HOW 2 GUIDES

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Create a Business Plan

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Business Planning is an important part of the business cycle. Your business plan should link up with the strategic plan. Where the strategic plan is a high level document, dealing in broad themes, the business plan needs to be much more detailed. This document provides specific direction about precisely what the organisation intends to do in the coming period, how it intends to pay for it, and the revenues that are likely to come in. For managers, the business plan should outline what the organisation expects them to deliver. For investors, the business plan should be an accurate synopsis of how the business will perform. Clearly, accuracy is key in business planning. Anyone can invent numbers and present them as forecasts. In business planning, that is not good enough. You need to be able to deal in good quality data. Often as not, your credibility as a manager depends on the extent to which you are able to accurately predict what the business will achieve.

We have included a sample structure for business planning in this guide. Use this as a framework for writing your own plans, and make sure that the same structure is used for both strategic and business plans.

Create a series of business plans for your organisation, depending on the size and complexity of your business, one for each major activity your organisation intends to undertake over the coming period of time. Where you do create more than one plan, remember to bring them all together into a single master plan. Business plans are important documents for an organisation for a number of reasons:

- Should you, at any time, need external funding or investment, either from a bank or venture capitalist, you will need a detailed set of plans.

- If you plan to sell your business as a going concern, you will need to demonstrate to potential buyers the viability of your organisation.

- Perhaps more crucially, a good business plan is a working document that you can use internally, within the organisation, guide you as you move forward. They allow you to demonstrate that you have considered all the options, and thought objectively about running and developing the business.

Business plans should directly relate to and support the company's strategic plan – you shouldn't have one without the other. In essence, the business plan bridges the gap between strategy and actually getting things done. Think of it as a 'tactical' plan. Where the strategic plan describes in broad terms what the business needs to do, the business plan sets out in much more detail how you will achieve these goals. The business plan details how each strand of the company will be resourced, and where these resources will come from. It should forecast income levels associated with each business stream.

Your plan should contain most, if not all, of the following components:

- Specific aims and objectives for each part of the business, product or service line. As far as possible, these should be broken down into individual projects or business streams. Make sure that every part of your organisation has a robust set of aims and objectives and that they are included in the plan. Describe in simple terms precisely what each part of the business seeks to achieve, and also what success will look like. In simple terms, how will you know whether each part has succeeded or failed?

- Financial projections/forecasts. You need to be able to demonstrate that each planned activity is viable from a financial perspective. Calculate the exact (or as near as possible) costs for each business strand, taking into account likely one-off or incidental costs – that could be reasonably expected. Calculate and forecast likely levels of income; whether they have already been agreed (for example, in the form of capital funding already in place), or in estimated sales. Calculate break-even points and use this information to establish meaningful targets where they would be appropriate.

- Risk analysis. Use the methodology we set out in the How2Guide on Risk Management to analyse all the risks associated with each different part of the business. The business plan should contain a description of the likely severity and impact that each risk poses to the organisation, and should describe how each will be managed.

- Key milestones. Having determined your course of action, the plan should describe how each business or project will run. Split projects into manageable parts, and put in place reasonable time-scales for each. You might find it useful to create visual, pictorial, documents that make it easier to understand how each milestone fits together. Use a spreadsheet, or GANTT chart to do this. Visual indicators, reports and plans are a great way of managing information in a way that makes it more accessible to the user.

- Who is responsible? Describe in the document the individuals in the organisation that will take the lead on each part of the plan. Ensure that these people are fully conversant with the content of the plan, and exactly what is expected of them (in terms of deliverables and the timescales for each). Ensure that they, themselves, are able to describe key elements of the plan to their own teams of people as needed.

Aim to produce the business plan at about the same time in the year as you set budgets (see the appropriate guide for more detail about budgets). Business planning should be done at least annually, and there should be regular reviews built into the process throughout the year to ensure that it remains viable and relevant to the organisation. Just like the strategic plan, the business plan needs to be flexible, so that it can be amended at various times during the year as the need arises in response to new stimuli that will emerge. Don't think of this plan as something set in stone at the start of the year and that cannot be changed. In stead, make sure that it is flexible, but only make changes sparingly and with the agreement of those around you at the very top of the organisation – and should not be changed lightly.

