



Business Plan Prompt

Introduction

“ nobody plans to fail - we simply fail to plan ”

If you were setting off on a long journey in unfamiliar territory it is unlikely that you would set off without:

- A route map
- Having given some thought to what conditions you may encounter on the journey and preparing accordingly
- Considering the possible risks and obstacles you may come up against on the way

The preparation required for such a journey can be likened to running a business. Before starting your business you need to have a very good idea of where you are going and how you intend to get there. Also, having started the journey, you must be able to know where you are at any given time and if off track, what must be done to return to the main planned route.

Planning is important in all aspects of your business (whether large or small) not only for your own use but also for those occasions when you require professional advice and support – particularly funding support.

Without doubt a well-researched, well-prepared plan will assist your business case; it will also demonstrate your professionalism and that you are serious in your intentions.

There is of course no guarantee of success in business but there is evidence to suggest that if thoughts about the business are committed to paper in the form of a plan, then success is much more likely.

Background

- Background, achievements and recent events/milestones
- Reason for wanting to do what you are planning and why you believe you will be successful

Business Activity

- What products/specific services are you to provide? Describe the uses and application of your product/service including major features and benefits to the user.
- Who will be your customer? Does it matter where they will be based i.e. local, regional, national?
- Are there seasonal issues e.g. the run up to Christmas or summer holidays?
- How will you find your customers or how will they find you? Importance of location?
- What will be the 'history' of the transaction i.e. how will the business 'work', how will you make money?
- With a small management team how will you practically manage all the functions of running a business i.e. winning sales, making product, delivering service, organising contracts, dealing with suppliers, dealing with problems, invoicing sales, collecting debts. What can happen is that you have to leave off selling to do the practical work, problem solving, dealing with the customers etc but whilst these very important tasks are being carried out nothing is being sold and you end up with no orders.
- Is there undue reliance on one aspect of your business offering or is there a broad spread?
- Is there undue reliance on any customer, group of customers or suppliers?
- Is there undue reliance on individual members of staff?
- Premises: states and adequacy of both premises and equipment? Nature of tenure/occupation.

Business Plan Prompt *continued*

Markets and Competition

- What is happening in the market place in your businesses? What is the demand for your products/services? What is driving the demand?
- Is the market for what you offer expanding/contracting/slowing down/consolidating etc? What are the trends if any? What is driving any changes that are taking place?
- What influences are working on your businesses - ***what is required here is an understanding of the 'macro' issues that could affect the businesses.***

Political e.g. legislation/directives from EU
Economic e.g. increasing/slowing demand/recession in your sector
Social e.g. demographic, people's habits etc
Technological e.g. new ways of doing things
Environmental e.g. waste disposal compliance
Regulatory e.g. employment regulation/health and safety

Who are your competitors and how much of a threat do they represent? What competitive advantage do they have, if any? How will they respond to your plans?

Are you able to obtain from prospective customers letters of intent to buy?

What are the barriers to entry i.e. how easy/likely is it for somebody to start up in competition?

What is your Unique Selling Point (USP) to give your business competitive advantage and is the competitive advantage sustainable?

Management

- Details of the management team i.e. the personalities and who does what, commenting on their experience, track record and background?
- Include CVs giving a summary of achievements.
- Is there a balance of skills among members of management?
- Be honest about any aspects/areas in the management of the business which you think may need strengthening and how you will do it.

This section of the business plan is a key area and it is important to demonstrate that you will have a balanced and effective team with very clear areas of individual responsibility. ***The need to have robust internal and financial controls cannot be overstated.***

Environmental Issues

- Are there any risks for the business and/or bank security?
- Is there a risk management policy? Compliance with regulatory requirements?
- Will all the necessary licences and permits be held?

“ The need to have robust internal and financial controls cannot be overstated ”



Your Strategy for the Future

Successful businesses have a very clear idea of where they are, where they are going and how they are going to get there. They also innovate with new products, new applications and new markets.

- How do you/will you continue to differentiate your business in order to maintain competitive advantage?
- What marketing strategy will you employ?
- What is your long term plan for the business?
- Think about having short and medium term strategy and a longer vision of where you want to be and how you will implement your plans.

What are the Key Issues?

To assist in identifying these it is useful to ask yourselves what must go right and what could go wrong, what could cause problems for the business? For example in a business sector where margins are slim a key requirement could be to ensure that estimating/pricing was accurate (see section on risk assessment).

Management

- Normally, included under this heading would be the historic audited accounts for the business with analysis and commentary on any significant items. These are the base case to support the budgets - a lender/investor will start this part of the credit analysis by making comparisons of the budgets with the historic figures, if available. A start-up, by definition, has no track record and so lenders and investors are reliant on forecasts.
- Forecasts should include operating budget, capital expenditure budget, projected balance sheets and cash flow forecast (all on a monthly basis) with commentary on the key assumptions made in arriving at the figures.

Lenders and investors tend to be very sceptical and so it is very important that the forecasts are credible and will withstand rigorous questioning i.e. that they are not 'pie in the sky' and are indeed achievable.

In addition to preparing the base case as above the lender will require 'sensitised' numbers which show the projected position after asking questions such as 'what if...we achieve only 75% of our expected sales or margins slip by X%'.

- How will financial performance be monitored?
- What must be clearly demonstrated is the ability to generate cash to finance the company's operations and repay debt.
- What lenders/investors do not like to see is their money being used to finance relatively heavy directors' withdrawals. What they do like to see is the directors themselves sharing the risk with the bank either by way of introduction of funds or PGs.

“ What must be clearly demonstrated is the ability to generate cash to finance the company's operations and repay debt ”



Business Plan Prompt *continued*

Risk Assessment

You are best placed to identify the obvious, and less obvious, risks. Here are some common business risks to consider, not all appropriate in this case:

- Economic
- Reliance on a small number of customers
- Reliance on suppliers/security of supply
- Delay in completion of the product development
- Need for intellectual property or trade mark protection
- Currency risks
- Delay by your customers in confirming orders/paying their dues and demands
- Competitor activity
- Accident, or other serious event which distracts management from running the business
- Who are the key people and should there be key person cover on the business owner and any others who are considered to be key?

Some of the risks you will have to live with, and in any event, it is not possible to eliminate risk entirely. The important thing is that you consider the issues and have a contingency plan where deemed necessary.

SWOT Analysis

It is also very useful to undertake an analysis of your:

- Strengths (to build on/exploit)
- Weaknesses (to eliminate/manage)
- Opportunities (to develop/exploit)
- Threats (to guard against and mitigate)

There may be some duplication with information provided under other headings but it does no harm to look at everything.



This factsheet seeks to address general business and financial issues and Broadhead Peel Rhodes have taken due care in its preparation and creation. You should contact Broadhead Peel Rhodes direct if you need advice on any specific accountancy issue. Broadhead Peel Rhodes do not accept any liability which might arise from reliance upon the information in these pages.

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