



PROFIT

promoting regional opportunities
for investment and trade

Business plans

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1. Introduction

This note is intended primarily for businesses that are seeking external finance. A business plan for use internally will tend to be more of a checklist of actions but a plan for a funder needs to explain the business in enough detail to reassure them that they will eventually get back their investment and make a return. A business plan can be prepared for the whole organisation or for a division or even just for a single product or service.

2. Business plans

A business plan is a complete description of a business, or a division, or a service, and its plans for the next one to three years. It explains what the business does; it explains who will buy the service(s) and why; and it provides financial forecasts demonstrating overall viability, whilst indicating the finance available and setting out the financial requirements. In general, funders will prefer to hear about the whole business rather than a small part of it.

To prepare a convincing business plan, you need a clear idea of what your business is doing, where it is going, and how it is going to get there. Think about the resources needed – cash, equipment, premises, people – and how they will be deployed. For everyday purposes, the plan will cover a handful of key objectives and performance measures and could be written on a single sheet of paper and, perhaps, pinned on the wall to keep the objectives at the forefront of your thinking. And having a short business plan, with clear objectives, will help you stay in control.

If, however, you intend to use the plan to seek external finance for the business, then you need to provide rather more detail. This fact sheet describes the main elements to be covered by such a 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. It will not provide answers to the many questions you will have but will prompt you to search for solutions. None of this is hard and fast. If you feel information sits more logically in a different order to that suggested, then feel free to write it that way. Use this guideline as a checklist though – to ensure that you do not omit any vital information.

3. Compiling the plan

For most businesses, the business plan will be the main method of convincing prospective funders that the business proposal is viable. 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 format 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 business to prospective funders. It needs to be honest, but it should present you in the best possible light. It should be easy for busy people, such as funders, to read and assimilate quickly the required information.

The cover gives the reader an instant impression of the business so it needs to look professional. It should show the business name and logo, if you have one. A well laid out cover page will present a professional image.

4. The business plan contents

4.1. The summary

Although the summary is the first section, it should probably be written last. However, since it is the first bit that will be read, we will describe it first.

The summary should briefly describe the business and highlight its purpose, major achievements and explain how the purpose will be achieved.

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

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- Summary
- The business
- The product or service
- The market
- Marketing plan
- Management & organisation
- Financial forecasts
- Financial requirements
- Appendices

read on. Remember that the people assessing your business are likely to be busy so highlight the strengths and why you should be supported. 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. Ensure that you indicate the expected turnover and profitability for the next year and for the new service(s).

4.2. The business

This section should briefly describe the purpose and goals of the business. Explain who owns it and what has made you decide now to start trading or investing internationally?

Describe the business history and performance to date and answer questions such as: How high is the sales turnover? How profitable is it? What is its net worth? Provide summary figures here and detailed profit and loss account and balance sheets in the appendices. How does its performance compare with its competitors (if any)? How has the business been funded (eg retained earnings, loans, grants)? What have been the major achievements to date? What are the challenges that it faces?

Explain the legal structure of the business (company, sole trader or partnership). State if there are distinguishing features such as a unique feature of the service or accreditation to ISO9000.

4.3. Product or service

Describe what you are selling in language which any reader will understand. Avoid jargon wherever possible; 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 not only the features but also the benefits. Benefits might include, for example, ease of use, economy, flexibility, timeliness, exclusivity etc. Remember that the customer buys the benefits but you supply the features.

Are any of the features unique? Give details of patent, design registration or copyright if appropriate.

4.4. The market

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. Include summary information formatted in tables or graphs. Detailed supporting information can be provided 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 membership income or 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 service is going to be preferable to those of your competitors. What is your product's unique selling point? If you do not believe that you have competitors, you need to explain why you believe this to be the case. And not buying is always a choice, even if there is no competition, so explain why customers will 'buy' rather than 'not buy'. What are the benefits?

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

4.5. 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 attract 1,000 fee paying clients and generate \$500,000 in 2022;
- to achieve a net profit margin of 15 per cent; or,

🎯 to capture 18 per cent of the defined market.

The marketing plan to achieve these objectives should be described using the 4Ps. Your chosen “positioning” will be a strategic decision, so should be addressed in your strategic review, but will also affect how you implement the 4Ps.

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 – though small businesses find it extremely difficult to compete on price as they cannot achieve the economies of scale that come with size.

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. This aspect is very important when you start to sell internationally. Will you work through a partner, or a subsidiary, or a distributor, or directly to customers? How will you ensure that your product reaches your customers? On what terms? If you work through intermediaries, how will you protect your image?

Price

The price must cover all your costs and provide a 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 reference to the market – and then control your costs to enable you to sell at that price whilst still making a profit. The latter is often a difficult strategy, so most businesses, either 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, leaflets, internet, e-mail etc.

4.6. Management and organisation

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

People

Describe the people, highlighting the particular strengths and skills they bring to the business. This may include technical skills (such as 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 aspect of the production process or by putting in place a development or training programme). You may wish, in particular, to highlight the staff with experience of working internationally or those with any experience in your areas of trade or investment.

Production

Describe the production process (bearing in mind that services need to be ‘produced’ as well as products) and highlight any competitive advantages.

Premises

The reader is already aware of the logic behind your choice of premises; here describe the premises themselves, including details of any necessary licences, health and safety requirements, planning permission, etc.

4.7. Financial forecasts

Break-even analysis

Once you have worked out your likely costs and determined the price at which you will sell your product or service, you can work out exactly how much you need to sell in order to cover 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.

Financial statements

The two key requirements are to generate a profit and to generate sufficient cash to be able to make payments to suppliers, staff and others as they fall due. 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 summary of the cash flow forecast, a forecast profit and loss account and a forecast balance sheet. More detailed forecasts should be included in the appendices. You may add a capital expenditure budget.

- 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 drawings and interest when adding the total overhead cost to the direct costs.
- A 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.
- Ideally, you should also include a forecast of the balance sheet - otherwise the prospective funder will attempt to 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 which will not appear on the cash flow forecasts.

Prospective funders are interested in risks – the risk that you may not achieve your forecast, the risk that you may not find sufficient customers, the risk that customers may take up the service but then not pay, the risk that you may default on a 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 and a sensitivity analysis.

Sensitivity analysis

Sensitivity analysis looks at “what if...?” questions. What will be the effect, say, of a 10 per cent fall in sales or a 20 per cent 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.

4.8. 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, whether it is required as a loan, a grant or a mix, and the ideal timing, with particular reference to the cash flow forecast. It can help, but is not essential, to explain how you will repay any loan.

4.9. 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. As mentioned earlier, you might include more detailed evidence to support your assessment of the market; if you have tested the market, you might include testimonials. But do not include copies of market research questionnaires or lots of legal information – though you should ensure that these are available if requested. Other information that you may wish to provide includes:

- Detailed financial forecasts and the assumptions underlying the forecasts;
- CVs of key staff and board members;
- Organisation chart (if not included in body of business plan);
- Schedule of existing facilities and equipment

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