Preparing your business plan

Planning not to fail

A business plan is essential for every business. Failing to plan your business is the first step toward planning to fail. Recording your ideas, plans and strategies is essential given the ongoing sluggish economy when so many business owners are struggling to maintain profitability and cash flow.

Planning includes:

- Taking prudent, calculated risks rather than blindly reacting to events
- Making the best use of available resources
- Developing your plan so that you can achieve the lifestyle you want.

All businesses plan to some extent, but the planning is often informal and ill defined. You should always set out your plans in writing, because this compels you to define your ideas clearly.

The current economy

The global economy is perceived by many as being relatively buoyant. In the UK there remains uncertainty over the impact of Brexit. This is a situation we all live with and is a cause of some concern. How do you perceive the UK economy will impact your business? To what extent is the current uncertainty likely to impact you and your customers? How robust is the demand for what you do? How price sensitive is your marketplace? What, if any, is the impact of internet-based competitors? How can you expand your business using the internet?

Planning

When planning, you should consider:

- What information you need to assemble
- The initial decisions to be made
- The sales and marketing options open to you
- The market opportunities that exist
- The threats that exist.

Enlisting support

Assess the expertise and assistance you already have, and decide what additional help you will need to prepare your plan and harness your resources effectively. For example, you might need accountancy, information technology / internet or marketing assistance.

Define your business

Examine your business ideas critically and check these against your initial perception of the marketplace. Identify the key features of your business.

- Analyse its strengths and weaknesses
- Consider opportunities open to you, and the challenges you face.

Scanning the market

The marketplace is the key to the success of your business. You should review the market for your goods or services, and the competition you face.

- Use market segmentation to identify potential customers
- Use market survey methods to characterise your customers and their needs.

Identify your niche

Only the largest businesses can afford to provide an overall service to all customers. Most companies have to choose between offering general services to a restricted range of customers, or offering a niche or specialist service. How can you best achieve profits?

You could, for example, restrict customers by geographical area, or by some other classification within a wider area.

- Identify the features of your key goods or services
- Identify the advantages you have over competitors
- Identify your ´USP´ (unique selling proposition).

People profile

Now you can review the skills and knowledge needed to run the business. Compare this list with the abilities of the people currently working for you.

If certain skills or knowledge are lacking, consider whether training would be appropriate. Remember, it is often better to buy in certain skills such as accountancy and marketing as and when they are needed. Other skills, such as selling and production, are needed constantly and so should be available in-house.

Prices and profits

Identify the relationship between prices and profits. Most businesses price low to maintain turnover, but the additional profits from higher margins can often outweigh any loss of turnover.

Decide on the impact of competitors' pricing policies and the expectation and ability of customers to pay as a result of the recession.

Marketing strategy

Marketing is deciding how best to reach customers, maintain marketplace intelligence, secure additional customers, and generate further business.

- Determine how you will attract potential customers
- Design the message and the medium required to evoke a response
- Prepare staff to deliver outstanding customer service, through training if necessary
- Perhaps prepare a separate, more detailed, marketing plan

Capital expenditure and liquidity

Having defined the business you are aiming for, you now need to consider the financial resources you will require. It is easier to arrange borrowing in advance rather than approach your bank manager when you have exceeded your overdraft limit!

Review the capital expenditure needs of the business and alternative ways of meeting this expenditure while retaining adequate liquidity.

Financial forecasting

We will be pleased to put together financial forecasts from your business plan. These will cover:

Sales revenue

- Taking into account current turnover and any potential increase
- Making full use of marketing survey data
- Converting forecasts into targets.

Expenditure

To estimate the expenditure that will be incurred in running the business, we will:

- Identify and estimate fixed costs item by item
- Calculate variable costs on the basis of projected revenues.

Profitability

We will forecast the level of anticipated profits from the assumptions made to date about the business. Because nothing is certain in business, it is vital to apply a sensitivity analysis to the assumptions to identify which ones are critical to success. Then you can carefully plan your reactions to possible scenarios, such as:

- What is the effect of the economy and competition on your margins and profitability?
- How will you respond if a competitor starts a price war?
- Could your production facilities cope with a large order? What would be the effect on your cashflow?