Whilst the plan should describe each strand of the business individually, it should also demonstrate how each of them come together. The aim is to be able to look at the business in terms of each individual part to determine how each will contribute, and then see the whole company, where everything is joined up. For the majority of small businesses, it will be sufficient to write a single business plan that covers everything. However, larger firms, especially those with multiple income streams, will need a plan that addresses each stream. Remember to pull them together and to create a single, working, master plan.

The language used in the business plan is important. Think about who will be reading it, and what reaction you are looking for. Mostly, the plan is a document that will be shared amongst your management team. Occasionally, people outside the organisation will review it – e.g. potential investors, the bank, etc. The plan needs to inspire confidence in you as a leader. It needs to be understood. And, it needs to be a useful working document. Use business language wherever possible. Keep it professional. Avoid writing in the first person (e.g. don't refer to 'I' or 'me') and refer to the business as 'the company' or something similar. Make sure that the laguage used is simple and plain English. Avoid jargon and, unless it is intended solely for internal use, do not use abbreviations or acronyms without explaining what they are.

Elements of the plan will need to be shared with key members of the team, depending on the size and complexity of your organisation. Operational managers or supervisors will need to use a version of it as a working document for their department. Whether they have sight of the whole business plan, or just relevant elements of it is entirely a decision for you. Make certain that leaders in the organisation know enough about the plan to be able to carry out their jobs and contribute effectively to the growth of the organisation. You might consider creating an easy to follow digest of each part, framed in appropriate language, that team leaders can refer to and use as the guidelines for their work.

Use the business plan as a framework for managing the performance of individual teams within the organisation. Individual managers will need to refer to milestones and targets set out in the plan on an on-going basis. They, in turn, will also need to share aspects of the plan (the parts that refer specifically to their own teams and departments) with their own people. With this in mind, ensure that anything in the plan that needs to be treated as commercially sensitive and in confidence remains secure. The more people with access to key pieces of information, the more likely it is that it will leak out – potentially to business rivals.

Ensure that each business plan mirrors the company's overall strategic direction, and that, where relevant, individual plans link to each other – especially if there are resource implications of one on another. Don't allow individual business plans in the organisation to clash with each other. They need to be co-ordinated so that they are complementary. This is especially relevant if your organisation is large and complex, where it becomes difficult to keep tabs on different divisions. The broad concept is that every part of the business needs to contribute positively towards taking the wider organisation further towards its corporate goals.

From time to time, check each team or department to ensure that they are on track to deliver their objectives. Check that every objective set out in their individual plans remain relevant in the context of the development of the wider organisation. Collect information from each team on the progress they are making and any changes they have had to make to plans in the light of changing business conditions. Where individual plans have been updated, make certain that the overall company business plan, and where appropriate, the strategic plan are updated accordingly. Assess whether operational difficulties experienced by individual teams will impact elsewhere on the business. Decide whether the wider business remains on track to deliver its overall plan.

Identify those people in the organisation who are responsible for the delivery of aspects of the Business Plan. Make certain that they know exactly what is required of them and the timescales. Measure their performance against targets in the plan, and use these as key performance indicators for assessing the effectiveness of the wider business.

Sample Structure for a Business Plan

This section sets out the headings that you should consider including in your business plan, and the order to put them.

1. Outline of Your Business & Summary of the Plan

Although this appears at the top of the plan, it is in fact the last thing you should write. This is a summary, in punchy language, of the salient points in the plan. Don't sit down and write the summary at the beginning. Leave this to last. Write your plan, and then sit down to construct the summary at the end of the process – but insert the summary at the top of the document.

A well written introduction and summary will allow readers to gather the important facts about your company and your plan without having to read through pages of facts. It should inspire the reader to turn the page and review the details set out later in the document. If the business plan is being used as part of a pitch for funding from an external source (see below), the introductory paragraphs may determine whether your plan progresses to the next stage or whether it is dismissed. Assume that the investor has a lot of similar business plans sitting on their desk, and that they haven't the time to read through each in massive detail. They will read the executive summary at the start and decide whether it is worth their while ploughing through the remainder of the document. Spend time getting this right. Remember the proverb, '*first impressions last*'? This is highly relevant here.

Even if you are not looking for funding, and you do not need your plan to be read by anyone outside the organisation, this is a good way of ensuring that you properly understand your plan, and that you can communicate it so that it can be easily understood. Use this as part of the process of getting the plan clear in your own mind.

