



The Business Plan

So you have a great business idea. You've been thinking about it and developing it for months. All your friends think it is a good idea. Well that is just the beginning!

Before launching any new venture, the first step is to turn your ideas into a proposal; a written document that demonstrates what the business is about and that given your expectations for the business that there is a strong likelihood that it will succeed. The most common method of doing this is to draw up a business plan.

A business plan outlines your long term objectives. It provides a blueprint for running the business and a benchmark against which to check your progress, but it is essentially for you to plan what you do, with whom, using which resources, when you are going to do it and what it will cost you to do (or not do).

It does not have to conform to a 'typical' format, but it may help convince a bank if you use their template (JBV can supply those for our Friends), but this is your plan and should be in a form that you can and will use, not just on starting up, but reviewing every so often, depending on the targets and times you have set yourself, but at least once a year.

Most of the major clearing banks offer 'pro-forma' business plans in their business start up guides. These offer an excellent guide, particularly if you are writing a business plan for the first time. Your bank manager will be only to pleased to provide you with a guide book and to receive your plan once completed. This Chapter sets out the typical issues to include in a business plan.

The Executive Summary

The executive summary outlines the whole business proposal.

The executive summary is probably the most important section, even though it is actually written last, to summarise everything contained in your full plan, and is on the first page or two of the business plan. It summarises seven areas: the purpose of the business plan; the product and its advantages; the market opportunity; the management team; any track record to date; financial projections and the funding requirement. If the business plan is very short, an executive summary may not be necessary.

When considering whether to finance a business, a bank manager will probably make an intuitive decision after reading the executive summary. The main text of the business plan will be read to confirm his or her initial thoughts. The appendices at the back of the plan are useful for detailed information - which the bank manager may or may not want to look at.

Your Business and Product

Explain the **history** of your business.

Who owns the business, when did it start trading and what progress has the business made to date?

For new businesses, how long have you been developing the business idea and what have you done about it so far?

Explain, in simple English, what your **product** is.

What makes it different from other products?

What advantages and benefits does it offer customers?

What disadvantages or weak points does the product have? Be honest.

Also explain any unusual features of your industry - for example, special regulations.

The Market and your Competition

What is the **market** in which you will sell?

Focus on the segments of the market which you plan to supply - for example, local customers or particular groups of customers.

How large is each market segment?

Is each segment growing or declining?

What are the important trends? Explain the reasons behind the trends.

What are the key characteristics of potential customers in each segment? (e.g. age, sex etc.)

Give details of any existing customers and your success in selling to them previously.

What is the **competition**?

What are the competing products, and who supplies them?

Give the advantages and disadvantages of each product.

Explain why customers will switch from your main competitors to buy your product instead.

Unless there is a viable market and you know how to beat the competition, your business will be vulnerable.

Be wary of trying to turn a hobby into a business before testing it out on the market.

Sales and Marketing

This section is vitally important. It gives a good indication of whether the business will succeed or fail.

1. How will you **position** your product?
For example, how will your price, quality, response time and after-sales service compare with competitors?
What will your minimum order size be?

2. How will you **sell** to customers?
For example by phone, face to face or through an agent. How long will each sale take?

Many new businesses underestimate how long it takes to win each order. In the first year of business you may need to spend as much as 80% of your time making contacts and selling.

Will you make repeat sales? If not, it will be much harder to build up sales volumes.

3. Who will your **first customers** be?
Unless you can name a dozen likely customers, starting your business is likely to be a struggle.

Which customers have expressed an interest or made a commitment to buy from you? What is the total value of sales which these customers represent?

How will you identify other potential customers?

4. How will you **promote** your product?
For example, by direct marketing, advertising or PR?

5. What is the **contribution** to profit for each part of your business?
Most businesses have more than one product, more than one type of customer and perhaps more than one distribution channel.

Look at each in turn. Examine the sales, the gross profit margins and the costs.
Identify where you make your profits and where there is scope to increase margins or sales.
Identify any loss-making activities.

Sales forecasts

Be realistic!!

1. When will you be able to **start** selling?
Will potential customers wait until you have been in business for a year before they take you seriously and place an order?
2. **How often** will you be able to sell?
How many days a year can you devote to selling? How long will it take to produce each enquiry? What percentage of enquiries will turn into sales?
3. **How much** will you be able to sell?
What will be the average value of each sale?
Will customers give you repeat orders, or will you have to find a new customer for each sale?
4. How long will it take to collect **payment** for sales?

Taking all these points together, how much income can you realistically expect each month?

Management

1. What management **skills** do you and other key personnel have?

What are your roles in the business?

