

Business plans: the foundation for success

Any business, whether it is just starting out or is considering the next stage in its development, will need a business plan.

A business plan serves several important purposes.

Perhaps the most obvious is to help raise funding. A business plan is the document that banks or investors will use to judge whether an idea or a business is viable and whether to lend money to or invest in the enterprise.

However, a well thought out business plan has advantages besides persuading others to give their support. It can, for example, identify and anticipate possible business problems; it can introduce a realistic perspective to a project; it can provide an enterprise with a coherent financial structure; it can add definition to a strategy; and it can be used to gauge the progress that a business is making.

Although it should be as strong on detail as space will allow, a good business plan should also be flexible. That is, it should be open to amendments and shifts in emphasis as circumstances change, and the plan reshaped to accommodate them.

A business plan, therefore, is less a blueprint than a map by which a business charts its successes or setbacks.

Attracting capital

When reading a business plan, different audiences will be looking for different things.

A bank, for example, will wish to be reassured that any borrowings made by the business can be repaid. This reassurance is most likely to come from a plan that shows steady growth and a reliable, regular cashflow capable of maintaining the loan repayments.

An investor, on the other hand, will be looking for signs of strong, fast growth. This is because the return on an equity investment will depend on the value and profitability of the company rather than on the repayment of a sum of money.

Content

Most business plans follow a common structure, not least because there is a set, minimum amount of information that readers will require.

The overall narrative of a business plan should demonstrate how the enterprise is to develop, how its goals are to be achieved, how it is going to be managed and how its financial structures are to work.

While a plan should sound bullish about the enterprise's prospects, it must also be realistic, cogent and unambiguous. No one is going to be convinced by over ambition or generalities. What's more, in committing to an honest and detailed plan, the business will also be giving itself a sharp, focused picture of just how successful the enterprise is going to be.

A business plan should include an executive summary, and a number of sections that between them cover the nature of the business, the marketing strategy, the people involved in the business, the way the business is to be managed, and the finances.

Executive summary

The executive summary, which should preface the document, provides, as its name suggests, an overview of the business and synopsis of the whole plan.

Since it heads up the plan, the summary will be the first section to be read, although it should be the last section to be written. A good, succinct, compelling summary will cover the main points to be found in the document but not duplicate them in detail.

At the end of the summary, the reader should have a clear idea of the nature and aims of the business and the opportunities it offers. They should also feel interested enough in the proposition to want to know more details. For that reason, the summary must be involving, clear and persuasive, and no longer than two pages. On the other hand, it should not be an extended list of contents, or just a description of the business, or a series of over claims.

The business

The job of this section is to communicate precisely what the business is, what the business does, the nature of the product or service, and how viable the enterprise is. The people involved in the business should also be introduced here.

It should begin with a brief outline of the structure of the business - is it a partnership, for example, or a limited company - and who owns it. If the business is already trading, a brief history of its progress to date can be included.

The owner should also set out their vision for the future development of the business.

Next, there should be a description of the product or service. This will need to cover not only the nature of the product or service, but also how it is different to the competition, how it will benefit customers, why customers will buy it, how it will make money and how it will develop and evolve.

Although it is understandable, nobody putting a business plan together should assume the reader knows as much about the product or service as they do. Concise, accessible explanation is, therefore, vital.

The market

Almost as important as the product or service is the marketplace in which it is competing. The plan will need to define the market, look at the competition and mark the position of the business. Readers will expect an intelligent, properly researched understanding of the current status of the marketplace and of any trends that are likely to influence its development in the future.

The plan should describe the size and history of the market, and should show why customers within it will want to buy the business's product or service. Rivals should be identified and assessed for their share of the market, as well as for their comparative strengths and weaknesses. It is also helpful to set out ways in which the market may change and how the business intends to handle or exploit those future developments.

Marketing

Many plans tend to treat marketing as peripheral, but they should not. No matter how good or how innovative the product or service, readers will want to be told exactly how the business intends reaching its customers.

This section, therefore, needs to demonstrate a well-considered strategy for promoting the product or service in a way that targets the greatest number of the right sort of customer.

