

Guide from CLEAR HOUSE ACCOUNTANTS

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Writing a business plan

Your business plan outlines your business strategy and what you need to do to achieve your goals. It helps you think through your options, identifying the best opportunities and how to make the most of them. You can also use your business plan to help convince banks, investors and other key contacts to support you.

A good business plan shows a clear understanding of the market and your business. It also sets out how you expect the business to perform and any funding requirements.

1. Purpose of the plan

Be clear about what the business plan needs to achieve.

A primary aim of any business plan is to set out your strategy and action plan

- This typically covers the next one to three years, or sometimes five years.
- The plan explains your objectives and how you will achieve them.
- Putting the plan in writing helps you focus and develop ideas. Priorities are identified. Non-priorities are dropped, saving precious time.
- Once written, the plan is a benchmark for the performance of the business.
- By involving your employees in the complete planning process, you continue to build up a successful, committed team.

Sometimes the plan is aimed at people outside your business

For example, when you are:

- raising bank or equity finance
- disposing of a business
- attracting new senior management

- attracting business partners, such as distributors and agents.

You may need to tailor your plan to the target audience

- You may want the plan to 'sell' the business: for example, to your bank manager or investors.
- Specific issues, such as the directors' personal track records, may need to be addressed. Ask the intended recipient first.

2. Content of the plan

Base the plan on detailed information where possible. But do not include all the detail in the plan. Leave the detail for operational or marketing plans.

Keep the plan short

- Focus on what the reader needs to know.
- Cut out any waffle.
- Make sure there are no spelling mistakes.
- Detailed business plans are often quickly shelved because they are difficult to use on an ongoing basis.

Include any detailed information you need in an appendix

For example, you might want:

- detailed financial forecasts and assumptions
- market research data
- CVs of key personnel (essential if you are seeking outside funding)
- product literature or technical specifications.

Base your business plan on reality or it may be counterproductive

- Over-optimistic sales forecasts can lead to increased overheads followed by a cashflow crisis and drastic cost cutting, all of which can seriously damage morale.
- Be realistic, even if you are selling the business to a third party. Financiers, business partners and employees will see through over-optimistic plans that ignore weaknesses or threats. Management credibility can be damaged.

Make the plan professional

- Put a cover on it.
- Include a contents page, with page and section numbering.
- Start with an executive summary. This summarises the key points, starting with the purpose of the business plan.
- Use charts, if helpful.

Even if the plan is for internal use only, write it as if it were aimed at an outsider

- Include company or product literature as an appendix.
- Give details about the history and current status of the business.

Review the plan

- Read through the plan from your target reader's point of view. For example, try to imagine the impression the plan will make on your bank manager.
- Check that the plan is realistic. Make sure that it includes the evidence to back up what you say (perhaps in an appendix) or that you can provide evidence if needed.
- Assess the risks. What might go wrong (eg, if your main supplier closes down or you lose a key customer) and what would you do about it?
- Concentrate on the executive summary. People often make provisional judgements based on this; only then do they read the rest of the plan to confirm their decision.
- Show the plan to friends and expert advisers and ask for comments. Which parts did they not understand or find unconvincing?

3. Business and products

Explain the history of the business

- When did it start trading and what progress has it made to date?
- Who owned the business originally?
- What is the current ownership structure?

Describe what your product or service is, avoiding technical jargon if possible

- In general, what makes it different?
- What benefits does it offer? What are its disadvantages and how will you address these?
- What are the planned developments?

Explain any key features of the industry

- For example, any special regulations, whether the industry is dominated by a few large companies or any major changes in technology.

4. Market and competition

Describe the market in which you sell

- Highlight the segments of the market in which you compete. What are the key characteristics of customers in each segment?
- How large is each market segment? What is your market share?
- What are the important trends, such as market growth or changing tastes? Explain the reasons behind the trend.
- What are the key drivers affecting each important market segment? What is the outlook for those drivers and the market?

Describe the nature and distribution of existing customers

- Do they fit the profile of the chosen market segment? If not, why not?
- Is there a heavy concentration of sales around one or two large customers?

Outline the main competition

- What are the competing products or services? Who supplies them?
- What are the advantages and disadvantages compared to your own? For example, price, quality, distribution.
- Why will customers buy your product or service instead? Show you understand your competitors' reaction to losing business and how you will respond to it.
- Never openly criticise or underestimate competitors.

5. Marketing and sales

Where do you position your product or service in the marketplace?

- Is it high quality and high price?
- Is it marketed as a specialist product due to a particular feature?
- What unique selling features does it have?
- Which of these features are you going to concentrate on?

What is your pricing policy?

- Explain how price-sensitive your products are.
- Look at each product or market segment in turn. Identify where you make your profits and where it may be possible to increase margins or sales. Set your pricing accordingly.

How do you promote your product or service?

- Each market segment will have one or two methods that work best. For example, direct marketing, advertising or PR.
- If you are considering using a new method, start on a small scale. A failed investment in marketing can be costly.

Through what channels do you reach your end user?

- Compare your current channels with the alternatives.
- Note the distribution channels used by your competitors.
- Look at the positive and negative trends in your chosen distribution channel.

How do you do your selling?

