

# Writing a business plan

**Every management team should know where it is taking the business, and how it is going to get there. The purpose of the business plan is to outline the strategy and actions required to get the business to where it wants to be.**

This briefing outlines the key issues to consider when putting together a 'typical' business plan. Depending on the scope of your plan, you may need to omit or combine certain sections.

The briefing covers:

- The reasons for a business plan.
- The required emphasis for a plan.
- The structure and content of a plan.

## 1 Purpose of the plan

Be clear about what the business plan needs to achieve.

**1.1** A primary aim of any business plan is to set out the **strategy** and action plan for the business for the next one to three years (sometimes five years).

- It explains your objectives and how you will achieve them.
- By involving your employees in the complete planning process, you continue to build up a successful, committed team.
- Priorities are identified. Non-priorities are discarded, saving precious time. Once written the plan is a benchmark for the performance of the business.

Putting the plan in writing helps you focus and crystallise ideas, and identify priorities.

**1.2** 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.

In this situation, the plan needs to 'sell' the business.

The plan may need to be tailored to the target audience. For example, your bank manager.

Specific issues such as the personal track records of the directors may need to be addressed. Ask the intended recipient first.

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## 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.

### 2.1 Keep the plan **short**.

- Focus on what the reader needs to know.
- Cut out any waffle.
- Ensure there are no spelling mistakes.
- Put any substantial information, such as market research, in an appendix.

Detailed business plans are often quickly shelved, because they are difficult to use on an ongoing basis.

### 2.2 Base your business plan on **reality**, or it may be counter productive.

- 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. (See 1.2.)

Financiers, business partners and employees will see through over-optimistic plans that ignore weaknesses or threats. Management credibility can be damaged.

### 2.3 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 relevant.

### 2.4 Even if the plan is for internal use only, write it as if it is aimed at an **outsider**.

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

Show the plan to friends and expert advisers and ask for comments. Which parts did they not understand?

## 3 Business and products

### 3.1 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?

### 3.2 Describe what your **product** or **service** is. Avoid technical jargon if possible.

- In general, what makes it different?
- What benefits does it offer? What are its disadvantages?
- What are the planned developments?

## 4 Market and competition

### 4.1 Define **the market** in which you sell. Focus on the segments of the market in which you compete.

- 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?

### 4.2 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?

### 4.3 Outline the principal **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?
- Never overtly criticise or underestimate competitors.

## 5 Marketing and sales

In this section of the plan, you usually address these five questions.

### 5.1 Where do you **position** your product or service in the market place?

- 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?

“There is no point in spending hours producing detailed financial forecasts if you are not going to use them to control the business.”  
**Steve Richards,**  
**Interflora**

- Which of these features are you going to concentrate on?

### 5.2 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 there is scope to increase margins or sales. Set your pricing accordingly.

### 5.3 How do you **promote** your product or service?

Each market segment will have one or two optimum methods. 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.

### 5.4 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.

### 5.5 How do you do your **selling**?

Analyse 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.

## 6 Management and personnel

- ### 6.1 Set out the structure and **key skills** of the management team and the staff. Identify any areas of deficiency, and your plans to cover this weakness.

- Explain your recruitment and training plan, including timescales and costs.

- ### 6.2 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.

- ### 6.3 Be realistic about the **commitment** and motivation of the workforce. Consider how you would survive the loss of a key worker.

- Note any unusual upward pressure on remuneration.
- Spell out any plans to improve or maintain motivation.

## 7 Operations

Analyse the capacity and efficiency of your operations, and the planned improvements.

### 7.1 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?

- ### 7.2 What **production facilities** are there and how is production organised?

“Start with your distinctive capabilities — what do you do that your customers recognise as being different or better than the competition?”  
**Richard Holloway, Aditum**

### Driving your business forward

Start by identifying 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.

Then establish your overall business aims — where you realistically intend to be in three years' time.

Next, decide on half a dozen objectives, each of which will make a significant difference to the future of your business. Define clear targets for these — so that you know exactly what you want to achieve, by when.

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.

The next stage is to work out how you will reach these targets, by considering each aspect of your business in turn and creating a step-by-step action plan for it.

- How modern is the equipment?
- What is the capacity of the current facilities compared with existing and forecast demand?

### 7.3 What **management information** systems are in place?

- Are they reliable?
- Can they cater for 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.

IT is a key strength (or weakness) of your business. The reliability of your IT and the development of IT systems to help your business are usually important issues.

Identify any quality or regulatory standards that the business must conform to (eg ISO 9000 or CE approval).

## 8 Financial performance

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

### 8.1 Set out the **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 types 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 creditors period (in days).
- Highlight any major capital expenditure made in the period.
- Provide an up-to-date balance sheet, and a profit and loss account.

Explain the reasons for the movements in profitability, working capital and cashflow. Compare them with industry norms.

### 8.2 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, in order to aid comparisons.
- 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, then profit margins should probably be falling.

Look at the overall trends of the historical and forecast numbers. Are they believable? Do the forecasts make allowance for the possibility of problems and delays?

### 8.3 If you are raising finance, use the **cashflow forecast** to predict your cash requirements.

- Add a contingency element on to the funding requirement shown in the forecast. (This is often 10 to 20 per cent.) Consider what the mid-month peaks might be.
- 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 cash is required.

## 9 SWOT analysis

### 9.1 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 dependency on 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.

### 9.2 Be **honest** about your weaknesses and the threats you face.

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

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