Funding review

We will discuss with you the necessary funding requirements for the business in the light of the capital and cash flow projections. The review will include:

- Identifying assets and liabilities, including money owed to you and stocks held
- Drawing up balance sheets based on the forecasts
- Identifying how much of the cash needed can be financed from profits or trade creditors. The remainder needs to be provided either by the proprietors or by borrowing(s)

Once the plan has been prepared

Management information

To achieve the best results, you will need to monitor your performance against the plan. This will give you early warning for when you should reconsider your actions in response to market developments.

Consider the key information you need to manage the business, and hence the systems that will provide this:

- Plan to monitor revenues and costs
- Plan to manage cashflow
- Plan to manage people

Updating the plan

You will need to decide when the plan should be updated and how this should be done:

- Short-term problems may require immediate revisions
- The year-end review of results will help in amending the plan

- Do not neglect to review the marketplace from time to time.

This is a never-ending process

Businesses evolve and so should your plans. Plans should be designed to enable you to forecast the future, to help you stay ahead of the competition and to assist you in realising your full potential.

6 planning steps to success

Step 1: Establish your mission

In essence, your mission statement explains why your business exists. When you encounter a problem or a key decision, the answer will be informed by your mission. Think about why you started the business, what needs of the marketplace you aim to satisfy, and imagine where you want it to be in the future. These elements will provide your mission statement.

Step 2: Analyse your SWOT

With your mission in mind, analyse your business's strengths, weaknesses, opportunities and threats. List each category in full and be honest. Done correctly, this 'SWOT' analysis will help you to take an objective, critical, unemotional look at your business in its entirety.

Step 3: Develop a plan

Try this exercise: from each SWOT category, choose three to five important items. Then set goals to maximise your strengths, correct your weaknesses, make the most of your opportunities and nullify your threats. For example, you could decide to focus more strongly on a particularly successful product or service (a strength), and abandon a side-project which is costing time and money for little return (a weakness). Remember that you can't do everything yourself. Think about how you will delegate tasks and involve all the staff. Avoid dwelling on the negatives - set yourself realistic strategies for improving the business.

Step 4: Create a budget

All missions and strategies need adequate financial resources to succeed. A smart budget will help you to regularly review your expenses and make financially beneficial decisions. You may need to take a wide variety of factors into account when setting your budget.

Step 5: Put it in writing

Make sure you write down your finished plan. Include the mission statement, SWOT analysis, goals and plans, budget and forecasts, and make it clear who is responsible for doing what. Share it with your key staff and shareholders, and encourage their input.

Step 6: Make it a living document

This is vital! Make your business plan a living document that you and your staff can frequently update and improve. Consider reviewing it monthly to track your progress and readjust your strategy as necessary. Hold yourself and your staff accountable for meeting the plan's goals, and think about introducing an incentive programme to keep everyone motivated.

6 reasons why plans fail

You may well have prepared a business plan some years ago to present to your bank manager. If you revisit that plan now, you will probably be surprised by how little relationship the position of your business now bears to that predicted in the plan. The reality is that most business plans fail. Here are some of the traps to avoid:

1: A dead document

A business plan that is created for a purpose and then discarded will always become obsolete fast. Making your business plan a living document (see step 6) is essential if you don't want the whole process to be a failure. Only a regularly reviewed and updated plan can be the spur to look critically at your business on a recurring basis.

2: Over-optimism

Most business plans are over-optimistic, especially as regards predicted sales, often massively overestimating the size of the market. Research your market thoroughly. Too many business plans include a SWOT analysis, but concentrate on the strengths and opportunities and ignore the threats and weaknesses. For most, a recession is a time to be cautious and prudent.

3: Ignoring the competition

Business plans commonly assume that the competition will make no competitive response or indeed, will have no new initiatives of their own. Study your competitors and try to second-guess their plans. A living document will take into account their actions.

4: New or old?

Too many business plans depend on doing something new, when what is needed is to find a better way of doing what is being done now.

5: Ignoring risk

What are the risks attached to the plan? Think through these and the costs of failure as well as the rewards of success.

6: Profit or turnover?

Remember the old adage, turnover is vanity, but profit is sanity? If expansion is planned, it should result in increased profits, not just sales. Expansion requires finance, people and other resources. Do you have adequate resources?

Remember, a good business plan is as much about the process as the final document. Creating your plan will open your eyes to the realities of your business. Keeping it updated will help you stay on the right track. For help with developing your plan, call us.
