



Special Update Feature

Writing a Successful Business Plan

Introduction

Applying for funding from banks, venture capitalists, business angels, grant providers or potential partners will, in most cases, require the submission of a business plan. A business plan is crucial for both those intending to start a new business venture, or established businesses that want to expand or pursue a new endeavour. A business plan is essentially a guide to what your business will do, what you aim to achieve, how you will accomplish this and most importantly whether you have the ability to do so. It is of particular importance to new businesses as it is a way to formalise, structure and therefore assess the viability of your ideas.

The aim of this article is to assist new and established businesses with writing a business plan, covering what information should be included and where you can go for help.

What is a Business Plan?

A business plan provides a complete description of a business, explaining its products or services, marketing and sales strategies, the management team, operations and predictions of financial forecasts. In order to demonstrate the viability of the business idea, you should identify that the product or service has a definite market, outline the advantages in terms of competition, and appraise the costs and profit margins. The business plan, therefore, enables a business idea to be taken from the initial conception stage towards a fully reasoned and realistic plan of action.

The plan also serves as a working document and essential management tool as it sets out how the business will proceed and the strategies it will employ. It enables possible obstacles to be highlighted and avoided, targets to be focused upon and achieved, and effective structures to be put in place for finances and business strategies. Businesses should use the plan to guide decision-making and it should be reviewed, modified and developed as the business progresses and evolves. Businesses that implement their business plan and keep it up-to-date are able to monitor their growth and are in a better position to seek out external funding to assist with future developments.

Targeting the Right Funding Audience

If you are self-funding your business, your bank manager may want to see your business plan before you are able to open a business account. If you are primarily writing a business plan to secure funding, you should tailor it to highlight the expectations of the specific target audience. In terms of securing a bank loan or overdraft, particular attention will be paid to your ability to repay the money, how it will be used to help your business grow and what other loans or financial commitments you have.

When sourcing funding from potential investors, interest will be focused on the financial forecast section of the business plan, the expected return on their investment and the capability of the management team. In addition to these points of focus, shareholders will also require information detailing the prospect for share prices, what dividend they may expect, how and when they may exit with positive returns and their degree of control.

Businesses that aim to secure funding from venture capitalists will need to consider the amount of equity they would be prepared to submit. Venture capitalists generally combine an equity stake with a loan and would expect a return of between 10 to 20 times their investment within a maximum of five years. Within your business plan you should identify the amount of investment needed, the security you could offer and an exit strategy.

Structure of the Business Plan

Presentation is essential when creating your business plan, therefore, you should spend a great deal of time formulating your plan. Write your plan in the third person and ensure that the information is presented in a clear and concise manner. Information that is too lengthy will cause the reader to lose interest, while too short a description may either be discarded or you may have to provide more information. Above all, you should aim to create a business plan that is honest, realistic and achievable.

A business plan encompasses various sections that allow the reader to follow a logical format and structure. The content of each section is highly dependent on the size and scale of your operation. There are many variations to the structure of a business plan, although most business plans cover the areas outlined below. Some of the sections may not be necessary in some instances, as the information you need to provide may be too short to warrant a section of its own. Ideally, you should aim to discuss information separately as the sections enable the reader to go directly to the desired area via the contents page.

The most commonly used sections are as follows:

- Executive Summary.
- Table of Contents.
- Background Information/Business Description.
- Products and Services.
- Market and Competitors.
- Marketing and Sales.
- Operations Plan.
- Management Team and Personnel.
- Financial Forecasts.
- Appendices.

The Executive Summary

This is probably the most important section of the business plan as most lenders and investors make a judgement about the business using this section alone. It should describe the most significant points from each section and provide a compact version of your overall business plan. It is vital to ensure that the summary both informs and interests the reader so that they move on and read the entire business plan.

The executive summary should only be written once you have constructed the whole plan so that you include the important highlights from each section. It is particularly important that this section remains concise; generally, it should be between one and two pages of A4. While the executive summary should generate excitement regarding the business opportunity and financial forecast, be careful not to be overly optimistic, and the use of hype will simply undermine the credibility of your business plan.

