

Business planning – a guide

prepared by
David Irwin for the Esmee Fairbairn
Foundation

March 2006

Esmee Fairbairn Foundation
11 Park Place, London
SW1A 1LP

www.esmeefairbairn.org.uk

What this guide aims to do:

This document addresses the main elements to be covered by a written business plan. It suggests a framework for your plan within which you can describe the business, its potential market, how it will operate and the associated financial details. This guideline does not set out to explain in detail all the techniques required to derive the information for your business plan. It does, however, aim to show you how to pull together all the pertinent information about your business into a single coherent document. This is only intended as guidance – not a hard and fast rule book. If you feel information sits more comfortably or more logically in a different order to that suggested, write it that way. Use this guideline as a checklist though, to ensure that you do not omit any vital information.

Contents

1. Introduction.....	2
2. Preparing the plan	2
3. The business plan contents.....	3
4. The Market.....	4
5. Management and organisation	5
6. Finance.....	6
7. Financial requirements.....	10
8. Appendices.....	10

1. Introduction

This introduction to business planning has been prepared for aspiring or existing social enterprises that are seeking financial support. The best way of developing an idea into a workable proposition and of providing the basic information required is by preparing a detailed business plan.

The best managed businesses see planning as a continuous activity in which they set both long and short-term objectives. Having a plan should not be considered a constraint, but a way of ensuring that everyday activities happen in a structured way. Well-managed businesses will see a plan as a framework providing the ability to be flexible and responsive when opportunities arise, without being blown totally off course. Knowing that the bulk of your activities are performing according to plan will give you the freedom to explore those opportunities.

2. Preparing the plan

A business plan is a complete description of a business and its plans for the next one to three years. It explains what the business does (or will do, if it's for a new business), it suggests who will buy the product or service and why and it provides financial forecasts demonstrating overall viability, while indicating the finance available and explaining the financial requirements.

For most businesses, the business plan will be the main method of convincing prospective funders that the business proposal is viable and that those involved have the commitment and determination to succeed. It is important therefore to take the time to research the content carefully and to present it professionally.

Your business plan should be presented in a form that can be quickly and easily understood. The main part of a business plan normally needs no more than eight to ten pages, supported if necessary by more detail in appendices. Your plan will then be manageable and a working document in which you and potential funders can find the management information you need.

Think of your business plan as a marketing tool – in this case marketing your organisation and its enterprising ideas to prospective funders. It needs to be honest, easy to read and deliver succinctly the required information.

3. The business plan contents

3.1 The summary

The summary should briefly describe the business and highlight its purpose. It should explain how the purpose will be achieved and why those involved are the right people to make it happen.

If one of the uses for your business plan is to raise finance, then a clear simple outline will catch the attention of prospective funders and make them interested enough to read on. Highlight the strengths of the business and why you should be supported. Indicate the expected turnover and profitability for the following year. If you are already in business, briefly describe your history to date and, in particular, provide details of turnover and profitability for the previous one or two years. How does the business's performance compare with its competitors? What have been its major achievements?

Lastly, indicate how much money you need to raise, the form in which you want it (such as loan or grant) and the proposed sources.

3.2 The business

This section should briefly describe the purpose and goals of the business and explain whether or not the business has started. What was the trigger to launch the business or proposed venture?

Explain the legal structure of the business and how it fits within your organisation.

If the business has already started, describe its history and performance to date. What have been the major achievements? How does its performance compare with its competitors?

What is its turnover? How profitable is it? What assets does it have? Provide summary figures here and detailed profit and loss account and balance sheets in the appendices. How has the business been funded (eg equity, loans, grants)?

3.3 The product or service

Describe what you are selling, or intend to sell, in language which any reader will understand. Avoid jargon; a reader wanting more detailed information on technical aspects of your product will ask for it. Alternatively, you could include such information in an appendix.

Explain why customers will want to buy the product or service. What needs does it fulfil? Describe the features and the benefits.

4. The Market

4.1 Market research

Charities and social enterprises undertake a wide range of enterprise activities that includes selling products, but also includes the provision of services. You will therefore have to think carefully about the market for what you wish to offer – and recognise that the direct beneficiaries may not be paying for your service. It will be important to explain who purchases the service, what you will need to do to attract these customers, who will actually use the service and what will make it attractive to them.

Define carefully who you perceive to be your customer groups or niche markets. Your market research may have suggested that you aim your sales at a precisely defined target market or segment.

Outline the research that you have undertaken; primary and secondary research are both important, including summary information in tables or graphs. Detailed supporting information can be included in the appendices.

You need to demonstrate that a market exists. What is the overall size of the market? Estimate likely demand for your product or service in the short- and long-term and justify this estimate. It is on the basis of such information that you will estimate your sales turnover.

