



Preparing a business plan



Some people think the only reason you need a business plan is if you are trying to gain finance from a bank or investors — they should think again. A business plan is crucial to your success and it should be a living document that is updated and used regularly, not something that is done once and forgotten.

Why prepare a business plan?

If you are starting a new business, the reasons to prepare a plan should be obvious. Yet there are people who don't bother. Often these people have left their job and opened a business to escape the rat race. In time they find themselves in another rat

race — they have simply replaced one job with another. Each day they are so busy working "in" the business, they are not actually working "on" the business.

If you have been in business for some time, you may think there is no need to have a plan or to update your original document. However, the process of researching and preparing your business plan will reap rewards. If done thoroughly, this process will reveal aspects of your business and its opportunities and threats that you didn't know or had never stopped to examine.

Updating the plan should be a regular part of your operations. After all, the business plan should be a



Inside this Guide

- Why prepare a business plan?
- Structuring your plan
- Developing your plan
- Getting help



living document used in the process of determining crucial decisions. Businesses without a plan, or with a plan that is never updated or utilised, can find themselves missing opportunities or expanding too quickly and into areas that are not part of their core competencies. This can be a recipe for trouble.

Your plan should:

- Identify manageable time-linked goals.
- Clearly define your target market or segments.
- Identify a positioning strategy that highlights the differential advantage of your products and business over the competition.
- Focus on the key strengths of your business and the vision and values that guide your activity in carrying out your business mission.
- Reflect current market dynamics and provide flexibility in responding to competitor actions and changes in the marketplace.
- Outline both a short- (one year) and longer-term (three- to-five year) perspective.

Structuring your plan

If you are starting out, your first step is to design the framework around which you will construct your plan.
If you are already in

Did you know...

If you are just starting out, you may like to read our Guides to “Starting your own business” or “Buying a business”.

business, and perhaps already have a plan, you should analyse its structure to ensure it will help deliver your objectives.

You may like to consider the following framework:

Cover sheet

This should include the name of your business and the date the plan was developed.

List of contents

Like any table of contents, this merely sets out the sub-headings and the pages on which they appear.

Introduction

This should cover exactly what the document is and how it should be used.

Executive summary

You should have a series of key findings and key recommendations. In short this is a snapshot of the plan itself. (Remember, a business plan is not developed solely

to raise capital. It is developed to be used to chart the future of your business).

Business description

This should include the following:

- The industry you are in.
- The product and/or services you provide.
- Where the business is located.
- Where your business is in its life cycle (start-up, growing, mature).
- Your business history, (hurdles overcome, opportunities targeted).

Mission statement

Your mission statement should cover what your business does and how it does it. Do not fall into the trap of an unrepresentative mission statement meaning nothing to your staff or customers.

An example of a meaningless mission statement is something such as “our mission — to always put our customers first”. First in what? What is the service or product you are providing?

If you are running a learn to swim business and your mission is to teach children to swim in a safe, happy environment and prevent drowning, then say so —

“Our Mission – saving lives by teaching children to swim in a safe, happy environment.”

Remember, your mission statement must be tangible, mean something to your staff and be deliverable to your customers.

Vision

You should make a statement about where you would like the business to be in the future. This should be your

Did you know...

Your plan should help prepare your business to respond to tomorrow’s challenges, but its objectives must be achievable and practical. There is no point developing a plan if it is too complex and cannot be implemented.

ideal outcome for the business. Your specific goals and timeline to achieve them will come later.

Management

This should include a description of the structure of your management and the parameters within which decisions are made on a daily basis. You should also include detailed analysis of the strengths and weaknesses of your management team.

Market analysis

This is a description of how your market is performing. You must know if the market is growing, maintaining current levels or declining. You must also list any future threats or opportunities.

Competitor analysis

List the strengths and

weaknesses of your competitors. Include why their products or services are superior or inferior to yours.

Customer analysis

List who buys your product or service, what level of service they expect and the price they are willing to pay.

Marketing strategy

Define how you will market your product or service. This should highlight cost-effective ways to reach your customers and how you will highlight the key differences and attributes of your product or service.