Table of Contents

The contents table should directly follow the executive summary and again, write this last to correspond with the page numbers for each section. Take care to double-check it for accuracy, especially after you have made changes and edited your business plan. If possible, the contents page should only be one page long and each of the sections subheadings should be numbered, for example:

3. Products and Services	
3.1 Main Products and Services	6
3.2 Distinctive Qualities	6
3.3 Pricing Strategy	7

Background Information/Business Description

This element of the plan outlines your business and sets out your vision. New businesses can use this section to portray when trading will start, what will be sold or provided, the business sector, legal status of the business and plans for the future. This section could also be used to highlight any contact you may have had with business advisors or any alliances you have formed with other organisations.

Established businesses that are highlighting the need for expansion or that are proposing business improvements or new ventures can use this section to express how the business was started and how it has progressed. History of sales and profits may be included to provide factual evidence of your past accomplishments. This section can also be used to describe any challenges that have been overcome, as this will enhance the credibility of the business.

Products and Services

Describing your products or services does not necessarily need a section of its own. It is a matter of choice as to whether you devote a whole section to it or amalgamate it with the section above. Generally, innovative or complex products or services may benefit from a thorough and detailed explanation. When detailing your products or services, avoid the use of sector-specific jargon and assume that the reader does not have any prior knowledge of your sector. You should begin by describing your product or service, what differentiates it from others, why customers would buy it and how it would improve their lives.

Provide details of your pricing strategy, communicating a justification for your retail price in line with your competitors and market research. This should include a breakdown of the cost of production and distribution (if applicable) and your profit margin.

This section may also be used to outline your plans for the introduction of additional products or services in the future. In some cases, basically for innovative products, there may be a need to outline the need for essential equipment, whether patents, trademarks or design rights have been acquired or will be needed and what factors would prevent others from producing a cheaper product.

The Market and Competitors

In this section, you should be aiming to define your market and competitors in great detail. Before completing this section, ensure that you have carried out thorough market research so that you are presenting a valid business case. This section will be of particular interest to investors, as it will enable them to identify whether you fully understand your market and its associated trends. You should know the size and structure of your market, its geographical spread and its growth potential. Your market research should describe the target market and the characteristics of the particular market sectors. This may be demonstrated by identifying market trends, examining how well similar products or services have performed and analysing both current and future competitors in terms of

advantages and disadvantages, and their market share. Overall, you should be outlining the position of your business in relation to the competition, whilst demonstrating a need for your product, your competitive advantage and how you would deal with changes to the market.

You could include a detailed competitive market strategy in this section to demonstrate that you have analysed your competition thoroughly. This may easily be outlined by using Porter's Five Forces model (1) which will illustrate that you have not only examined your industry structure and any external forces but that you have a clear understanding of your strengths, weaknesses and ability to be profitable.

The Five Forces model includes an analysis of the following:

- * *The Bargaining Power of Buyers* - This refers to the power that your customers have to drive down your prices. This may be influenced by the quantity of buyers you have, the importance of individual buyers and the cost to buyers for switching to another product or service. If you have a large number of buyers you are less likely to have trading terms dictated to you.
- * *The Bargaining Power of Suppliers* - This factor assesses the impact suppliers have on increasing your prices. This is determined by the number of suppliers you have for each resource, the uniqueness of their product or service and the cost for switching to new suppliers. Again, the more suppliers you have, the more control you will have over your prices.
- * *Threat of New Entrants to the Market* - Within this aspect of the model, assess the potential others have of entering your market. This should be in terms of the time and money needed to compete effectively with your products or services. Indicate any protection you have (in the form of patents, design rights etc) and barriers such as specialist knowledge that will prevent competitors from entering your market quickly.
- * *The Threat of Substitute Products* - This may be in the form of a different product or service fulfilling what you provide or where your customers may undertake or outsource what you provide. You should, therefore, aim to assess any possible ways your customers may by-pass your products or services.
- * *The Intensity of Competitive Rivalry* - This is affected by the amount of competitors you have and their capability to offer similar products or services. Examine the profit margins and turnover of other companies, as, in some markets, your competitors may be willing to sacrifice profitability to gain majority of the market share. You will be able to demonstrate a powerful position if you offer products or services that are unique as your buyers and suppliers will not have many options in terms of your competitors.

