

REQUIREMENTS OF A BUSINESS PLAN

1. INTRODUCTION

How important is a business plan?

The business plan is a fundamental document to any business and is vital when seeking external sources of finance.

If an investor is to be attracted to a funding opportunity, they must firstly be convinced that the venture has the potential to earn a high return and secondly that this potential can be exploited. Provided the venture is viable, a well-structured and realistic business plan will help to achieve both of these.

Institutions and other venture capitalists are inundated with proposals and business plans. Only a small proportion of these are selected for investment. To stand any chance of selection a good business plan will need to be logical and concise; it will stress the strengths of the company and its market opportunities but will also make a realistic appraisal of the inherent risks of the business and seek to reassure any investor that these have been identified and addressed.

Writing the plan

The individual entrepreneur or management team should normally prepare the plan. Not only do they have the knowledge of the business, but it is they who will be presenting the funding project to investors. Therefore they are ideally positioned to convey their enthusiasm to the audience. That said, it is recognised that the experience of external advisors can be essential in assisting with the structure of the plan, advising on the quantity and quality of the content, validating certain details such as financial projections and providing an overall critical review of the final draft.

2. CONTENTS AND STRUCTURE OF THE BUSINESS PLAN

Detailed below is a guideline to normal sections of a business plan with respect to style, content and matters that any potential investor would wish to address.

A. Contents

It almost sound obvious but a contents page is vital to ensure a logical structure and to allow key sections to be accessed easily. Remember not everyone will read through the whole document.

B. Executive Summary

Potential investors will need to establish quickly whether the proposal is something they may want to consider. The executive summary is a brief outline of the proposed investment opportunity. A concise and well written executive summary at the start of the document is therefore invaluable. Many investors will read this section first and will only read on if they are attracted to this.

The summary needs to be set out on one page and should include:

- a description of the business
- highlights of the financial projections
- an indication of the financing requirement and its purpose

C. History

The requirement of this section is to summarise the business' past performance. It is an key source of information to potential investors as future potential can be reviewed from the evidence of historical data. Key information would be:

- details of formation
- a summary of progress to date
- relevance to the funding requirement

It is appropriate to draw attention to past successes if they enhance the future prospects of the business. If past performance is not a reliable indicator of future potential, e.g. where a fundamental change in structure, management, or output is proposed, this should also be noted.

D. Products/ Services

The principal products or services to be provided, their applications and markets should be described. It is vital to avoid unnecessary technical detail or jargon as this may detract from the basic principle of the business.

This section needs to identify the factors which give your business, its products or services a unique selling point over similar items currently available.

If the business or new venture is product based, it will be necessary to include an analytical review of the technological environment. This should make reference to :

- essential features of the product
- comparison of the product with competitors
- current stage of progress i.e. development, prototype, pre-production etc.
- status and details of any intellectual property/ patents
- current or proposed regulatory constraints or requirements

The purpose of the review is to highlight the level of technological complexity inherent in the project and anticipate any potential problems. The emphasis should be on relevant comment, detailed descriptions should be avoided. It may therefore be appropriate to include detailed information such as drawings, patent applications etc. as appendix.

If the business operates in an environment of fast technological development there is a risk that its own developments will be superseded by others. An investor would expect to be advised of any risks and the extent to which the business may be exposed. They would also want reassurance that the business is aware of changes taking place and taking steps to address them. The plan should therefore make reference to:

- industry progress and the likely future position
- the possibility and status of emerging competitive technologies
- the nature and objectives of research and development currently being undertaken by the company and the resources which may be required in the future.

E. Marketing

The plan needs to recognise that marketing is crucial to the success of the business. It needs to demonstrate an awareness of the opportunities available and a clear and realistic strategy for addressing them.

The main areas to consider here are:

1. Identify your key market

A brief overview of the general market areas already served by the company. This may be restricted to the nature of the market, its current size and projected growth together with details of the company's existing major customer base.

It is possible that a future growth is sought through entry into new markets, however, business plans often fail where they do not define the market segments for which there is a realistic chance of entry. This section of the report should therefore demonstrate that suitable markets have been identified and that the requirements and expectations of that market have been thoroughly researched and:

- detail key market segments to be penetrated, their locations, size and projected growth rates.
- include a realistic assessment of any barriers to entry and how they may be overcome.
- identify any unusual market characteristics
- the critical product characteristics required by that market - e.g. performance, reliability, price, choice
- customer buying patterns - e.g. sources, order sizes, position of key decision makers
- special characteristics such as seasonal or cyclical trends.

