which is common if your client pays you on term of 90-days. It would be in real trouble for the first 5 months as there is not enough cash to cover the expenses it has to pay every month.

'Cash flow' is therefore the way of measuring when you are going to receive money from the people who owe it to you and when you need to pay other people for goods and services. It is the lifeblood of your business; plenty of cash coming in regularly means you don't have to worry about paying your bills. Having to wait 30, 60 or even 90 days for your customers to

pay you means either a) have to wait 30, 60 or 90 days to pay your bills or b) borrow money to pay your bills. Borrow too much money and you are in danger of still being in debt when you eventually do get paid by your customers.

EXAMPLE CASH FLOW STATEMENT						
ITEM	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales	\$0	\$0	\$0	\$1,000	\$1,000	\$1,000
Expenses	\$500	\$500	\$500	\$500	\$500	\$500
Sub-total	-\$500	-\$500	-\$500	\$500	\$500	\$500
plus brought forward from last month	\$0	-\$500	-\$1,000	-\$1,500	-\$1,000	-\$500
<b>PROFIT</b>	<b>-\$500</b>	<b>-\$1,000</b>	<b>-\$1,500</b>	<b>-\$1,000</b>	<b>-\$500</b>	<b>\$0</b>

FIGURE 7.3 *The same business, measured according to when money is actually paid into the bank. Costs are the same but the business would be bust in six months*

Pay attention to your cash flow and plan for it before you start your new freelance business, especially if you are going to have to apply for an overdraft. The bank will want to see your projected income, and the cash flow that goes with that. The manner in which invoices are paid is particularly different in the live music industry. My advice would be to assume your invoice will not be paid for at least 90 days, and you have enough cash (or the overdraft facility) to survive that long.

A good tactic to keep your cash flow er, flowing, is to charge a percentage of your invoice up front or (in the case of a long tour) charge weekly. Most artist's business can set you up on a payroll, meaning you get paid each week you are on tour. This is great for your cash flow and you should check to see if your client can do the same.