Goals and objectives

Define your short-term goals (one year) and longer-term goals (three-to-five years). These goals must be measurable and time linked. Your short-term goals should

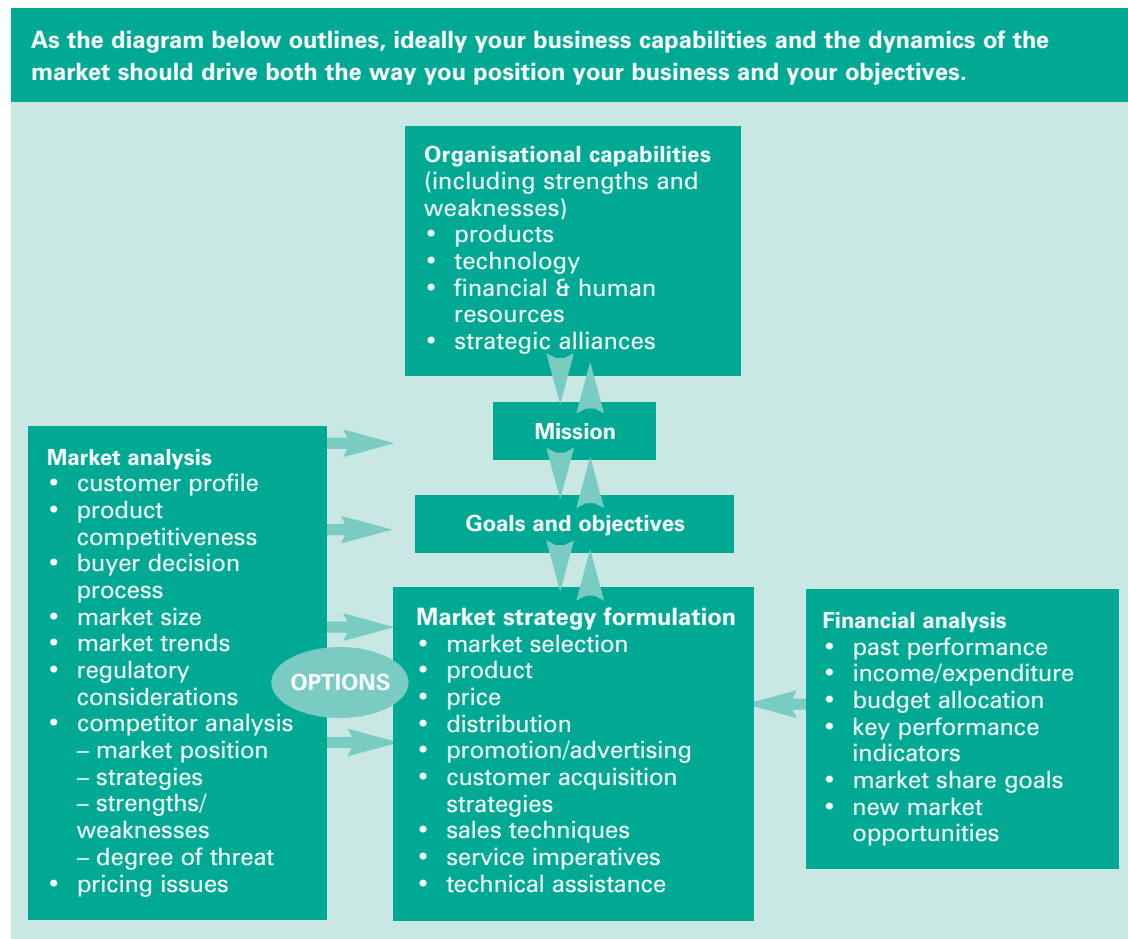
be reassessed each year in relation to your progress towards your long-term objectives.

Financial plan

This should include your current profit and loss statement, your historical data (preferably for three years) and your future projections.

Research

You will have made many educated assumptions in the sections above. Where possible, you should support those assumptions with the facts and figures on which they are based. However, not all your research will fit within these areas. Therefore detail the rest of your research in the final section of the plan.





Developing the plan

To begin developing or reviewing your plan, you are going to need thorough research. The structure we have discussed cannot be left to guesswork. You need to know your own business, your competitors and your target market. After all, there is no point being the dominant player in a rapidly shrinking and perhaps soon to be extinct market.

As you work your way through the structure we have discussed, the first few points should be relatively easy. To construct the remainder of your business plan you will need to examine:

- Organisational capabilities.
- Market analysis.
- Competitor analysis.
- Market strategy.
- Goals and objectives.
- Financial analysis.

