

Effective Business Planning

A basic guide to creating your business plan

“Business planning is a detailed examination of a proposed course of action for a new business, the introduction of a new product or a modification in strategic direction.”

“What a business plan is not, is the justification of a course of action already undertaken.”

This document is designed to help you through the process of planning and deploying a business plan, and outlines the key areas you need to cover.

The Overall Content and Appearance

The reader of the business plan is often persuaded by the overall appearance of the plan and the ease in which the plan can be read and digested. Presentation is not everything, but where the document is being used for the support of funding or a growth proposal for stakeholders, then the appearance is definitely important. Care must also be taken with the layout and font selection. Paragraphs must be concise and focus on the points of each issue.

The content of a business plan doesn't always follow a standard format. In general it will consist of the following:

Front Cover

Simply provide a front cover with the appropriate information regarding the company, logo, date and author(s). A smart cover sets the tone of the plan and can leave the reader eager to open the document and understand the detail.

Contents Page

It goes without saying that a comprehensive contents page which enables the reader to identify the key items and where they can be found will go a long way to improving the look and feel of the plan.

Executive Summary – Structure & Content

The executive summary should ideally be one page and cover the key points extracted from the detailed plan. It should address these points:

- Introduce the project in terms of the area it is concerned with, what it is trying to do, and list the key individuals and advisors involved.
- Explain, very clearly and simply, the proposition – exactly what are you going to produce, what need does it satisfy that is not being satisfied at present (will it do something better, faster, cheaper, more conveniently, is it easier to operate, smaller in size, longer lasting, lower maintenance etc?). Be specific and do not assume the reader will immediately see an advantage that you consider obvious.
- State specifically the competitive advantages of products and/or processes in relation to other alternatives in the market, and then explain and substantiate how these are important to customers – this includes in particular confirmation that consumers are actually willing to pay for such ‘advantages’.
- Describe the stage the project has reached particularly

in terms of the “readiness for market” of the products or product concepts, and any intellectual property such as patents that may support the project.

- Outline the main characteristics of your market, including size and growth, and specify the market opportunity that you are addressing. Be specific about the main consumer target groups.
- Highlight any “evidence of success” – this may be trade reviews, analyst comments, sales or partnership agreements, working prototypes etc. which help to make the project more tangible and raise confidence.
- Summarise the objectives of the company in the short and long term and outline the key strategies you will use to achieve them.
- State your finance requirements and what stake in the company is available for this (see Finance Requirements and Investment Structure). What is the planned exit route for the investor (how will they get their money and profit back)?

Introduction to the Business

Generally introduce the business and what it does/will do.

- Outline concisely how the project came about, and has progressed to the present position.
- Describe what the company’s legal structure is, who its shareholders are, and how activities have been funded so far.
- Explain where you are now and where you proceed from here – what you want to achieve.

The Management

Of the entire project, probably the most important factor is its management. In some cases, such as when dealing with Venture Capital companies (VCs), they will only look at the rest of your proposition if they see a strong management team.

This is particularly important when dealing with large investments.

Explain who is involved, including a paragraph on each individual on the management team, listing their background and relevant experience/qualifications, as well as on any other mentors or non-executives. Include also any advisors or partner organisations, including accountants and lawyers.

For all projects you need to put forward a management team that has the ability to realise the plan. If you have gaps in the team highlight them; investors may be able to help fill them – better that you highlight weaknesses than investors point them out.

The Products

Provide a simple and clear description of your products – a description that a lay person can easily understand. Do not assume technical knowledge by the reader. Then explain:

- Is your product satisfying a customer need that isn't currently being met?
- Performance or value advantages over competition. Does it do things better, faster, cheaper, more conveniently? Is it easier to operate, smaller in size, longer lasting, lower maintenance, and is this advantage really important to consumers – important enough to pay for?
- Other unique features.
- Intellectual property – any patents or trademarks involved or required.
- What is the selling price and the pricing strategy behind this? You must re-affirm that your potential customers can afford your products, and are willing to pay for them.
- Production and distribution costs and resulting margins on sale.
- What are the retailer margins (if retail channels are

being used)?

The Market

The market represents the only reason for the business to exist. Ensure you know everything you can about the market and the participants in it.

- Market size – describe the size of the market and be specific about the size of the actual market sector that you are targeting.
- Market growth and other market characteristics.
- How can the market be segmented and which segments are you targeting?
- Main players (competitors) in the market – identify who your main competitors are.
- How companies (competitors) compete in terms of competitive strategy.
- Analysis of industry structure.

