

The Business Plan

What is a business plan?

A business plan is a **written document** that describes a business, its objectives, its strategies, the market it is in and its financial forecasts.

The business plan has many functions, from securing external funding to measuring success within the business.

Benefits of business planning to a start-up

The main reasons why a start-up should produce a business plan are:

- Provides a focus on the business idea - is it really a good one, and why?
- Producing a document helps clarify thoughts and identify gaps in information
- The plan provides a logical structure to thinking about the business
- It encourages the entrepreneur to focus on what the business is really about and how customers and finance-providers can be convinced
- It helps test the financial viability of the idea - can the business achieve the required level of profitability and not run out of cash?
- The plan provides something which can be used to measure actual performance
- A business plan is essential to raising finance from outside providers - particular investors and banks

Questions a start-up business plan should answer

A business plan needs to address the issues of interest to the reader and user.

Assuming that the plan is meant to be read by potential finance providers (e.g. a bank, business angel or venture capitalist) then it ought to provide **convincing and realistic** answers to questions such as:

- What is the business idea or opportunity?
- What is the product and how is it different or unique?
- What is the target market segment and who are the potential competitors?
- How large is the target market and is it growing?
- Who are the customers; how much will they buy and at what price?
- What will it cost to produce and sell the product?
- Can the product be made and/or sold profitably?
- At what stage will the business break-even and what are the likely profits?
- What investment is required to launch and establish the business?
- Where will the money come from and what type of finance is required?

- What are the main risks facing the business and how to handle them?

Information that should be included in a start-up business plan

For a start-up there are usually two kinds of business plan - a simple one and a detailed one. Some businesses need to produce both.

The **simple business plan** is rarely shown to outsiders of the business. It is written by the entrepreneur, for the entrepreneur. The simple plan helps summarise the key aims and targets of the business and the actions required to make the business a reality. It is likely to be written in quite an informal way. What would go into the simple plan? Areas such as:

- The idea - a simple description of the proposed business
- Where the idea came from and why it is a good one
- Key targets for the business - sales, profit, growth (gives a sense of direction for the business), ideally for the next 3-4 years
- Finance required - how much from the founder, how much to be loaned over how long and from who
- Market overview - main segments, market size (value, quantity), growth, market shares of main competitors (if known)
- How the business will operate (location, premises, staff, distribution methods)
- Cash flow forecast (important) + trading forecast

A **detailed business plan** is needed if a more complicated or larger business is planned as a start-up, or if the entrepreneur needs to raise money from business angels or get a substantial loan from a bank. Here is a summary of the key content:

- **Executive summary:** a brief 1-2 page summary of the detail! Should contain nothing new, but highlight the key points
- **Market:** a profile of the target market based on market research
- **Product:** what it is and how it is different from the competition (the "unique selling point")
- **Competition:** an honest description of the competition in the target market - what they do well, their weaknesses and their likely response
- **Protecting the idea:** how the product and business can be protected from competition - e.g. patents, trademarks, distinctive approaches to marketing or distribution that competitors will find hard to replicate
- **Management team:** a crucial area for any investor. Who is involved in the start-up and what will they be doing? What experience and expertise do they bring? Which management roles will need to be filled as the business grows?
- **Marketing:** the key elements of the marketing mix should be explained here. Remember that for a start-up the marketing budget is likely to be limited, so the plan should describe a credible approach to promoting the product and include realistic assumptions about how many customers will buy and at what price

- **Production /operations:** this explains what is involved in the production process, what capacity is needed, who will supply the business, where it will be located etc.
- **Financial projections:** a summary of the cash flow and trading forecasts. This section should highlight the key assumptions that have been made and also outline the main risks and opportunities in the forecasts (i.e. what might go wrong, or where things might prove better than forecast).
- **Sources of finance:** here the figures from the cash flow forecast are taken and used to highlight what funding the business needs, and when.
- **Returns on investment:** another key area for any investor. This is a description of how the entrepreneur expects investors to get a return on their investment. Who might eventually buy the business, when, and for how much?