Be wary of data such as general industry statistics as these should be used with caution. Markets can vary from segment to segment. The mix and profile of businesses operating in the same markets or market segments may vary significantly and may distort apparent trends.

2. Identify competitors

The extent and quality of existing competition can have implications for the prospects of the company and must be reviewed.

Detail required will include:

- identifying competitors, their existing profile and their growth potential,
- a comparison of products or services provided
- assessment of future market entry by new competitors

Analytical commentary should also consider how the competing companies might react to the increased competition. The plan should demonstrate that competitor action is considered and that there are resources available for contingency measures.

3. Strategy plan

The marketing plan and its goals should be summarised and should include an outline of:

- market positioning
- the proposed pricing structures and their basis

- details of any promotion and advertising

An outline of the sales strategy should be given. The level of detail can depend upon the nature of the business but will normally refer to the distribution channels used.

F. Manufacturing and operations

This section of the plan summarises and reviews the production policy and operating procedures of the business. It should address:

- the main source of supply
- identify dependence on key resources, including labour
- the manufacturing capabilities of the company, the use of sub-contractors, critical processes and the importance of plant and machinery
- The facilities currently available, their condition and existing production capacity. It must also include a realistic assessment of future requirements in the context of the proposed plans for growth.

This is an opportunity to highlight any competitive advantage the business may have in this area, but reference should also be made to any foreseeable problems together with a credible strategy to overcome them.

G. Management

A critical analysis of key personnel is a vital part of the business plan. Investors will be entrusting the management to safeguard their interests. The review should give a factual summary concentrating on the experience, achievements and limitations of each individual.

The two key areas to consider are:

Owners and/or directors

- provide a summary, including the degree of control held.
- non-executive directors - a summary of their role and experience.

Key management

- summary of existing and proposed staff by function
- details of experience and key expertise
- future recruitment requirement
- strategies to develop and retain staff

Detailed CV's and an organisation chart should be included as within the appendices.

H. Financial Analysis

The financial projections themselves are best included in the appendix, with just a summary of the key financial data included in the main body of the plan. This is the most important section an investor will be looking at.

This summary should be followed with commentary on the projected financial performance as follows:

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- profit and loss - a review of the trend in sales and product contribution; the impact and pattern of fixed operating costs (such as research and development expenditure and marketing expenses) on profits
- cash-flow - identify the reason for, timing and scale of peak cash requirements and cash surpluses; review the impact of capital expenditure and working capital investment on cash generation
- Summary of the results of sensitivity and break-even analysis

This section should also include the funding requirement proposed by the plan, timing of such inflows and how they will be used.

An investor will want to ensure that an exit route has been considered and a brief description of the long term financing plan for the company should be included.

I. Risks and rewards

The risks and rewards of the project should be drawn to the attention of an investor. This can be done by dealing with the relevant issues as they arise in each section of the document or by summarising together in a separate section.

If dealt with separately, it is necessary to draw out the inherent risks of the project and the ways in which management propose to deal with or minimise them.

In respect of the rewards, give an indication of how much the business will be worth if the forecast results are achieved.

J. Objectives and milestones

An orderly summary of the business' targets and proposed deadlines will assist the investor in evaluating the viability of the proposal. In addition, such a summary will act as a useful control tool for management and the investor in helping to quickly identify where problems may arise.

It is therefore helpful to summarise the key objectives of both the business as a whole and broken down by each department. Similarly, a realistic timetable for the commencement and successful completion of each objective and task referred to in the sections above should be set out.

K. Appendices

The plan should be a clear, concise and user-friendly document which will encourage the investor to read on and provide the key information needed to make an investment decision.

Any detailed information should be transferred to the appendices. Listed below are typical key contents:

- glossary of terms
- Prior year copies of accounts
- summary of technical data and new products, including patent specifications,
- marketing report and plan
- current shareholders
- organisation chart for the current year and forthcoming years
- Curriculum Vitae's of senior management

- financial projections, by month, incorporating profit and loss accounts, cash-flow statements and balance sheets.
- details of assumptions used to prepare projections
- sensitivity or break-even analysis

3. SUMMARY

The above is intended to give a guidance only. Each business or funding proposition is different. There will be bespoke factors for each one to be taken into account. The relevance of such factors as the quality of management and technological development will vary from business to business and this will affect the emphasis they should be given in the business plan.

If you would like further information or guidance, this can be obtained from the PAH Accounting team who are able to provide detailed advice and assistance, not only in the preparation of your business plan but also on the selection and approach of a potential investor.

What We Can Do To Help?

We will be happy to discuss your plans and help you with the construction of this document. We can provide a template solution or a more bespoke plan to meet your requirements. Contact us if you are interested.