Progressing on from Porter's Five Forces, you may also want to include a SWOT matrix analysis (2) to expand upon the strengths and weaknesses you have just identified. Using this allows you to identify and analyse your strengths and weaknesses alongside external opportunities and external threats. The analysis is usually presented as a grid, which has the following headings:

- * *Strengths* - These can be transferred from the Five Forces model, although you should also add any other strengths your business may have, ie its location, staff expertise.
- * *Weaknesses* - State the weakness identified using Porter's model. Other weaknesses you may include could be your location or lack of marketing skills.
- * *Opportunities* - These are external opportunities that may already be present or could be harnessed in the future. Examples of these could be relationships formed with other companies, export opportunities or moving into new markets.
- * *Threats* - External threats may include anything from impact of future legislation to competitors setting-up locally.

To conclude the SWOT matrix analysis, summarise the findings in terms of how your strengths will enable opportunities to be exploited and how you aim to alleviate weaknesses and your plans for tackling potential threats.

Marketing and Sales

Within this section you should discuss the specific strategies you will employ to promote and sell your products and services. There should be a logical flow from the previous section in terms of how you plan to market your product or service in light of your findings. Again, this section is often a key factor in securing funding. You should, therefore, ensure that the plan is well thought-out and thoroughly detailed. Essentially your plan should include dates allowing you to measure the results of each strategy so that it can inform future marketing tactics. The plan itself should examine the different stages of the marketing process, which could include the following:

- * The method(s) in which your products or services will be sold, ie your own or other retail outlets, internet etc.
- * Your first potential customers, ie those that have shown an interest in your product or service.
- * How you aim to position your products or services in the market place and in relation to the competition.
- * Details of your pricing policy for example, price ranges depending on the customer base or quantities bought and pricing promotions or deals. Express this in relation to your competitors.
- * How you intend to promote your products or services by outlining your sales methods, ie marketing, advertising, mailshots etc. Ideally, you should discuss the specifics of each method and at what stages these will be implemented.
- * How your products or services will reach customers in terms of distribution or service delivery.
- * How you will retain customers and continually attract new ones.

Operations Plan

This section of your business plan details the logistics of your business. This should provide detailed information describing how your business will function on a day-to-day basis. Firstly, outline your premises in terms of who owns them, how long you will have the property for, what the site comprises of and the advantages and possible disadvantages, especially in terms of location. You should then discuss your precise production processes, outlining what will be carried out on the premises and what will be outsourced. If applicable, your own production facilities should be described, which should take into account your capacity to produce, in line with your forecasted demand.

You must also identify your suppliers and their terms, the terms you have with your buyers, your equipment needs and the information management systems you will use. With regard to your information management systems, take into account IT systems, customer information databases, procedures, stock and quality control devices and account management. Describing your systems will demonstrate an ability to analyse and, therefore, make informed decisions regarding the operation of your business. You should be careful to ensure that you mention everything in this section that will be accounted for within the Financial Forecast section and visa versa. Operational capabilities in terms of future improvements and expansion may also be detailed.

Management Team and Personnel

This part of your business plan should detail the structure of your employees and identify the skill-sets of both your staff and management team. When introducing the management team, outline

the background of each member, discussing his or her relevant qualifications, experience, achievements and past performances. Ensure that amongst your team you can identify all the necessary business qualities, for example, planning and organisational skills, leadership potential, marketing and sales experience, financial management skills and production and operational knowledge relevant to your market. A balanced team and the quality of the entrepreneur in terms of experience, reaction to risk and familiarity with the market is a significant factor for investors when considering the viability of a business proposition (3). It is also essential to show that your team has the motivation, drive and ability to succeed, which you can demonstrate with the amount of time, energy and money each member will contribute.

Within this section, discuss salaries and the expected benefits for members of the management team. You should also detail your workforce in relation to their responsibilities in implementing the tasks involved in the day-to-day running of your business, outlined in your operations plan. Again, address salaries and employee benefits.

Financial Forecasts

This is the section that provides the numerical data for everything you have discussed in your business plan. Investors will use this element of the plan to determine the profitability of your operations and how much working capital the business has. You should also demonstrate the amount of capital needed to implement your business plan, how the money will be repaid and the security that will be offered to your lenders. Financial forecasts for new businesses are expected to show predicted income and expenditure on a monthly basis, usually for the first three years, although the first 12 months should provide the most in-depth information. Established businesses are expected to provide financial statements based on actual figures for all incomings and outgoings.