2. Core Values

Provide a brief overview of your core values (refer to the relevant Guides on organisational values). Keep this section relatively concise but allow the reader to get a strong sense of what you are about as a business. Make sure that you include what you stand for as an organisation, and the things that you consider the most important. It is easy to write erudite words on a page that make you look good. They only really make sense if you mean what you write.

3. Summary of Your Business to Date

This section looks at the track record of your company so far, analysing its major successes and the areas where it has experienced difficulty. It is a synopsis of the road travelled to get to the current position.

a. Introduction

Provide an overview introduction about your organisation. If you have been in business for a few years, write a summary of your journey to date. If you are new, write about why you are starting out in business and what inspired you to create the company. Describe your products and/or services, the market(s) you operate in, etc. Put into this section anything that you think might be relevant to the reader so that they can put your plan into context.

b. Current Position

Describe the current state of your business. If the company has been in business for a number of years, describe what you have achieved to date. If you are a new start-up, describe what you have done to prepare for launching the business. Describe your business model – your organisation's structure and the way that you plan to get your goods and/or services to market. Set out how each product or service will contribute financially and/or strategically to the organisation. Describe the state of your market(s); include data about the size of the market, the rate it is expanding or contracting, its maturity etc. (see the Guides that deal with Market Analysis for information about how to do this).

c. Competitive Advantage

Refer to the Guides that cover "Understanding Your Competition". Describe in this part of the plan your Unique Selling Proposition (USP) – if you have one – e.g. what it is about your business that sets you apart from your competitors. Describe the extent of the threat to your business that might come from competitors. If you are ahead of the market, are launching a completely new and innovative product, or if you have innovated old products, then you may have competitive advantage. Analyse the extent of your advantage, and estimate how long you will enjoy it. If you have protected your products (patents, intellectual property (IP) or trade marks, etc.) then explain it in this section.

d. Plans for Growth

Growth is essential for all businesses. A good Business Plan is in fact a plan for growth. Businesses that stand still, actually fall behind. In this section, provide an overview of how you plan to grow your business. Make sure that your growth forecasts are realistic and not over-ambitious. Demonstrate in the plan that you have considered the implications for growth on your wider business, and how expanding one part of your company may impact on other parts.

4. Description of Your Strategy

Where you have already described a strategic plan, insert here the key themes from that document. Talk about what you plan to achieve, and how you will get there (your tactical plan). Summarise the results of any strategic analyses that you may have carried out. Make sure that the strategy you describe in this section is realistic and well thought out.

5. Marketing Plan

Marketing is crucial to support the overall growth of your business. You should demonstrate that you have thought through how you will get your products or services to market, the channels you will use, etc. Include the following:

- SWOT analysis of your marketing plan (refer to the How2Guide on SWOT). Demonstrate that you have an understanding of the strengths and weaknesses of your marketing plan.

- Outline your critical success factors – e.g. how will you know whether your marketing plan has delivered the desired results? What will success look like?

- Evidence that you have done market research. Gather as much intelligence about your market as possible, including the attitudes of customers and the state of competition. Talk to your current clients and get as much feedback as possible from them. In this section of the plan, describe how you will use intelligence gathered to inform you of the size of the market, and the rate at which it is expanding or contracting. Demonstrate that your knowledge of the market is sound, and that you collect and make use of soundings from your customers, suppliers and from potential customers. We have produced How2Guides covering market analyses.

- Distribution channels – this can refer to two elements, and you should consider both in the plan. First, it refers to the specific marketing channels you will use to get your marketing messages through to potential customers (e.g. the methods used to market your business – advertisements, brochures, word of mouth, etc.). Demonstrate that you are using multiple media to maximise the chance of your message getting through. Second, it refers to the specific ways that you physically deliver your products and services to the market. Refer to both in the plan and demonstrate that you have objectively considered all the various options open to you, and that you have selected the most appropriate.

- Specific Promotions Plans – describe how you plan to promote your products and services, or any marketing campaigns that you are planning to undertake in the coming period. Describe each promotion, the messages you will use, critical success factors, how you will evaluate its success, etc.

- Strategic Alliances – describe what strategic alliances you have made, or are planning to make that would increase the size, scope and your access to markets. You may have agreed to work together with another company to promote each others' products, for example.