In many of the areas above we are going to pose a number of questions. You should be able to answer many of these questions by doing a detailed SWOT analysis.

Strengths

These are internal issues and can include staff skills,

 **Did you know...**
Your business plan may be an important selling tool for your business or for attracting finance.

Area	Facts	Implications	Strategy
Product	Superior to major competitor – include reasons	Increase market share e.g. 5% over last six months	Reinvest in growth
Staff	Lack of depth due to only two experienced team members. Junior staff not yet capable of handling more difficult tasks.	Potential difficulties with production and ability to meet market demand if senior staff leave or become ill.	Establish mentoring system to lift skill base of junior staff and contract the two experienced team members to provide some insurance against the risk of their leaving.

products and services — pay particular attention to any area that cannot be matched by your competitors.

Weaknesses

Once again you are looking at internal issues. These could be gaps in your service or product offering, skills needed that are not possessed by your staff, a lack of capital — in short anything within your business that will negatively impact your ability to do business now and in the future.

Opportunities

These are external factors, areas where the business could expand, capitalise on an existing gap in the marketplace or develop a new offering to meet a future demand.

Threats

These are also external factors, such as new competitive threats and changes in market dynamics.


As you conduct your SWOT analysis, you should determine the facts about each area, the implications

both positive and negative and your strategy to deal with them. The process could look something like the diagram above.

Organisational capabilities

Your products or services — are they meeting market demand? How do they compare with your competitors?

Technology — is your technology outdated? Does it meet your needs? Is it helping you achieve your business

 **Did you know...**
Some small businesses limit their strategy to dealing with their weaknesses. You must also decide what you will do to further enhance and exploit your strengths.

objectives? (You should also not update to the latest technology if you don't need it).

Financial resources — do you have the financial resources to meet your existing objectives along with new challenges or to capitalise on new opportunities?

People — can your staff help you meet your objectives? Are there skill gaps that can be addressed with training or do you need to fill these from the outside? Are your staff happy? This last point is vital. Are there things you can do to lift morale and, in turn, raise productivity and help you retain the right people?

Strategic alliances — do you have the right strategic partnerships in place to enable you to meet your objectives?

Market analysis

Customer profile — who buys your product or service?

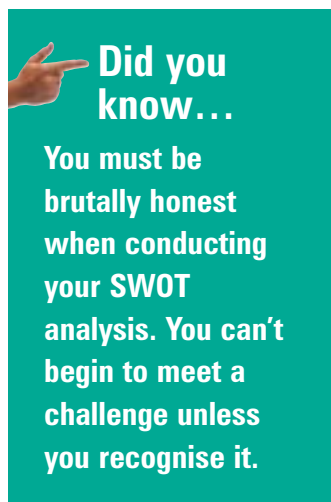
Product or service competitiveness — how many options do your customers have to obtain your product or service from another source?

Buyer decision process — why do your customers buy your product or service? How important is price? Quality? Convenience?

Market size — how large is your market? Be as specific as possible about numbers.

Market trend — is your market growing, maintaining current levels or shrinking?

Regulatory considerations — are there regulations that govern your industry which may impede your potential



growth? You should check with your local small-business department.

Competitor analysis

Analysing your competitors can be difficult, but it is not impossible. You should be able to determine the price and quality of their service or products, and by doing a bit of research you will know how they go about marketing their product or service.

Market position — who are the other players in your market and what is their estimated market share?

Strategies — what are their strategies for selling their product or service and how do they compare to yours?

Strengths/weaknesses — what are the areas where your competitors do things better than you or are stronger than you? Also, are there areas you can capitalise on?

Degree of threat — in simple terms, how much business could one of your competitors take from you with a superior offering or a lower price? Could your business adapt and fight off a potential threat?

Pricing — how are prices set in your industry? How much scope is there to change and what impact will raising your price have on your market share and profitability?

Market strategy

Given the research you have done to this point, it is now time to pull much of it together and begin to determine your strategy.

Market selection — you should now have a view of your target market, who your potential customers are and how their needs are currently being met.

Product — it may sound obvious, but ensure you are offering something the customers actually want. You should also list the features and benefits of your product or service.