You need to explain the extent of the competition. What competition is there? How many competitors will you have? Is there likely to be further competition in the future? Explain why your product is going to be preferable to those of your competitors. What is your product's unique selling point?

Are there any barriers to entry to this particular market? If so, what are they and how will you overcome them?

4.2 Marketing plan

You described the purpose of your business in the summary or in the business section. That purpose should be translated into marketing objectives and goals which will support its realisation. Objectives should be quantifiable, measurable, challenging and achievable. Typical objectives might be profitability, sales growth, diversification and improvement in market share.

Objectives might include, for example:

- to sell 220 units and generate £100,000 in 2007
- to achieve a gross profit margin of 45 %
- to capture 18 % of the defined market.

The marketing plan to achieve these objectives should be described using the 4Ps (Product, Place, Price, Promotion).

Your chosen “positioning” will affect how you implement these: explain how you propose to position the business (and the product) in the market place. Is the product a quality product targeted at a quality market (and therefore able to command a premium price)? This is known as differentiation. Is the product a commodity with nothing to choose between competitors except price? This is called cost leadership.

Product

You have described already what your product or service is. Set out plans for future development over, say, the next two years. Will you phase in additional products or services as you start to make more money? Will you pilot an initial product to test the market? Will you add to the product range later?

Place

The location of your business and the way you will distribute your product to your clients are both important. How will the product or service be sold to customers - directly or via dealers or agents (such as wholesalers or retailers). How will the product be transported to its point of sale? If you propose service provision, from where will the service operate and why is this the best location?

If customers come to the business, can it be reached conveniently? Does it give the right image? Explain why you have chosen the site or premises from which you intend to operate.

Price

The price must cover all your costs and provide a surplus, or profit. You will need to explain how you reached your decision on price.

If you choose a differentiation strategy, quality and service is, within reason, more important than price. If you choose a cost leadership strategy you will need to set the price by referring to the market – and then control your costs to enable you to sell at that price whilst making a profit. The latter is often a difficult strategy for small businesses as it is all but impossible to achieve sufficient economy of scale so most, consciously or unconsciously, choose the differentiation route.

Promotion

Finally, you need to explain your promotional strategy – how you intend to break into the market and let the customer know you exist.

Explain how you will promote what you have to offer, for example, through advertising, direct mail, door-to-door leaflets, etc or how you will attract the attention of service purchasers or commissioners.

5. Management and organisation

It is important to demonstrate that you have the ability to carry out the tasks to make the business work. Focus on the key points.

5.1 People

Describe the people involved, highlighting the particular strengths and skills they bring to the business. This may include technical skills (such as joinery or sales experience), personal attitudes (such as enthusiasm or ability to work under pressure),

education and specialist training. If you wish, provide curricula vitae for the key staff in the appendices. If there are apparent weaknesses, explain how these will be overcome (for example, by sub-contracting a particular element of the business).

5.2 Production / Service Provision

Describe the production process or how you will provide a service, and highlight any competitive advantages.

5.3 Premises

Describe the premises necessary, including details of any required licences, health and safety requirements, planning permission, etc. Have premises been secured are or you still looking?

6. Finance

6.1 Break-even analysis

Setting a price and calculating the costs may require a number of attempts. You will have set an approximate price when you did the market research. Now calculate the expected costs. Now you can work out exactly how much you need to sell in order to cover the costs, either in terms of units sold or productive hours worked. The level of sales at which you start to exceed your costs is known as the break-even point. Beyond this you start to go into profit. Does this level of sales seem realistic? If not, you may need to rethink your approach; if it does, then you can prepare more detailed financial forecasts.

6.2 Financial forecasts

The two key financial requirements are to generate a profit and to generate sufficient cash to be able to make payments to suppliers, staff and others. The objective of this section of the plan is to demonstrate that the business will achieve both of these requirements. Forecast for at least one year ahead. If a substantial investment is sought or if the business is unlikely to show profitability within the year, then forecasts for two or even three years may be required.

This section will normally include a cash flow forecast, a forecast profit and loss account and a forecast balance sheet. Examples of each are shown below.

A forecast of the Profit and Loss account:

The sales turnover is derived from the market research section. What are the direct costs, the gross profit, the overhead costs, and the likely net profit? How will the profit be distributed? It may also help to explain how the price has been derived. Remember to include salaries and interest when adding the total overhead cost to the direct costs.

**PROFIT & LOSS
ACCOUNT**

Sales/ Income	50,232	
Less Direct Costs	14,065	
Gross Profit		36,167

OVERHEADS

Wages & NI	15,456
Rent	2,820
Heat, light & power	400
Advertising	510
Telephone	265
Insurance	420
Transport	3,660
Stationery & post	60
Professional fees	250
HP & lease	990
Bank charges	300
Other	420
Depreciation	750

TOTAL	26,301
OPERATING PROFIT	9,866
Interest	880
Tax (if relevant)	4,247
Retained in business	4,740

Cash flow forecast:

Explain likely delays in receipt of income and in paying for expenditure. Provide a cash flow forecast to show receipts and payments on a month by month basis and, therefore, the required level of external finance.

