



writing your business plan

A business plan clarifies your main business idea and defines your long-term objectives. It provides a blueprint for running your business and a series of benchmarks to check your progress against. It is also vital for convincing your bank or business support organisation – and possibly key customers and suppliers – to support you.

This section explains:

- How to structure a business plan.
- What information to include.
- How to present your financial forecasts.

1

executive summary

The executive summary outlines your whole business proposal. Although it is the last section to be written, it goes on the first page of the business plan. It will be read by people unfamiliar with your business, so avoid technical jargon.

1.1 The executive summary highlights the most important points. It should **sum up** six areas.

- Your product or service and its advantages.
- Your opportunity in the market.
- Your management team.
- Your track record to date.
- Financial projections.
- Funding requirements and expected returns.

1.2 When deciding whether to back a start-up, bank managers and investors often make **provisional judgements** based on the executive summary.

- The main body of the business plan (see 2 to 9) is then read to confirm the initial decision.
- The appendices at the back of the plan (see 10) carry detailed information to support the main text.

2

the business and the product

2.1 Explain the **background** to your business idea, including:

- The length of time you have been developing the business idea in its present form.
- Work carried out to date.
- Any related experience you have.
- The proposed ownership structure of the business.



2.2 **Explain**, in plain English, what your product is or what your service offers. Make it clear how:

- It will stand out as different from other products or services.
- Your customers will gain through buying your product or service.
- The business can be developed to meet customers' changing needs in the future.

It is important to cover any disadvantages or weak points you feel the business may have.

Be frank about these – it actually inspires confidence.

2.3 Explain any key features of the **industry**.

- For example, special regulations, effective cartels or major changes in technology.

3

markets and competitors

3.1 The market. Focus on the **segments** of the market you plan to target – for example, local customers or a particular age group.

- Indicate how large each market segment is and whether it is growing or declining.
- Illustrate the important trends – and the reasons behind them.
- Outline the key characteristics of buyers in each segment, such as age, sex or income.
- Mention customers you have already lined up and any sales you have already achieved.

3.2 The competition. What are the **competing** products and who supplies them?

- List the advantages and disadvantages of all your competitors and their products.
- Explain why people will desert established competitors and buy from you instead.
- Show that you understand your competitors' reaction to losing business and demonstrate how you will respond to it.

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

- You must show you have done the market research needed to justify what you say in the plan (see Researching your market, p8).

4

sales and marketing

This section is crucial. It often gives a good indication of the business's chances of success.

4.1 How will your product or service meet your customers' **specific needs**?

- Why should they buy from you and not a competitor?
- What's your unique selling proposition or USP? See Marketing your business, p20.

4.2 How will you **position** your product?

- This is the place to show how your price, quality, design features, response time and after-sales service will compare with competitors.
- Quote minimum order figures, if appropriate.



<p>4.3 How will you sell to customers?</p>	<p>For example, by phone, through your website, face-to-face or through an agent.</p> <ul style="list-style-type: none"> ➤ Show how long you predict each sale will take. Many new businesses underestimate the time involved in winning each order. In year one you may spend most of your time making contacts and selling. ➤ Will you be able to make repeat sales? If not, it will be hard to build up volume. 	<div style="background-color: #e0e0e0; padding: 10px;"> <h3 style="background-color: #008000; color: white; padding: 5px;">keep it real</h3> <p>Sales forecasts produced for start-up businesses are often wildly over-optimistic. Here are some important reality checks.</p> <ul style="list-style-type: none"> ➤ How soon can you start selling? Will potential customers hold off for a year before they take you seriously and place an order? ➤ How often will you be able to sell? How many days a year can you spend selling? How long will each lead take to line up? What percentage of leads will turn into sales? ➤ How much will you be able to sell? What will the average sale value be? Will most people give repeat orders, or must you find a new customer for every sale? ➤ How long after a sale will it be before you can collect payment? <p>In the light of all this, how much income can you realistically expect each month?</p> </div>
<p>4.4 Who will your first customers be?</p>	<ul style="list-style-type: none"> ➤ Show which customers have expressed an interest or promised to buy from you and the sales they represent. ➤ How will you identify other potential customers? <p>Unless you can demonstrate that you have a clearly defined pool of potential customers, starting your business is likely to be a struggle.</p>	
<p>4.5 How will you promote your product?</p>	<p>For example, using advertising, PR, direct mail or via email and a website.</p>	
<p>4.6 What contribution to profit will each part of your business make?</p>	<ul style="list-style-type: none"> ➤ Most businesses need more than one product, more than one type of customer and more than one distribution channel. ➤ Look at each in turn. Examine your likely sales, gross profit margins and costs. ➤ Identify where you expect to make your profits and where there may be scope to increase either margins or sales. 	
<p>4.7 Services and intangible products (such as computer software) require a different marketing approach – you need to focus on customer service.</p>		