Financial forecasts consist of several sections and you must ensure that the figures within the separate sections correspond with one another. The actual forecasts should be in a table format, which should appear in the appendices section. A summary of the separate forecasts within the body of your business plan should also be provided, explaining how you have arrived at your figures, as well as an explanation of your funding requirements and a proposed exit route for investors, if applicable.

Financial Forecasts generally contain the following sections:

Sales Forecast

This section should provide a month-by-month forecast of the level of expected sales. For the first few months of trading, estimate your sales turnover, based on evidence gathered in your market research. You should then realistically predict sales for the following months, taking into account the stages of promoting your product or services, set out in your marketing and sales plan.

Cashflow Forecast

This part of the plan outlines the amount of cash you will have available on a month-by-month basis. To demonstrate a positive cashflow situation you will have to ensure you have the ability to pay your staff and suppliers, despite not receiving payment for your product or services. The forecast can be submitted in a table format and can easily be completed using a spreadsheet. List each source of income downwards in the first column, followed by a breakdown of each expenditure item. Within the second column, insert the figures for each income and expenditure item during the first month of trading and repeat this for each subsequent month.

Firstly, state your income, based on your sales forecast, and include other sources of income such as loans or grants, interest on savings or investments and shareholder investments. Take into account the terms you have with your buyers, ie you may receive immediate payment or you may have to wait until the following month to receive payment.

When detailing expenditure, include every single outgoing that your business will pay out. Salaries, National Insurance and pension payments, income tax, corporation tax, VAT and other taxes should be included, if applicable. Other revenue payments should be included such as rent, rates, gas and electricity, water rates, insurance, including car insurance, road tax, petrol and any other daily operating expenses, including payments for the repair of any equipment or vehicle. Capital purchases of equipment such as office furniture, tools, stock and raw material should be listed along with marketing and promotional costs. The terms you have with your suppliers in terms of payment dates should also be expressed. Ensure that you also outline loan repayments, dividend payments and bank charges and then calculate both your total income and expenditure for each month.

Profit and Loss Forecast

This section, which again can be presented as a table, should forecast your expected level of profit from your projected sales. It also details a breakdown of the costs to produce the product or provide the service and your other overheads. The statement indicates how net revenue, or profits received from the sale of the product or service before expenses have been accounted for, is transformed into net income, which is the figure resulting from the deduction of revenues and expenses.

Ideally, in the first column of the table you should list:

- * Sales forecast figures.
- * The direct variable costs, ie cost of production, materials etc.
- * Overheads such as wages, rent, rates, heat and power costs, insurance, transport, telephone, repairs and renewal of items, stationary and promotional costs.
- * Depreciation of fixed assets and any other fixed costs.

Again, display these figures for each month and deduct the overall total of expenditure costs from the sales figures.

Balance Sheet

This financial statement is generally offered by established businesses as it provides information for a specific period in time rather than over a time period. The balance sheet indicates the assets, liabilities and equity of the business, with the total value of the assets amounting to the same value as the liabilities. The balance sheet should outline the following:

- * Fixed assets - what your business owns, eg buildings, machinery (shown as their depreciation value) and any intangible assets such as patents, trademarks and long-term investments.
- * Current assets - what is owed to your business. These are assets that fluctuate from day-to-day such as stock or money owed by customers.
- * Current liabilities - what is owed and is due to be repaid in the short-term, such as taxes due within the year, money owed to suppliers and loans or overdrafts.
- * Long-term liabilities - the share capital and retained profits after dividends and the amount to be repaid in loans etc.

Exit Strategy

Within this section, investors will want to see your plans for allowing them to recoup the capital they have invested in your business. You can also establish a benchmark for deciding your own exit, which could include reaching a particular financial figure or market reaction. This will enable you to

focus on the future, which will essentially inform day-to-day management decisions. If, for example, your aim is to sell to a competitor, you would focus business activity on making your business more attractive to them.

Appendices

Within this section include financial forecast tables and any supporting documentation relevant to your business plan or proposition. This can include technical specifications or patents for your product and a glossary of terms (if you have been unable to avoid the use of sector-specific information). Information relating to your management team and personnel, such as CVs of managers and organisational staff structure charts, could also be included. In terms of supporting your knowledge of the market, it would be advisable to insert evidence of your market research by including examples of surveys etc.

