Business planning is particularly important for businesses targeting high rates of growth. You need to be able to respond immediately to developments in what are often young and fast-moving sectors.

There are four key stages in the business-planning process: clarifying your strategy; developing a marketing plan; drawing up an operational plan; and finally translating all of this into financial forecasts.

Prioritising business planning

See your business plan as a **process**, not just a document. Establishing and managing a business-planning cycle is a vital part of owning and managing a business. It helps you use available resources as efficiently and profitably as possible. Good business planning is about far more than producing a document to help you secure funding. And there is no need to produce a formal plan for your own planning purposes.

Assign **clear responsibilities** and **schedules.** You and the other directors are responsible for your business planning. As your business grows you will need to co-ordinate input from, and communicate with, a range of people such as department heads, while still keeping overall control of the process. Set clear deadlines for each stage and for subsequent implementation.

Be clear about the **objectives** of the planning process. Think of the planning process as a way of identifying different courses of action for your business and then providing good reasons for deciding between them. The clearer you are about the options available to you (for example, maintain a steady course, move into a new market, invest in increased capacity), the more you will get out of the planning process.

Commit to **reviewing** your plan regularly. You should examine the strategy set out in your business plan and the budgets that accompany it at least once a quarter, and possibly as often as once a month in the early stages of a new business. You need to be prepared to make changes to your strategy if things are not working in the way you had thought or to take account of changing circumstances.

Business planning basics

Business planning begins with the big picture and works towards the details. There are four **key stages** when drawing up a plan: strategy; marketing;

operations; and financial forecasts. Strategy is the most abstract of these, while the financials are the most detailed and concrete. Good business planning is about turning your strategic goals into financially viable business activities.

Start with a **strategy** that reflects your main **business goals.** You need to look at your market and the resources available to you so that you can decide on the best way for your business to make profits. You should be able to sum up your strategy in a short statement that accurately reflects what your business will do and what your key objectives will be.

Use a **marketing plan** to think about how you will put your strategy into practice. Your strategic planning answers the question: "What are we in the business of doing?" The marketing plan goes on to ask: "How should we go about doing it?" It should look at possible future market scenarios and assess the best tactics to deliver on your strategic objectives.

Identify your **operational requirements.** The operational plan sets out in concrete terms the resources you will need to put your business plan into practice. This covers things such as: management structure; staff levels and job descriptions; premises; IT; administrative services.

Finally you boil it all down to a few **key numbers**

- Creating and interpreting financial forecasts can be difficult. You can leave much of the work to your accountant - but the more comfortable you are with this financial information the more valuable a planning tool it will be.
- You and your board retain overall responsibility for business planning.
- Financial forecasts, including cash flow forecasts, provide a clear basis for decision-making, highlighting which option will be most profitable. However, they must be reviewed regularly.

Your business strategy

Assess the market and sector your business is in or planning to enter

- Look at competitors. What drives their success? Can you improve on it or achieve similar results?
- Look at potential customers. What drives their purchases? Look for emerging trends and try to predict what customers will look for further down the line.
- Look at your suppliers. What are their credit and guarantee policies?

- Look at your sector and how it is developing. Markets change and it is important not to build your strategy on assumptions that will soon be outdated.

Look at the **strengths and weaknesses** of your business

- Assess the resources you have, how you use and organise them and what results they bring.
- Analyse the opportunities your business has and any threats that it faces.
- Aim to: protect resources that drive growth; reuse or offload resources that are not contributing to the business; bring into the business any resources you need but currently lack.

State what your business does and where you want to take it. Use your external and internal analysis as the basis for a strategy, setting out the top-level objectives of your business. Also outline how you intend to achieve them. For example, your goal might be to become the leading supplier of encryption technology to medium-sized companies in your region, by partnering with leading overseas developers and offering market-leading technical support response times. Set targets for these strategic objectives so you can monitor progress.

Your marketing plan

Position your business to respond to the **needs of customers.** To deliver on your strategy, what specific products or services will you sell? At what prices? To which customers in particular? The key is to focus on adding value for customers. Your marketing plan should demonstrate how you will offer them real benefits.

Analyse your **customer base.** You need to develop a clear sense of who your target customers are and why they should buy your goods and services. What drives demand in your market? You need to make sure you have researched your market closely.

Forecast demand for your goods and services. This is where the forecasting element of your business planning begins. You need to make some predictions about the market in which you operate. The key things to forecast are the total size of the market, your expected market share and the prices you expect to charge. Use any market information you can gather and be as thorough as possible. These market forecasts will form the basis of your projected revenues in your financial forecasts.

Understand how markets usually develop. Markets usually grow according to an S-shaped curve: slow growth initially, followed by acceleration until the market matures and levels off. If you can work out which phase your particular sector is in, it will give you a better idea of the growth in demand that you need to factor into your planning.

Plan for different **future scenarios** -you need to be prepared for a range of outcomes. Develop a range of possible market forecasts and work out how your business would respond to each. What products or services would be appropriate? Which groups of customers would drive growth? What would this mean for your prices and costs?