- Credibility and Risk Reduction – this is especially relevant for new businesses launching new products or services. Customers often want to do business with tried and tested brands – those that they trust – and are less keen to try new ones. Describe how you intend to build up your brand's credibility in the eyes of your customers. In addition, customers often perceive that there is a risk associated with moving to your product. At a basic level, this risk could be that they simply won't like your product. On another level, there might be a risk that by changing over to your brand, they upset the relationship they had with their previous supplier, which could cause a problem should they decide to switch back. There could also be a perceived risk that, as a new business, you could cease trading and not be able to provide after-sales support, or even honour your commitments to the customer (e.g. if you have sold them an on-going service). Describe any measures you are taking to reduce this risk in the eyes of your customers. More established businesses and brands don't have the same problems in respect of brand credibility and risk, but they do need to demonstrate that they at least maintain the current position, and ensure that their brand remains credible and that there is low risk for the customer to remain with them.

- Budget – how much of your company's resources will you pump into marketing and promotion? What are the critical success factors? How will you manage this budget to ensure that you get value for money?

6. Team and Management

Describe the team you have in place, and the specific skills and experience they have. Outline how the business is managed, who the key managers and leaders are, their experiences and what they bring to the business. Consider your organisation's management style, and any processes that you have in place to get the most out of your people. Describe strategies to motivate, inspire, develop and retain your team. Describe any team development plans that you might have in place, or are planning to introduce. Include details of management systems that you have in place to ensure good governance of your organisation.

Include in this section details of any external advisors that you have brought into the company, including business advisors, consultants, accountants, etc. Describe what contribution these advisors make to your business.

7. Budgets and Forecasts

This is the part of the plan that investors and bank managers are most interested in. In this section, you will detail each business stream in terms of forecast income and expenditure. You may need to project forecasts forward beyond the current period to the medium term. It is unlikely that you will be able to accurately provide forecasts beyond a few years from now, so avoid inserting long-term forecasts (there are many things that will happen to your business in the coming months and years that you cannot predict with accuracy). Outline the salient facts for each forecast and, in explanatory notes, detail how you calculated each of them. Include the following:

- Profit and Loss Forecast – work with your accountant to forecast profit and loss for the coming year, and if possible for the year after. Remember, accuracy in projecting more than a year ahead is difficult. For established businesses, look back to profit and loss schedules from previous years, and include a comparison with at least the immediately preceding period. Be as accurate as you can, and ensure that the forecasts you include are realistic. As part of your preparations, model alternative scenarios, where you consider the effect of a good trading period, a poor one and an average one.

- Cash Flow Forecast – work with your accountant to forecast how cash will flow into and out of your organisation throughout the year. Describe, also, your plans for managing creditors and debtors.

- Balance Sheet Forecast – work with your accountant to forecast what your balance sheet will look like at the end of the period covered by the plan.

- Capital Expenditure Budget – describe how you intend to invest your capital over the period, focusing on what you are likely to need to purchase and the reasons why. Demonstrate that you have considered all the options, looking at alternatives to purchasing capital equipment (e.g. leasing) and that you have arrived at your conclusions in a structured and objective way.

- Break-Even Analysis – work with your accountant and produce an analysis of break-even points. Show, in the plan, that you have analysed costs to the extent that you can describe at what point in the year you are likely to reach profitability in each of your business streams.

8. Analysis of Key Risks

Describe the major risks that your business faces, and how you plan to deal with each of them in turn. We have produced a How2Guide on managing risk. Grade each risk, in turn, according to how likely it is to happen and the expected impact it will have on your company.

Using a Business Plan to Pitch for Funding

From time to time, you may find yourself needing to secure external funding. This could be an individual department or business unit trying to fund a project from its parent company, or the company itself seeking external investment from a bank, private investor or venture capitalists. The business plan can provide a good platform from which to make the pitch, but don't rely solely on this one document. The investor will be looking for good reasons why they should inject funds into your business. You may find it useful to construct an investment prospectus, that provides detailed information about the range of your business. It might be appropriate to create a suite of inter-related documents that, together, make a coherent case for funding. One of those documents would be the business plan.