Where to Go for Help

There are various avenues that may be pursued when seeking assistance with compiling your business plan. There is a wealth of information accessible via the Internet, which includes advice on starting a new business, how to write a business plan, calculators for completing financial forecasts and sample business plans are also available. There are also various software packages available – many from banks – that will format your business plan and assist with the content and financial forecasts. Alternatively there are a number of professional agencies or advisors that are able to offer support, which may be necessary in completing the financial forecast section.

To Conclude

Your business plan is probably the most important document you will write for your business. In the first instance, it is a way of assessing the viability of your ideas. By carrying out thorough research of your market and analysing every aspect of how your business will operate, you can transform your ideas into a workable document and implementation plan for the future. Ensure that you include dates and budgets where appropriate, and that your plan has consistency between the sections, for example, the tasks you outline in your operations plan should be assigned to staff within your management team and personnel section.

The strength and uniqueness of your business ideas, your management team and ultimately the way you transfer these into your business plan will strongly affect your ability to obtain the funding you require. A business plan written for the purpose of securing funding should explicitly demonstrate a viable proposition in terms of positive cash flow and future growth of the opportunity. Further to the issues discussed in this article, when writing your business plan you may want to bear the following ten tips in mind:

Top Ten Tips

1. Preparation is the key - Make sure you set aside plenty of time to complete your plan ensuring you have ample time to devote to each of the sections.
2. Know your market - Your business plan should demonstrate that you know the market inside out and have researched it thoroughly. You must have a clear understanding of your competitors, their potential and the possibility of others entering your market.
3. Sell yourself and your team - Few investors will part with their money, no matter how credible your plan is, if you cannot demonstrate that you have the knowledge, ability and drive to implement everything that you are proposing. Often, a strong management team will be the determining factor in deciding whether to back or buy into a business proposition.
4. Do not underestimate your competitors - Do not assume that you can take on your competitors by simply undercutting their prices. Competitors will have the upper hand in terms of market

share and will have the ability to make sacrifices and introduce offers that are more attractive for a longer period.

5. Excessive optimism - Present your business realistically. When forecasting sales figures aim to convey convincing predictions as business plans with exaggerated and unjustifiable figures will appear less credible. Also, take care not to avoid discussing any risks or problems that may be anticipated. These should be listed alongside strategies and solutions you would employ to resolve them as this will demonstrate that you have thoroughly evaluated your business proposition.
6. Appreciate the importance of your cashflow forecast - This section of the financial forecast is, in many ways, more important than the other sections. Although sales and profits are critical and are often used to determine the success of a business, you will need to demonstrate that the timing of your outgoings is in relation to your incomings. This will ensure that you are able to meet your commitments in order to receive payment, whilst you are still paying suppliers and staff. Basically, you must demonstrate that you will not run out of cash before you become profitable.
7. Focus on the opportunity - Above all a business plan should provide a clear illustration of the exact investment opportunity in terms of how you will exploit it and the ability you and your team have in delivering everything you have proposed.
8. Impress with your executive summary - Ensure that this section is interesting and will spur investors to read on. Summarise the main points of your business plan so that it provides a complete overview of your business proposition.
9. Pay particular attention to detail - The presentation of your plan is particularly important and you should ensure that the layout is reader friendly in terms of font size, line spacing, bold headings and subheadings and include plenty of white spaces to break up your text. Use bullet points to summarise your main points and use charts, photographs and illustrations, where appropriate. Present your business plan in a book-style format with secured pages that may be turned easily, eg spiral bound.
10. Read and re-read - Once you are happy with your plan take extra care to eliminate spelling mistakes and grammatical errors. Once you have read the document a few times, it may be more difficult to spot the errors, so if possible ask someone else to read it, preferably an independent advisor. By doing this, you could also gain valuable feedback in terms of whether it was easy to understand and followed a logical sequence.

Overall, you should tailor your business plan to express and meet the needs of your particular business, pitching it at the audience to which it is intended. You should make use of the resources that are available, and wherever possible, it is a good idea to seek the guidance of a professional.

References

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