# Creating a Business Plan

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# Introduction

**A well-defined business plan forms the blueprint for a business, outlining its strategy and highlighting how this can be achieved over the forthcoming years. It is also an indispensable tool when seeking external finance or investment.**

**We have compiled this Business Plan Template to act as a guide to help you assemble all the information you will need to create your own business plan, especially if you are seeking:**

- finance for a new business venture;
- additional finance to help an existing business grow; or
- funds to support a management buyout.

The type of finance you are seeking may range from a bank overdraft or medium term loan, to new equity capital.

# Introduction

Each part of this booklet explains how to provide essential information to prospective financers and investors. Most financers – and advisors too – prefer to see an Executive Summary before they look more closely at the detailed plan. From this summary they can quickly determine whether your business is like those they generally support and more importantly can see if the management has a clear understanding of the essential facts about the enterprise.

Your business plan is usually the first opportunity that you have to impress prospective financers about the viability of your business and its prospects, so it should always be written by the management team. A prospective financer will be assessing an investment in the management team, as well as the product or service, so it is important that it contains your words, plans and aspirations. As your accountants, our role is to provide guidance on preparation, review the plan and assist with its financial aspects.

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# Introduction

**The booklet is divided into two parts:**

**Part 1: The Executive Summary**

**Part 2: The Business Plan**

# **Part 1:** Your **Executive Summary**

## Objective

The objective of the executive summary is to convey the main points of the investment proposal to the potential financer, attract their attention and encourage them to read on.

Different organisations are interested in different stages of investment, different types of business and different sizes of investment. The executive summary should therefore aim to answer the financer's basic questions.

## Length

The executive summary should be at the front of the business plan and should not be longer than two pages.

# **Part 1:** Your **Executive Summary**

## Main points

The following questions should be answered:

- What does the company do?
- How long has it been established?
- Who owns the company and who manages the business?
- What are the sales and profit levels for the last three years and those forecast for the next three years?
- How much money does the company want to raise and why?
- How does the financer get repaid at the end of the investment cycle?
- What are the potential investment returns?

# **Part 2:** Your **Business Plan**

## Objective

The objective of the business plan is to raise money. It therefore has to convince a potential financer that the business is a worthwhile investment. To do this, the plan should:

- attract the financer's interest and attention;
- emphasise the strengths of the business and its position in the market, especially compared with its competition;
- recognise the risks; and
- project the development of the business.

The financial forecasts are a critical part of the plan. Consideration should be given as to how each piece of information in the plan affects the plausibility of the forecasts.

The financer needs to be convinced that management has the expertise and commitment to realise the potential of the business.

Preparing a business plan is a useful discipline for all businesses because it clarifies management's view of how it sees the business developing. A good management team will already have prepared a corporate strategy written for their own purposes, which may form the basis of a business plan to raise finance.

# Your **Business Plan**

### Length

The plan should be brief: most are ten to fifteen pages. A balance needs to be struck between ensuring the document is concise and well presented and providing sufficient information. The financer will often conduct their own investigation and therefore will not always need detailed explanations. Any detailed information should be provided in the appendices.

### Verification

Where possible, reference should be made to external data or publications to support the information given. Unsupported options and assertions show a lack of preparation and professionalism.

The business plan should indicate where financial support (including government assistance) has already been given or offered.

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# Your **Business Plan**

## Essential Points

A considerable amount of information is required in a business plan. Bear in mind the following points:

- Pay particular attention to presentation: first impressions are important. Approximately 95% of business plans are rejected, often because their presentation lets them down.
- Be frank. If you misrepresent something, the astute reader will see through it and will not be impressed.
- Make every effort to sustain the reader's attention from start to finish.
- Ensure the logic, proposals and assumptions are consistent throughout the business plan.

Do not underestimate the time taken between presenting the business plan and receiving the required finance. Depending on the type of finance required, the delay could be anything from a few weeks to several months.

# Your **Business Plan**

**As a general rule the business plan should be structured in three parts:**

- the main text;
- the schedules containing financial information; and
- detailed appendices to support information and opinions expressed in the main text.

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# Your **Business Plan**

## What to include in your Summary

The summary should outline the purpose and aims of the business. It must address the specific issues on which the decision to invest will be made. These points should then be covered in greater detail in the main body of the business plan. The summary should include:

- a brief description of the business;
- the finance required;
- the critical points of the financial projections, such as maximum funding requirements or break-even points;
- the particular strengths of the business, whether in its management, products or market sector;
- any events, such as the completion of product development or the granting of planning permission, which the success of the venture depends; and
- the major risk factors of the proposed venture.

# Your **Business Plan**

## Business

This section should describe exactly what the company does and explain the background and history of the company.

It should include features which distinguish the company from its competitors such as patents, brand names or propriety technology. This section should also consider why people buy from the company rather than its competitors and if they will continue to do so, or if not how these issues will be addressed.

> Features which distinguish the company from its competitors should be highlighted such as any patents, brand names or proprietary technology.

# Your **Business Plan**

## Markets and Marketing

This section should enable the potential financer to estimate the possible growth of the business. It should include:

- a description of the market including location, current size, potential growth and particular characteristics;
- a description of the company's own market share and detailed reasoning for any projected changes in that market share;
- the segment of the market to be targeted and the specific opportunities the business is seeking to exploit, including potential threats and how these might be overcome;
- consideration of whether the market is subject to changes in fashion or any other outside influences and how it may be affected by recession;
- comment on any barriers to entry which may exist to prevent new competitors entering the market in the near future;
- marketing plans including market positioning and promotional strategy; and
- plans for selling and distribution, and an outline pricing policy.

If the business has a separate marketing plan it may be included as an appendix.