Price — make sure your price is acceptable in terms of industry standards and what the customers are prepared to pay. You must also ensure your price allows you to make enough profit for the business to achieve your objectives.

Distribution — how do customers access your product or service? Is it convenient for them and cost-effective for you?

Promotion/advertising — how do you market your product? Are you utilising the most cost-effective means of promoting your business? (You may like to read our Guide to **"Winning communications and marketing strategies for small businesses"**).

Customer acquisition strategies — how do you



obtain and keep your customers? This section should include your sales techniques, service standards and, if appropriate, technical assistance.

Goals and objectives

Setting your business goals and objectives should involve a bit of personal analysis. You need to be clear about why you are in business.

Do you want to build a steady business, providing a good income and reasonable lifestyle?

Do you want to build a business and sell to make a large profit?

Basically, ask yourself not just where you want the business to be in the future, but what you would like to be doing. If your goal is to build and then sell the business in five years time, then your plan will be different from one that enables you to continue working in the business. Conversely, you may wish to own the business and still have time to work on your golf handicap. Whatever your goals, your business plan should be designed to help you achieve them.

Setting goals is not a process for dreamers. It also involves setting smaller targets to be met along the way to your ultimate goal. Champion athletes may have an ultimate goal of setting a world record or winning an Olympic gold medal, but they realise this will not happen overnight. To stay focused they set smaller goals along the way and regularly re-evaluate their short-term and long-term targets.

A few things to keep in mind are:

- Set specific targets — there is an old saying that if you aim at nothing you are likely to achieve it. Define what you want to achieve.
- Set measurable, time-linked targets — you won't be able to judge your progress unless you set targets that can be measured. Increasing profit by 10% in the next six months is a measurable, time-linked target.
- Set attainable goals — don't limit yourself, but make sure you understand what a realistic target is.

Financial analysis

Past performance — you should examine your past performance to review areas where profits could be increased.

Projected

income/expenditure — this should detail your likely cash flow, the expenditure needed to run your business. Don't forget items such as the cost of financing, wage allocations, insurances and other expenses such as National Insurance.

Budget allocation — examine why you are spending money in certain areas. Do you need more money for advertising and promotion, or perhaps an investment in new technology?

Key performance indicators

— you should have milestones to be reached, including market share goals, new market opportunities and profit projections.

How well you manage your finances will determine the survival of your business. The best product, marketing plan and operational plans are worth nothing if you can't afford to pay the bills.

To help you with your financial plan there are three basic elements:

- Projected profit and loss statement.
- Projected balance sheet.
- Projected cash flow statement.

These will help you map out exactly how you want the business to perform. Be honest and conservative in your projections and explain them where necessary — this will ensure that your business does not live beyond its means.

Projected profit and loss statement

This is otherwise known as an income projection statement



Did you know...

Entrepreneurs wanting to build a business quickly and sell at a large profit may not make as much money along the way as a person who wants to slowly build a business to work in for years to come. The entrepreneur is hoping to get the rewards from the sale and will pour most of the profits back into the business to build and expand, hoping one day to sell or even float on the stock exchange.

and it will tell you how much money you expect to have made by the end of the year.

Basically, it will show the amount of revenue you have earned through sales of goods and services minus your expenses and any taxes paid. The elements you will track in the profit and loss statement are:

- Total sales.
- Cost of goods sold.
- Gross profit.
- Variable expenses (such as wages and salaries, advertising, office supplies, utilities).
- Fixed expenses (rent, insurance, loan repayments).
- Taxes.
- Net profit.

It is best to prepare a projected profit and loss statement on a monthly basis. This will be especially handy in identifying expenses that could be cut.

The profit and loss statement will also allow you to calculate a very important figure — your business' gross profit margin. This is calculated by dividing the gross profit figure (sales less the cost of goods sold) by the revenue figure. The gross profit margin gives you a rough idea of how much profit you can expect to earn from each pound of sales prior to deduction of your fixed and variable expenses.

Projected balance sheet

The balance sheet is a financial snapshot of your business at a particular moment. It records the assets that belong to your company — everything from the cash in the bank and the cars used

for deliveries — as well as the liabilities, such as long-term loans and creditors.

The balance sheet is divided into three sections:

- Assets.
- Liabilities.
- Equity.