Here it is necessary to indicate how the product or service is to be positioned in the market (that is, how it is to achieve a distinct identity).

A customer profile will help show who will be interested in buying the product or service and why. (This, in turn, will allow the business to produce an accurate, realistic pricing policy.)

The next step is to include the outline of a promotional campaign, and the methods of communication - direct marketing, above the line advertising, PR, telemarketing, emails - to be used. This needs to be complemented by a sales strategy that describes where and how the product or service will be sold (retail, online, etc).

The people

Obviously, the role and calibre of the managers and employees will have a significant bearing on the operation and the running of a business. As well as outlining the structure of the business team, the plan should also detail the talents, experience and strengths of the people who make up the team. If there are any weaknesses or gaps in the collective skill set of the business, there should be an indication of how this might be remedied.

A quick biography of the management team should include background information on qualifications and past experience and how these suit the person for their role in the enterprise. The broader the range of skills, from product development to financial expertise to marketing know-how, the better equipped to succeed the business will appear.

Any professional advisers that have been consulted should also be mentioned.

Proof of commitment can be just as persuasive to would-be funders as expertise or qualifications. So it is useful to make clear how much time various members of the management team will be devoting to the business.

If there are plans to recruit additional employees, then readers need to be told how many, the level of salaries and benefits that are to be offered, and, if possible, the intended productivity rates for each employee. Any staff training schemes also need to be outlined.

Business operation

This is the part of the plan that describes how the business is going to be run and managed.

Depending on the nature of the enterprise, this may mean detailing the location of the business (and any advantages this may bring), the sort of premises that are to be used (are they owned or rented?) and the duration of any lease.

Any plant or equipment should be itemised and assessed for its capacity to cope with the production process. Some businesses will have to offer reassurances about such ongoing measures as quality control and such daily practices as stock management.

The ability of the enterprise to make effective use of the latest information technology should be mentioned here too.

Finance

The purpose of the financial section is to buttress the plans and strategies with hard economics.

If the business has already been trading, then it will be necessary to provide information about existing sets of accounts and about any debts or assets.

The plan should make clear exactly how much funding the business is seeking and should make how it intends to repay any loans equally clear.

Financial forecasts should provide estimates for revenue and expenditure covering at least the next three and possibly the next five years. It will be expected that the first year will be the most detailed. The numbers should be accompanied with an explanation of the thinking behind them.

The forecasts need to include: a cashflow statement that charts the amount of money in the business on a month by month basis (a viable business requires enough working capital to meet regular costs such as wages); a profit and loss forecast that establishes the amount of profit the business expects to make, calculated on the balance between sales on one hand and costs on the other; and a sales forecast that shows the sort of income that sales are going to generate.

Presenting the plan

One of the biggest mistakes is to include too much detail in a business plan. The most effective plans are those that are concise and relevant. If it is too long, it will run the risk of going unread; if it is too caught up in minutiae, it will run the risk of snowing all the salient, persuasive facts and ideas under an avalanche of peripheral detail.

As well as manageable, the plan needs to be well written and logically ordered. It should have a correctly numbered contents page and an appendix where data or balance sheets can be referred to. Before it is bound, it should be exhaustively edited; read and checked by people who have not been involved in writing it (nothing works so well at spotting the vague, ambiguous or plain incomprehensible than a cold, objective eye); and scrutinised by any expert consultants such as an accountant or financial adviser.

Above all, however, the document must ring true to expectations and experience. Enthusiastic optimism, though admirable, is finally no substitute for hard-headed realism.

If a business plan receives knock backs, it always pays to find out why it was rejected. The cause may not necessarily be fundamental but remedial; a matter of a financial or marketing adjustment here, a tempering of ambition there.

Which raises the last important point about a business plan. It is organic, not written in stone. It should have the flexibility to adapt as business circumstances change. Indeed, re-visiting and updating a business plan is one of the more worthwhile exercises an enterprise can perform. Many hard-working business plans are never intended for an external audience at all, but are used by the owners to help them guide their business through its growth and development.