5 management

People reading the business plan need to be given an idea of why they should have faith in the management of your start-up operation.

<p>5.1 Outline the management skills within your team.</p> <p style="text-align: right;">↘</p>	<ul style="list-style-type: none"> ➤ Define each management role and who will fill it. ➤ Show your strengths and outline how you will cope with any weaknesses. ➤ Describe the background and experience of each team member. ➤ Clarify how you intend to cover the key areas of production, sales, marketing, finance and administration. ➤ Management information systems and procedures should be outlined. For example, management accounts, sales, stock control and quality control. ➤ Show how many 'mentors' and other supporters you will have access to.
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how I wrote my business plan

Christine Swail, 33, set up People Management Solutions, a partnership that provides outsourced HR services to small businesses, in March 2001. The Belfast-based firm has since opened a second branch and is recognised as one of the leading HR service-providers in Northern Ireland. But such progress wouldn't have been possible without a business plan, she says



My business partner and I had both been working in human resources for about five years. We saw a gap in the market for a Northern Ireland-based firm that could provide outsourced HR services to small and medium-sized businesses and decided to set up People Management Solutions. We wrote our business plan with the help of another small business. They suggested how to lay it out and the sections we should include. While drawing up our business plan we spent a lot of time looking at our competitors – both the advantages we had and the disadvantages we faced. They were all competitive on price, so undercutting them wasn't an option. But unlike some well-established firms where the partners pitch for the work and less senior consultants carry it out, we do the work ourselves, so really understand each client's needs. Being Northern Ireland-based was a real selling point. Although some of our competitors offered access to advice hotlines, they were based in England and aspects of Northern

People power: Christine's plan kept her HR firm on target

Ireland law are very different. We also looked at our target markets and where we saw the firm going. We initially identified our customers as businesses with fewer than 200 staff in the manufacturing and IT sectors. We have since moved into different sectors and quite a few of our clients are now in the food industry.

Writing the plan was really worthwhile. It took the equivalent of five days' work and the final document runs to 25 pages. To begin with we consulted it every month to see how things were going. It helped keep us on track and made us sit down and think. We now update it yearly and, according to the plan, we'll have another consultant working with us within a year – then there'll be three of us.



Christine's top tips

- 1 Try to see a friendly firm's business plan
- 2 Keep your plan up to date
- 3 Don't panic if you don't meet early sales targets

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5.2 How **committed** are you?

➤ Banks and any other potential investors will want to be sure you are committed to the business. Show how much time and money each of the management team will contribute, and what your salaries and benefits will be.

6 operations

Explain what facilities the business will have and how it will deliver the product or service to the customer.

6.1 **Location.** Show the pros and cons of the site.

6.2 **Facilities.** Indicate the equipment and machinery you will need to start. Some start-up businesses only need a desk and a phone.

➤ Consider any potential limits to production capacity. If you are going to manufacture or distribute products, show how and where you are going to warehouse them and for how long.

6.3 **Employees.** Provide a listing of the relevant roles and the skills required to fill them.

6.4 **Suppliers.** Show how you have selected your suppliers.

7 financial forecasts

Your financial forecasts translate what you have already said about your business into numbers. A small, simple business may only need to do a sales forecast and a cashflow projection. An engineering firm starting up with 20 employees would need to do the full set of forecasts.

7.1 A **realistic** sales forecast forms the basis for all your other figures.

➤ Break the total sales figure down into its components (eg different types of products or sales to different types of buyer).