Hopefully, the balance sheet should balance — that is, when you add the total liabilities to the total equity, the amount should be the same as the total assets.

Assets

Simply put, these are the things your business owns. This section of the balance sheet is further divided into:

- Current assets — these are assets that will be used within the next 12 months, including cash at bank, stock on hand, accounts receivable (money you are owed by others—debtors), prepaid expenses and investments you have made.
- Non-current assets — these

are assets that you will hang onto for longer than 12 months and are also known as fixed assets. These include land, buildings, plant, equipment and vehicles.

Liabilities

Simply put, liabilities are things you owe to others. Again, they are divided into two sections:

- Current liabilities – debts that need to be paid back in the next 12 months. These include short-term loans (including bank overdrafts), accounts payable (money owed to suppliers—creditors), wages owed and taxes payable.
- Non-current liabilities — generally long-term loans such as mortgages.

Equity

This section includes the funds committed by the owner or owners, plus any retained earnings or balance sheet reserves.





Projected cash flow statement

When asked for a single rule about running a successful business, many entrepreneurs will answer that cash flow is king. You could be profitable on paper, with forward orders and good current sales, but if you do not collect payments in a timely fashion you could still find yourself unable to pay the bills.

The cash flow statement tracks the movement of cash through your business over a given period. It is similar to a profit and loss statement, but it only involves cash. Non-cash transactions, such as depreciation, do not appear in the cash flow statement.

Getting help

Given how important your business plan is and the major role that financial forecasts play, you should seek professional help from a suitably qualified accountant, financial or business adviser.

There is also a range of professional business consultants who may be useful.

In doing your research you may also seek help from a range of government and industry associations.

These may include:

- Your relevant industry body.
- Your Chamber of Commerce.

There is also a range of very helpful Government sites with a host of information on business issues:

The Department of Trade and Industry www.dti.gov.uk
(covers a vast range of areas, concerning businesses of all sizes).

Business Link www.businesslink.gov.uk
(a self-help portal of information for small businesses and links to all relevant government departments).

UK Online For Business www.ukonlineforbusiness.gov.uk
(e-commerce and IT help and advice).

Small Business Service www.sbs.gov.uk
(provides information and advice to help small businesses reach their potential).

National Measurement System www.dti.gov.uk/hmd
a division of the DTI, the National Measurement System is responsible for providing measurement systems for trade, business and government.

Companies House www.companies-house.gov.uk
is responsible for the registration of companies and the provision of company information. The site also contains details of the various statutory obligations of limited liability companies.

Business Gateway www.bgateway.com
(a partnership with the Scottish Executive, Scottish Enterprise and the Local Authorities).

The Forum of Private Business www.fpb.co.uk
also provides a range of information and advice for a yearly fee. You can find out more by calling 01565 634 467 (Head Office, Cheshire) and 01309 690 339 (Scotland).

This Guide is produced by Life Directions Pty Ltd ABN 17 085 676884 on behalf of Clydesdale Bank. Clydesdale Bank is a trading name of Clydesdale Bank PLC and is authorised and regulated by the Financial Services Authority. Credit facilities other than regulated mortgages are not regulated by the Financial Services Authority.

The preparation of this Guide did not take into account any individual objectives, financial situation or particular needs. Before making any decision you should consider whether the information in this Guide is appropriate in light of your particular needs and financial circumstances. If you want further information about any of the topics covered, and how they may apply in your circumstances you should seek professional advice.

Life Directions Pty Ltd has taken all care in the compilation and presentation of the facts and information contained in this Guide and the information was current as at 1 January 2005. However it is written as a general guide and is not intended to provide any financial, legal or other professional advice. Nothing in this Guide should be treated as an authoritative statement on any particular topic or of its applicability in any specific case. Action should not be taken on the basis of this Guide alone and specific professional advice should always be sought before any action is taken.

Life Directions Pty Ltd, Clydesdale Bank PLC and the companies in the National Australia Bank Group accept no liability for any errors or omissions.

All rights reserved. No part of this Guide may be reproduced without the prior permission of Life Directions Pty Ltd and Clydesdale Bank PLC.

Clydesdale Bank PLC. Registered in Scotland (No. SC001111). Registered Office: 30 St Vincent Place, Glasgow G1 2HL.