A pitch is the act of making the case for someone to invest money in something. It needs to be simple enough that the potential investor can clearly understand what the project is, and see what's in it for them. It should also be detailed enough so that the investor can have confidence that you have done your homework and thoroughly researched the topic, weighing up all the advantages and disadvantages.

Often, you only get one opportunity to make your case to the same investor. It is absolutely crucial, therefore, that you prepare thoroughly so that you get it right first time. Don't rush to create the document, but take your time, making sure that you cover all the bases.

Set Out The Case

Why would someone want to invest in your project or business? What's in it for them? Before you make the case, consider who the potential investor is, and what it is that motivates them. Is there an obvious link between your project or business and their, own, aims and objectives? escribe what you want funding for. Describe what the business or project is, in simple but business-like language, how it will work and how it will contribute returns for the investor.

In your document, use language that will appeal to the investor, and focus specifically on what they will get out of the investment. This will require you to do some homework, researching potential investors, and finding out as much about their aspirations and what drives them as possible. Don't assume anything. Be sure of your facts before you make any form of pitch to them – especially if you believe that you are framing it around what you perceive to be their motivations for investing. A poor pitch, based on incorrect assumptions can be disastrous.

Where you are pitching to your parent company, focus on how your project or business idea will take the wider organisation forward, and how it will contribute to the achievement of the company's overall strategic plan. If you are seeking venture capital from an external source, they will most likely be looking to maximise returns on their investment. How will you deliver this for them?

Show You Have Researched It Thoroughly

Few things annoy investors more than reading a business case where the author has failed to properly research the proposition. Often sales projections are based on nothing more than aspiration, with figures plucked out of the air, and are not based on sound market predictions. In your plan, show that you have considered the following, and that you have made a reasoned assessment of the likely success of the plan:

- The validity of the project in reality, as opposed to one based on a whim. Is there a need for this product, service, or for this project? Will it contribute anything positive to the overall business or to the market? Will it fill a gap in the market? Will it offer something completely new? Is there a market for this product or service and will people be willing to buy it? Often forgotten when constructing business plans is that if the market are not actually prepared to buy the product or service, then there is no demand – and pursuing it, therefore, will be a fruitless exercise and a poor investment for the investor. What guarantees can you make that this is a sound business idea? Whilst it is unlikely that you can make solid guarantees, and you will not be required to do so, you will need to be able to reassure potential investors of the validity of the project based on reasonably sound data. If you can't, you may find the pitch gets rejected.

- What are the risks associated with the project or business? What are the risks of doing the project, compared with the risks of not doing it? Have you assessed the likely impact of risks and do you have a strategy to manage them? How will those risks impact on potential investors? One strategy you may consider is demonstrating how you have spread the risk so that it doesn't rest solely on one single investor.

- Have you considered the true costs associated with the project? Are there hidden costs that you have either failed to take into account, or have simply missed? Identify all the costs directly associated with the project, and then add-in any other likely costs associated with supporting the project. Even if you think you have nailed every possible cost, stop and think again. Will you need legal advice? If so, make sure that all associated costs are included. You may wish to consider building in a small contingency cost, to cover unforeseen eventualities. However, investors are less keen on contingencies (which implies there are factors outside your control), and prefer to see that you have thoroughly researched your costs. So, if you have included a contingency, keep it as low as possible.

- How confident are you with income projections associated with the project? Will income levels adequately cover costs and are there sufficient margins? Will there be anything left in the accounts after all direct and indirect costs have been taken out to cover the likely interest rates that will accrue as a result of the investment? Will the investor be able to get enough out of it to cover their risk?

Clearly Establish Timescales

In your pitch, make sure that you include details about the timescales for the project. This should include preparation and development time, how quickly you will deliver key outcomes, and when the results will be seen. Make sure that you use realistic timescales. Don't over promise and under deliver. If necessary, build in extra time to get things done properly. Remember that completing the project early, and over delivering on returns can have a positive impact on investors, which could serve you well for the future.

Refer also to the How2Guides on Communication, for more about communicating your business case.

Check List:

Tick off each item as you complete it.

1	Create business plans for each strand of company	☐
2	Carefully consider all relevant factors in the plan	☐
3	Use the format/headings suggested in this Guide	☐
4	Link all business plans together into a single master	☐
5	Link strategic and business plans together	☐
6	Communicate the plan as appropriate to the team	☐
7	Review the relevance of your plan during the period	☐

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