7.2 Your **cashflow 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 access to enough money to survive.

➤ Demonstrate that you have considered the key factors affecting cashflow, such as the level and timing of sales revenue and wages.
➤ Show when there will be more money coming in than going out ('cash-positive').

7.3 Your **profit and loss (P&L)** forecast gives a clear indication of how the business will move forward.

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

➤ Calculate the turnover you need to break even:
$$\text{£ breakeven} = \frac{\text{£ fixed costs}}{\% \text{ gross margin}} \times 100$$

If your gross margin is 25 per cent, your sales must be four times as large as fixed costs to break even.

↘

➤ Compare the breakeven level of sales with the sales you are forecasting.

- 7.4 If you are launching a larger start-up, you will also need **projected balance sheets**.
- These will show you the financial state of your business on day one and at each year end, perhaps for the first two or three years.
- 7.5 Do not get **too protective** about your forecasts. You may need to revise them.
- For every forecast list all the key assumptions you have made, such as prices, sales volumes and timing. You should test your assumptions with key advisers and potential lenders and suppliers – make sure they are accurate and robust.
- Contact a small business adviser at your local enterprise agency or an accountant for help with putting together your forecasts. To find your local enterprise agency, visit www.enterpriseni.com/map.htm
- 7.6 How would your forecasts be affected if anything went **wrong**?
- You need to build into your financial forecasting a range of possibilities, from best to worst. For instance, consider what-if scenarios for different levels of sales (see 9.2).

8 financial requirements

The cashflow forecast will show how much finance the business needs. Your assessment of the risks will determine whether or not you need to arrange contingency financing.

- 8.1 Say how much finance you **will want**, when and in what forms.
- For example, you might want a fixed-interest loan and an overdraft facility.
- 8.2 State what the finance will be **used for**.
- Show how much will be for buying equipment and how much for working capital (financing stock and debtors).
- 8.3 **Confirm** that you will be able to afford it.
- For example, if you want a loan, will your business generate the cashflow to make the capital and interest payments?

9 assessing the risks

Assessing risk clearly will help you minimise problems. It will also help build up your credibility with any investor or bank that is considering providing finance.

- 9.1 Look at the business plan and **isolate** areas where something could go wrong.
- For example, if you see possible technical problems in developing your product, try to show how you could minimise the risk.
- Identify things that might go wrong and what you would do if they actually happen – if your main supplier closes down or you are affected by bad weather, for instance.
- 9.2 Consider a range of **what-if** scenarios.
- For example, what happens to your cashflow if your sales are 20 per cent lower, 40 per cent lower or 15 per cent higher than forecast?
- If there are serious risks, you can:
- Arrange contingency funding to cover the finance you may need.
- Decide that the business is too risky and abandon the whole project.

10 appendices

A simple business plan may not need appendices. Everything can be included in the main text. A more complex business plan may summarise information in the main text, putting the detailed data – especially figures – at the back.

10.1 Detailed **financial forecasts** (monthly sales, monthly cashflow, P&L, any balance sheets) should usually be put in an appendix.

- Include a detailed list of assumptions.
For example, the profit margin on each product, debtor collection period, creditor payment period, stock turn, interest and exchange rates, funding injections, equipment purchases.

10.2 You may want to give other **relevant** information.

- Detailed CVs of key personnel (essential if you are seeking outside funding).
- Market research data.
- Product literature or technical specs.
- Names of committed or target customers.
- A list of external data sources used in your research will add credibility to the information.

11 presenting the plan

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

11.1 Keep your business plan **short**.

- Most business plans are too long. Cut out the waffle and stick to the point. Focus on what the reader needs to know.

11.2 Make sure you include all **necessary** information.

- The amount of detail required in your business plan will vary depending on the complexity of your business idea.
- Find out what your reader needs to know – different organisations may want to see different levels of detail.

11.3 Make it **professional**.

- Put a cover on the business plan and give it a title. For example:
XYZ Limited – Business Plan
For Mr Bank Manager, ABC Bank – 10/11/03
- Include a contents page.

11.4 **Test** it.

- Re-read it yourself. Would reading your plan give an outsider a good feel for your business and a grasp of the key issues?
- Show the plan to friends and expert advisers and ask them for comments. The time you spend rewriting and polishing the plan now will save you time later, when you are arranging finance and launching your business.