Your operational plan

Set out what **implementation** your strategy will involve. Your operational plan should explain what resources your business needs and how you intend to use them. In effect, it should present a blueprint of how your business needs to develop in order to deliver your objectives. Be as thorough and as detailed as possible. The operational plan forms the basis of the costs that you feed into your financial forecasts.

Be sure you have the **right people** in place. Pay close attention to managers and board members. They can provide a competitive edge and are a particular focus for prospective investors. Staffing issues to consider include: the skills you need; salary levels; training requirements; and increasing management and administrative duties as staff levels increase. Consider using incentives to provide additional motivation for staff.

Get your organisation's **structure** right

- How will you co-ordinate the efforts of your team to maximise the value you deliver to your customers?
- The most common structure comprises functional departments such as production, sales, marketing, IT and general finance and admin services.
- Detail any services you intend to outsource. This can be a valuable option if it allows you to devote more resources to your core activities.

Look at your **premises** and other **infrastructure.** Your operational plan should detail the size and type of premises that you will need throughout the period you are planning for. Set out your IT requirements, covering compatibility, scalability, and maintenance and training issues. Other areas to cover in the operational plan include: any equipment or machinery you will need; transport and vehicles; admin and other support requirements.

Financial forecasts

Learn to **understand your business** in financial terms. Financial statements and forecasts are an essential management tool, particularly your profit and loss (P&L) and cash flow forecasts. Even if you leave them to your accountant or financial adviser, it is well worth learning to use them. Make sure that forecasts are updated regularly.

Create a business model that will generate **financial forecasts**

- You need a model of your business into which you can input your projected revenues (drawing mainly on your marketing plan) and your projected costs (drawing mainly on your operational plan).
- The real benefit lies in using software to feed these inputs automatically through to the relevant fields on your key financial forecasts for the period: the profit and loss, balance sheet and cash flow forecasts.
- This allows you to look at the possible financial effects of different market scenarios for your business.

Unless you have in-house expertise, this will require help

- You can generate a customised business model that will feed through to financial statements using standard spreadsheet software. But this requires spreadsheet expertise and a thorough grasp of accounting principles.
- Specialist business-planning software, with templates for common business and market structures, is also available.
- Ask your accountant what the best solution for your business is.

Evaluating your options

Use your financial forecasts as a **decision-making tool.** Business planning is about deciding how to use your available resources in order to maximise profits. Your financial information gives you a regular basis on which to make these decisions. Lenders and investors use business plan financials to decide whether or not to back a project. You should learn to use them in the same way.

Use your P&L statement to **evaluate profitability**

- Profit margins are an important indication of business performance. These usually compare your profits (after various costs have been accounted for) to your turnover.
- The main measures are the gross profit margin (which ignores overhead costs) and the operating profit margin (which takes them into account).
- Don’t look at individual profit margin figures alone. Compare them with those of other businesses, with your past performance and with the projected margins of other scenarios that you have planned for.
- Benchmarking can allow you to evaluate the performance of your business against those of other firms in your sector.

Calculate your business’ **rate of return**

- Using your P&L statement and the balance sheet you can assess your profits relative to the business’ assets and the investment required to generate them.
- Calculating return on equity (profits after tax as a percentage of the total funds invested in a business) allows you to compare the returns offered by your business with other investment opportunities.
- Discounted cash flow (DCF) and the internal rate of return (IRR) take into account the 'time value' of money (£1 today is likely to be more valuable than £1 in a year’s time when inflation is taken into account). They allow you to assess whether your projected cash flow is sufficient to justify the investment needed to generate it.

Be wary of basing decisions purely on your figures. Your financial statements are only as good as the business model that created them. If you are forecasting surprisingly large returns, the assumptions in your model are probably over-optimistic.

Budgeting

P&L and **cash flow budgets** are the key tool for putting your plan into action. Budgets set the revenue and cost targets that you and other managers will have to meet in order to realise your projected profit margins and returns.

Make sure your budgets are sufficiently detailed. Your budgets need to set individual targets for the key people across your business. Your budgets will therefore be closely linked to your organisational structure. Each person with managerial responsibility is likely to be a budget-holder with targets to meet.

Review your progress on a monthly basis. Your budgets should be created using spreadsheet or similar software. Using monthly intervals allows frequent reviews of your progress against your targets. For established businesses, budgets should include actual results from 12 months previously for comparison purposes. This will give you a valuable set of data to work with: last year's results for the month in question, this year's targets for the month and this year's actual outcome.

Be prepared to review your budgets - and the planning behind them. Significant departures from your budgeted performance should prompt an investigation into the causes. A wide range of factors could be responsible, from an underperforming department to unexpected changes in the marketplace. You will need to revisit your strategic, marketing and operational plans if the assumptions underpinning them no longer apply.

Further information

- Find business planning advice and templates through GOV.UK.
- Watch a guide on how to forecast your business finances on GOV.UK.
- Find mini tutorials to help with your business planning from the Economist Guide to Business Planning.
- Read an introduction to benchmarking from Bain & Company.