# Your **Business Plan**

It is easy to fall into a number of traps when considering the potential market. Some of the more common errors are:

- using misleading or inappropriate statistics;
- not recognising the mix or distribution of customers in a particular market;
- claiming your product is 'unique';
- not recognising special characteristics of the market such as seasonality or dependence on complementary products;
- failing to consider the likelihood of market acceptance of a new product;
- failing to consider the response of competitors; and
- assuming orders from existing customers will be repeated.

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# Your **Business Plan**

## Competition

Good management will know a great deal about their competitors and this information should be summarised here, including:

- a description of main competitors setting out their perceived strengths and weaknesses;
- the size of major competitors and their market share compared to the company;
- any information available on the financial position of main competitors; and
- the factors affecting a customer's decision to buy from competitors rather that the company – it could be price, quality, service, speed of delivery, brand name and reputation.

## Customers

This section should:

- describe the major customers of the business and their percentage share of turnover;
- assess the financial and corporate position of major customers; and
- detail the current order book and describe any seasonal variations which may occur.

It is necessary to balance the available opportunities and the risks arising from overdependence on a limited number of customers.

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# Your **Business Plan**

## Products and Product Development

This section should:

- define the products in layman's terms;
- describe any additional research and development required to produce marketable products;
- indentify the principal features of the products, including costs, ease of production and adaptability to market changes;
- consider possible future developments to maintain competitive advantages; and
- refer to any endorsements received from trade journals, customers or potential customers, and market surveys or opinion polls (details of these should be included as appendices).

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## Production

This section outlines the production process, including:

- actual and potential capacity;
- sources of supply;
- appropriate significant ratios, for example output per employee, machine efficiency;
- current and future availability and location of production facilities;
- dependence on specific factors such as the availability of materials or skilled labour, their price volatility and the frequency of plant replacement; and
- advantages of your production process over that of the competition.

# Your **Business Plan**

## Suppliers

This section should:

- describe the principal suppliers, their location and financial position;
- detail whether essential suppliers are multi-sourced and consider protections which exist against delays or inadequate quality; and
- detail reliance on imports or commodities which may be subject to exchange rate fluctuations or changes in world markets, and the steps taken to minimise these exposures.

## Management

It is most important to demonstrate the qualities and suitability of management. The experience and achievements of a company's managers carry a lot of weight in influencing an investment decision.

Brief details about the directors and senior managers of the business should be included, indicating for each their:

- qualifications;
- track record;
- relevant experience;

- role in the business;
- other business interests; and
- shareholding (present and proposed).

The motivation of the management team should be outlined highlighting their personal aims and incentives.

The management structure should also be set out in the appendices, identifying key individuals. This section should also include an outline of management and staffing requirements, succession arrangements, staff turnover levels, particularly for senior management, the availability of employees and any special skills or qualifications required. If particular skills are missing from the management team, for example a finance director, this section must comment on the situation.

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# Your **Business Plan**

## Location

If the location of the business is a significant factor due to access to market and suppliers then details should be given in this section.

Briefly outline the size and ownership of premises and explain whether there is sufficient space for current and forecast requirement.

## Ownership and Structure

This section should provide details of current shareholders and their shareholdings and any expected changes along with details of any existing or planned share options schemes.

If the business comprises more than one company, a summary diagram of the group structure should be included together with a brief description of how the businesses interrelate.

Your **Business Plan**

### Financial Analysis

The financial analysis should include summary profit and loss figures and comment on the financial history and projections with salient features highlighted. Key assumptions underpinning the forecasts should be outlined. Management's plans to monitor and report on performance should also be included.

Detailed financial analyses should appear as schedules.

### Exit Routes

This section should explain the method and timescale envisaged for shareholders to make a profit on their shares. Potential financers would typically expect to realise their investment within say five years.

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# Your **Business Plan**

## Schedules

The schedules should include:

- detailed financial history covering three to five years;
- detailed financial projections for the next three years, phased monthly for at least the first year and including integrated projected profit and loss accounts, cashflows and balance sheets;
- the principal economic and commercial assumptions upon which the projections are based, for example market share, capital expenditure, utilisation of capacity, interest rates, exchange rates, collection of debtors and payments of suppliers; and
- significant accounting policies used by the business, for example the recognition of profit, write-off of both tangible and intangible fixed assets, valuation of stock and treatment of research and development costs and transactions denominated in foreign currencies.

# Your **Business Plan**

The profit and loss accounts, cashflows and balance sheets must be integrated. Financial modelling packages including "Excel" are useful in preparing these and can be used to carry out sensitivity analyses to answer 'what if' questions. It may be useful to show high and low forecasts in the plan.

A common mistake is to underestimate the funding requirement. The business plan will not be more attractive to the financer merely because the amount of finance requested is modest. Funding requirements should take into account the development of the business over at least three years and should allow for contingencies.

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# How **Warrener Stewart** can help

## Building a financial portrait of your company

At Warrener Stewart, we work with many owner managed businesses; our expertise lies in following a tried and tested process which is designed to understand more about your business by looking beyond just the numbers.

As Chartered Accountants, we will examine your business ideas and identify and quantify key objectives, providing an accurate forecast about the company's expected financial performance.

As a small business ourselves, we appreciate some of the specific challenges you might face and can help you prepare financial projections and forecasts.

# How **Warrener Stewart** can help

## Financial forecasts

The financial information we prepare is an unbiased and insightful projection of your company's detailed objectives for up to the next three years. What you are using your business plan for will determine the nature of the information we include, but typically we will provide the following:

- a sales budget
- cashflow projections
- profit and loss projections
- a projected Balance Sheet
- a risk and/or break-even analysis and
- verifiable assumptions on which the plan is based.

> Wherever you are in your business lifecycle you may benefit from a strong business plan since it explains your aims and objectives and how you will achieve them.

For further advice please do not hesitate
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