Utilise analytical tools such as Porter's 5 Forces, and PESTLE (Political Economic Social Technological Legal Environmental factors) analysis to assist in focusing attention on the key factors that will influence your decisions. To that end consider, among others, the following questions:

- Threat of new entrants into the market – what do we believe is the threat of new players entering the market, are there any barriers to entry or exit such as large investment etc?
- Threat of substitute products – the threat of different products fulfilling the same need.
- Power of buyers – are the buyers of products very powerful and able to depress prices?
- Power of suppliers – what is the bargaining power of the suppliers to the business?
- Rivalry amongst existing players – how intense is this and how strong are they – for example, in some markets

rivals are willing to sacrifice profitability to gain market share?

- How profitable are the companies in the market – do they make good margins, good turnover etc?

Competitive Market Strategy/Competitive Advantages

How is the company going to compete in the market? Will it compete on price, service, quality, convenience, new features and benefits, by targeting a very specific area of the market (niche) etc? Is this difference really important to the target customer / buyer? Consider undertaking a SWOT (strengths, weaknesses, opportunities and threats) analysis.

Operations and Production

Will the business need changes to the way it will operate or will you need to organise a production facility from scratch? Analyse the issues involved by asking questions such as:

- How will the company be organised operationally on a day to day basis? What office space will it use, what support staff will be employed, who will answer the telephone or will a virtual office be used, who will do the company book keeping (in house or initially use a firm of accountants to assist with this), who will take orders and raise invoices etc?
- How are the products to be produced – describe the process procedures and needs? Will any investment in premises and equipment be required? If so detail this. Will the production be contracted out, perhaps to a supplier who already has the production assets in place, or will a joint venture be established to do this?
- How will this production process be managed to ensure efficiency and effectiveness?
- What are the production lead times, costs, bottlenecks/

production limiting factors, fixed and variable cost breakdown, etc?

- Is the company able to respond quickly to changes in demand – can it raise production quickly or does an increase in capacity require long term investment and planning – if so how long?

Sales and Distribution

How the fledgling company will go to market or how the new product will reach its intended customer base is an intrinsic necessity that must be considered at this stage. Ask yourself:

- How is the company going to reach the customer and provide them with the information they need and the opportunity to buy?
- Will the company adopt a retail strategy, sell through intermediaries or sell direct? What margin structures will operate for each intermediary in the sales channel? How do these margins compare to those offered by competitors? In light of the pricing strategy, what will the consumer have to pay? How much prospect is there within these price and margin arrangements to discount for promotions etc?
- Who will take the orders and process them and how will they link into the company's financial, production, and physical distribution systems?
- How is the company going to physically transport its products to its customers? Will it acquire its own warehouses and fleet of vehicles or will it contract a distribution solutions company and what will that company provide and at what price? Will the company provide the adequate level of service delivery required by the buyers in terms of delivery frequency and other requirements? Will this distribution strategy require large quantities of spare stock (this will be affected in large part by your production strategy and

structures)?

- What are the physical distribution lead times? From when the order is received to delivery from stock, or if the product is made to order, what delays will occur during the supply process?
- How will the company sell its products to the buyers? Will it use its own sales force or will it contract a sales force, or perhaps rely on wholesalers?

Illustrative Financial Projections

Provide a set of financial projections that show the financial implications of your plan. Make sure that you clearly state the assumptions behind these projections, both in terms of costs and revenues, and ensure that they are realistic. By explaining the assumptions, the reader will be able to see that the figures have been thought through – whether or not they agree with them.

The projections should include:

- Cash flow statement – the cash balance and movement by month for the first year to 18 months, and then for 3 and 5 years going forward.
- Profit & loss statement – this is a statement of the trading position of the business or the division.
- Balance Sheet – this is a statement of the company's assets and liabilities.

Within this it is also useful to highlight the 'cash-burn' rate of the business; how much cash it consumes each month.

The full statements should usually cover three years ahead, with an indication of headline figures up to five years (underlying detail after three years in high potential companies is often a complete stab in the dark). The reason why it is important to give

headline figures over a longer period is to provide an indication to the reader of the potential upside of the business.

Finance Requirements and Investment Structure

You need to make clear to the reader how much finance you need, how it will be used, what they are going to get in return, and when they can expect it:

- How much money is needed to execute the plan?
- What do you expect the sources of this money to be e.g. Company assets, Business Angels, Venture Capitalists, Bank Finance, or a mixture?
- Specifically how will the money be used?
- What is on offer in terms of ownership (shares) in the company, for the money? Is 20 percent or 40 percent of the company's equity available for this investment?
- Details behind any banking facility or other forms of finance you expect (if any).
- What do you expect investors to receive in return for them risking their money?
- How do you expect investors to get their investment and return and when? Will this be through a trade sale, a flotation, or a management buy-out?

Finally any supporting data can be added as appendices rather than lose the crispness of the main document.