Cash flow forecast														
Month	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Total	Accrual
Sales	1,400	2,800	3,360	3,920	3,840	4,896	5,760	5,888	5,200	4,592	4,288	4,288	50,232	
Receipts														
Debtors			1,400	2,800	3,360	3,920	3,840	4,896	5,760	5,888	5,200	4,592	41,656	8,576
Investors	2,000												2,000	
Loans	7,000												7,000	
VAT	0	0	245	490	588	686	672	857	1,008	1,030	910	804	7,290	
Total	9,000	0	1,645	3,290	3,948	4,606	4,512	5,753	6,768	6,918	6,110	5,396	57,946	
Payments														
Raw materials	700	800	900	1,100	1,100	1,400	1,600	1,600	1,500	1,300	1,200	1,200	14,400	
Wages & NI	1,000	1,000	1,192	1,192	1,192	1,192	1,192	1,384	1,384	1,576	1,576	1,576	15,456	
Premises	236	136	266	236	136	325	300	200	385	350	250	400	3,220	
Office costs	275	65	125	55	55	105	245	55	105	25	35	333	1,505	
Transport etc	140	200	210	220	240	330	390	390	420	400	360	360	3,660	
HP & lease	165	165	165	165	165	165							990	
Bank charges	25	25	25	25	25	25	25	25	25	25	25	25	300	
Loan repayments		300	300	300	300	300	300	300	300	300	300	300	3,300	
Loan interest		80	80	80	80	80	80	80	80	80	80	80	880	
Other	35	35	35	35	35	35	35	35	35	35	35	35	420	
Capital	3,000												3,000	
VAT	206	216	269	288	274	384	413	399	428	369	329	412	3,987	
VAT to C & E	0			(446)			818			1,297			1,669	1,634
Total	5,782	3,022	3,567	3,250	3,602	4,341	5,398	4,468	4,662	5,757	4,190	4,748	52,787	
Balances														
Cash increase (decrease)	3,218	(3,022)	(1,922)	40	346	265	(886)	1,285	2,106	1,161	1,920	647	5,159	
Opening balance	0	3,218	196	(1,726)	(1,686)	(1,340)	(1,075)	(1,961)	(676)	1,430	2,591	4,511		
Closing balance	3,218	196	(1,726)	(1,686)	(1,340)	(1,075)	(1,961)	(676)	1,430	2,591	4,511	5,159		

Balance Sheet:

You should also include a forecast of the balance sheet, otherwise the prospective funder may derive one from the other information you have provided. This might not, however, show the business exactly as you would like; you might, for example, be introducing fixed assets or stock that will not appear on the cash flow forecasts.

BALANCE SHEET

FIXED ASSETS		
Capital Equipment	3,000	
Less Depreciation	750	
		2,250
CURRENT ASSETS		
Stock	335	
Cash at Bank	5,159	
Debtors	8,576	
		14,070
CURRENT LIABILITIES		
Trade creditors		
Loans	3,700	
Others	5,881	
		9,580
NET CURRENT ASSETS		4,490
NET ASSETS		6,740
REPRESENTED BY:		
Profit & Loss	20,986	
Carried Forward	0	
Owners	2,000	
Less drawings	(12,000)	
Less tax	(4,247)	
TOTAL		6,740

6.3 Risks

Prospective funders are interested in risks – the risk that you may not achieve your forecast, the risk that you may default on the loan and even the risk that your business might cease to trade. It will help them considerably and demonstrate that you too have

thought about risk, if you include a break-even analysis (explained earlier) and a sensitivity analysis.

6.4 Sensitivity analysis

Sensitivity analysis looks at ‘what if...?’ questions. What will be the effect, say, of a 10% fall in sales or a 20% increase in raw material prices? You can help the business-plan appraiser by briefly considering such questions yourself and assessing the likely risks particularly of falling sales or rising prices.

7. Financial requirements

Indicate how much money or other assets will be invested by yourself (and any partners). Give details of how much is sought from other sources and explain whether it is wanted as overdraft (for working capital), as term loans (for equipment, for example), as equity, a grant, or as a combination of these.

8. Appendices

Keep any additional material to a minimum. You may find there are some aspects of your business where more background information might be helpful, but don't regard this as an excuse to include everything.

In addition to the items mentioned earlier, you might include:

- photographs
- quotations for equipment and necessary insurance
- legal information - partnership agreement, leases, etc
- a copy of your primary research questionnaires