- Look at the cost-efficiency of each of your selling methods: for example, telesales, a direct sales force, through an agent or over the internet.
- Include all the hidden costs of the direct sales force, such as management time.
- Explain how long it takes to make sales (and to get paid for them), what the average sales value is and how likely customers are to give repeat orders.

6. Management and personnel

Set out the structure and key skills of the management team and the staff

- Clarify how you cover the key areas of production, sales, marketing, finance and administration.
- Address any areas of deficiency, and your plans to cover this weakness.
- Explain your recruitment and training plan, including timescales and costs.

Analyse the workforce in terms of total numbers and by department

- Compare the efficiency ratios with competitors, or with similar industries. Useful figures might be sales, average salaries, employee retention rates and measures of productivity.

Be realistic about the commitment and motivation of the workforce

- Show how committed you and other members of the management team are: for example, how much you have invested in the business.
- Consider how you would survive the loss of a key worker.
- Note any unusual upward pressure on pay levels.
- Spell out any plans to improve or maintain motivation.

7. Operations

Look at the capacity and efficiency of your operations, and the planned improvements.

What premises does the business have?

- What are the long-term commitments to property?
- What are the advantages and disadvantages of the present location? Should the business expand or move?

What production facilities are there and how is production organised?

- How modern is the equipment?
- What is the capacity of the current facilities compared with existing and forecast demand?
- Who are your key suppliers? How do you select and manage them?

What management information systems are in place?

- For example, management accounts, sales, stock control and quality control.
- Are they reliable? Can they deal with any proposed expansion?
- A financier would be very concerned if management information systems were inadequate. Management of a business is always limited by the quality of the information available.

Are your IT systems reliable?

- IT is a key strength (or weakness) of your business. The development of IT systems to help your business is usually an important issue.

What quality or regulatory standards does the business conform to?

- For example, ISO 9000 or CE approval.

8. Financial performance

Your financial forecasts translate what you have said about your business into numbers.

Set out historical financial information for the last three to five years, if available

- Break total sales figures down into component parts: for example, sales of different types of product or to different sorts of customers.
- Show the gross margin for each component of sales. List what costs are included as direct costs for each component.
- Show the movement in the key working capital items of stock, trade debtors and creditors. Use ratios such as stock turnover (in months), debtors period (in days) and creditor's period (in days).
- Highlight any major capital expenditure made.
- Provide an up-to-date balance sheet, and a profit-and-loss account.
- Explain the reasons for movements in profitability, working capital and cashflow. Compare them with industry norms.

Provide forecasts for the next three (or even five) years

- The sophistication of your forecasts should reflect the sophistication of your business. A small business may only need profit and loss, sales and cashflow statements.
- A more complex asset-based business – or one with complex working capital requirements – will need balance-sheet forecasts as well.
- Use the same format as for the historical information, to make comparison easier.
- Clearly state the assumptions behind the forecasts. These should tie in with statements in the rest of the plan. For example, if the plan states that the market is becoming more competitive, profit margins should probably be falling.

- Be realistic about forecasts in new markets. For example, how much resource can you devote to selling, what success rate can you expect and how long will it take to convince new customers?
- Look at the overall trends of historical and forecast numbers. Are they believable? Do the forecasts allow for the possibility of problems and delays?
- Consider 'what-if' scenarios. For example, consider what will happen to your cashflow if sales are 20% lower than forecast (or 15% higher).

Put detailed financial forecasts in an appendix at the end

Include a detailed list of assumptions. For example:

- the profit margin on each product
- how long it takes to collect payment from debtors
- what credit suppliers will offer you
- what financing you are expecting and the interest rate you will pay.

Use the cashflow forecast to predict any financing requirements

- Add a contingency element onto the funding requirement shown in the forecast (perhaps 10%-20%). Think about what the mid-month peaks might be.
- Identify what types of financing you want: for example, long-term loans or an increased overdraft facility.
- Include the likely interest or dividend costs of any new finance.
- Carry out sensitivity tests on the cash required by reducing key items, such as sales or margin. Note the outcomes.
- State why the financing is required and what it will be used for.

If necessary, get help

- Small business advisers at banks and business support organisations may help you put together financial forecasts free of charge.

9. SWOT analysis

Set out a one-page analysis of strengths, weaknesses, opportunities and threats

- Strengths might include brand name, quality of product or management.
- Weaknesses might be lack of finance, or reliance on just a few customers.
- Opportunities might be increasing demand or a competitor going bust.
- Threats might be a downturn in the economy or a new competitor.

Be honest about your weaknesses and the threats you face

- Spell out mitigating circumstances and the defensive actions you are taking.

10. Driving your business forward

Identify what makes you better than the competition

- Think also about what the key ingredients of your future success will be and how you will strengthen your position in the market.

Establish your overall business aims

- Where do you realistically intend to be in three years' time?

Decide on half a dozen key objectives that will make a significant difference

Many businesses think in terms of:

- income – more sales, better margins
- customers – new customers, higher levels of customer satisfaction
- products – improving existing products, launching new ones
- human resources – recruiting new employees, developing new skills.

Set clear targets

- You should know exactly what you want to achieve, by when.

Work out how you will reach these targets

- Look at each aspect of your business in turn and create a step-by-step action plan for it.

This should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.