What are your strengths? How will you cope with any weaknesses? Can you cover the key area of sales, marketing, production, finance and administration?
2. How **committed** are you to the business?

How much time and money have you each invested? What share of the business does each individual have?

What will your salaries and benefits be?

How committed to the business are your family? Do they understand the implications of what you are planning to do?

Operations

What facilities does the business have and how is production organised?

1. Where is the business **located**?
What are the advantages and disadvantages of the location?
2. What **'production'** facilities are there?

Do you use any special equipment? Some small businesses only need a desk and a telephone.

How much production and sales could you handle?
3. How many **employees** do you have? What are their jobs and skills?
4. Who are your **suppliers** and how did you select them?
5. What **management information systems** are in place?
For example, systems for sales, management accounts, stock control and quality control.

Financial Forecasts

Your financial forecasts translate what you have said about your business into numbers. The sophistication of your financial forecasts should reflect the sophistication of your business. A small, simple business may only need to do a sales and cash flow forecast. An engineering company with 20 employees would need to do a full set of forecasts as follows:

1. Sales forecast.

Break the total sales figure down into its components, e.g. sales of different types of product or to different types of customers.

2. Cash flow forecast.

Your cash flow forecast shows how much money you expect to be flowing into and out of your bank account, and when. You must show that your business will have enough money to survive.

Summarise the key points:

What factors have a major impact on cash flow? (e.g. volume and timing of sales revenue, salary costs, rent).

At what stage is the business forecast to become cash positive (more cash coming in than going out)?

3. Profit and Loss ('P&L') forecast.

Summarise the annual P&L forecast for each of the first three years of trading.

Calculate what level of sales you need to break-even:

$$\text{£ break-even} = \frac{\text{£ overhead costs} \times 100}{\% \text{ gross margin}}$$

If your gross margin is 25%, sales must be four times as large as overhead costs to break even.

Compare the break-even level of sales with the sales you are forecasting.

Comment on the profit margins.

State whether these can be improved, e.g. by concentrating on your most profitable activities.

4. Balance Sheet ('B/S') forecast.

If you are planning a larger business, you will also need to draw up projected balance sheets. These show the financial state of your business on day one and at each year end, usually for the first three years.

For each forecast, list your **key assumptions** (e.g. prices, volume, timing). Small business advisers at banks and at JBV will help you put together your forecasts, free of charge.

Finance Required

Your cash flow forecast should show how much finance your business needs, both now and later. Your assessment of the risks will show whether you need to arrange contingency financing.

1. State how much finance you want, when, and in what form.

For example, you might want a fixed interest loan and an overdraft facility.

2. State what the finance will be used for.

Show how much will be for capital expenditure (e.g. buying equipment) and how much for working capital (financing stock and debtors).

3. Confirm you can afford the finance.

For example, if you are requesting a loan, will your business generate enough cash flow to make the capital and interest payments?

4. State what assets will be available as security.

Assess the Risks

1. Looking at your business plan, what are the main areas where something could **go wrong**?

For example, technical problems in developing your product. How can you minimise these risks?

2. Discuss **'what if'** scenarios.
How might your financial forecasts change? For example, what happens to your cash flow if sales are 25% lower than forecast?

If there are serious risks, you can:

Arrange contingency funding to cover the extra financing you might need.

Decide that the business is too risky and abandon the project.

Assessing the risks clearly will help you to minimise potential problems, and will also build up your credibility with any bank which is considering financing your business.

Appendices

A simple business plan may not need any appendices at all. Everything can be included in the main text. A more complicated business plan may only summarise information in the main text, putting the detailed information - especially figures - at the back. For example:

1. Detailed **financial forecasts** (monthly sales, monthly cash flow, P&L, any balance sheets).

Include a detailed list of assumptions, for example: the profit margin on each product; debtor collection period; creditor payment period; stock turn; exchange rates; injections of finance and equipment purchases.

2. **Other** information.
 - CVs of key personnel.
 - A market research survey.
 - Product literature or technical specifications.
 - Names of target customers.

Presenting the Plan

The more information you can gather for your own use, the better your business plan will be. But a banker or other outsider will not have the time to read through all the details.

1. Keep the plan **short**.
Most business plans are too long. Cut out the waffle and stick to the point.

What does the reader need to know?

2. Make it **Professional**.
Put a cover on the business plan and title it. For example, two lines:

'XYZ' Limited - Business Plan;
For Mr Jones, ABC Bank - 11/06/97.

If the plan is long, include a contents page.

3. **Test** it out.
Would an outsider get a good feel for your business and understand the key issues?