A Guide to Writing a Business Plan

Business Information Factsheet

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Introduction

Writing a business plan is one of the most important tasks when starting up a new business. It is a way of collating ideas, setting targets, planning for the future of the enterprise and confirming that the business idea is realistic and workable. The business plan is also an essential tool for attracting funding to get started. It is a dynamic document that should be reviewed regularly to help with monitoring and measuring the performance of a business.

This factsheet describes what a business plan should include, how to go about writing one and what will be achieved by doing so. It is aimed particularly at business start-ups that need to raise funding, but the principles are equally valid for established firms looking to grow.

The benefits of writing a business plan

The business plan is principally for the proprietor(s) of the enterprise and it can help them to:

- Bring together their ideas and research into a structured format.
- Decide whether or when the business will be commercially viable.
- Clarify the purpose of the business and communicate it to any partners or staff.
- Predict future scenarios and pitfalls and address them before they threaten the success of the business.
- Set out the proprietor's strategy, particularly their marketing strategy.
- Set targets and objectives, including sales and financial targets, so that business performance can be continually monitored.

How to approach the plan

If the plan is to be used to convince investors or lenders to support the business, it is crucial to understand their objectives and address these in the plan so that it will meet investors' particular lending or investment criteria.

The plan should be easy to read, comprehensive yet concise, and without any contradiction. For example, figures included in the plan for expenditure on equipment must match those that appear in the plan's financial forecasts. All too often they do not match and so the business plan loses credibility.

It is important to identify as early as possible what any prospective investors need to know about the business and the people running it. The reasoning behind decisions (for example, why a particular business location was chosen) should be made clear so that investors are not left guessing or think that certain key issues have not been addressed. Honesty, clarity and credibility are vital.

The plan needs to be realistic and convince investors that the business can be successful. This means they will want to see evidence to back up any claims that are made (for example, the market research results that led to the projected sales forecasts). The plan will also need to show that (at least in the medium term) the business will be able to support its owners and any borrowing requirements they may have.

What should be included in the plan?

Every business and situation will be different, but the following headings cover the essential elements that should be included in a logical order in any business plan. This is to ensure that it addresses the most important issues which an investor, bank or other funding body will need to be reassured about.

Table of contents

The plan should first include a table of contents listing the main sections and page numbers. If it is difficult to find key information the person assessing the business plan may become frustrated, and hence less likely to consider it positively.

Executive summary

This should be a brief summary of the rest of the plan and should be no more than two pages long. It is the first thing that an investor will read so it must be clearly written, should engage the reader and, ideally, ensure that the plan will stand out from the many other business plans an investor or lender will receive.

The key questions that investors will expect the executive summary to answer are as follows:

- What it is that makes the business idea, product, service or approach to the market unique or original, and gives the proposed business an edge over similar businesses and products?
- What experience do the people starting the business have in their target market, or in this line of business, that will make a funder confident that they are capable of making it succeed?
- Has the plan demonstrated, or at least illustrated, that the business is going to stack up financially and will be viable and profitable?
- How and when will a grant or loan provider get their money back (for example in the form of loan repayments)? What plans are there to ensure that the investor will achieve an exit with an attractive return when the business is eventually sold or when the business's owners buy back their shares in the case of equity investments?

The executive summary should also include:

- Details of the trading name of the business, its owners and its address.
- Details of the products and services that are going to be sold.
- A summary of the target market and competition.

- The amount of finance needed, for what purpose and over what term.
- The amount of money the business owners are investing.

Aims, objectives and vision

For most people, the aim of starting up in business is to provide a degree of personal and financial independence and the opportunity to generate a reasonable income while working in a field that they are passionately interested in.

Some people start up a 'lifestyle' business to fit in with their preferred work-life balance, or to develop a hobby into a part-time income generator. Others have ambitious aims to grow their firm, and create significant employment opportunities and personal wealth. Investors will want to know about the motivations of those starting up the business and their vision of how it might develop, so, for example, it will be important to consider the following types of questions:

- Why is the business being started? What do its owners want out of it?
- Will the business supplement or replace the main income of its owners?
- Is the business being started as an investment to sell as soon as possible?
- Will the business provide jobs for its owners' family members?

The answers to questions such as these will have an impact on the business proprietor's aims, development and strategy. For example, where someone is starting a business as an investment opportunity, the focus of planning will be the lead-up to their exit - the sale of the business. The strategy must, therefore, focus on building the business quickly and maximising its value to get the best selling price possible. Where does the business need to be in five years? This must be articulated in the plan in order to demonstrate how the business will be steered towards that point.

Defining the vision for the business will help with the identification of clear and challenging objectives, and determine how these goals will be pursued as the venture evolves.

Business description and purpose

What exactly will the business do? The plan should be as specific as possible about the type of business that is being started. If it is a restaurant, for example, will it be a family restaurant serving good-quality, local food at competitive prices in a family-friendly environment? Or will it be more upmarket, serving gourmet dishes to discerning diners in an intimate setting?

How will the products and services differ from those offered by competitors? Why should customers want to use them? How will the business be differentiated to make it successful?

A business description should be written like a mission statement. It should give a clear summary of the purpose of the business, and should be easily understood by owners, staff, customers and potential investors.

If the business cannot be described in these terms, the business idea needs to be reworked, focusing on the business's core purpose, target audience and mission.

Legal structure and licences

What legal structure will the business have? Will the proprietor be a sole trader, part of a partnership or a private limited company, or a community interest company (CIC) trading as a social enterprise? These decisions will affect the tax liability of the owners and determine when they will pay tax, and hence will have an impact on cash flow.

Investors will also be concerned about the legal structure of the business and its impact on liability so it is important to choose the most appropriate legal structure to meet future needs. See BIF 32, Choosing the Right Business Legal Structure, for further information.

Are any licences needed before trading can begin? If so, the plan needs to demonstrate that steps have been taken towards acquiring these. Proprietors of business start-ups in the food, childcare and petcare sectors, among others, need to obtain licences from their local authority before they commence trading. See BIF 152, Business Activities Regulated by Local Authorities, for further information.

If the business will be trading from a home base, planning permission or building regulations approval may be needed. Evidence that necessary approvals have been, or are being, obtained should be provided in the plan, together with details of any necessary permissions from landlords or mortgage providers.

See BIF 17, A Checklist for Running a Business from Home, for further information.

Management processes

How will the business be managed? Being organised from the start will make a business more efficient and ultimately more enjoyable to run. Even where there is only person involved, it is still worth looking at key skills, responsibilities and management processes at this stage. The plan will need to consider the following key management functions:

- Marketing and sales.
- Finance.
- Recruitment and staffing.
- Product development or product sourcing.
- Legal compliance.
- Administration.

The plan must also demonstrate how the performance of the business will be monitored and measured against objectives and targets, and how the roles of any key staff will be coordinated.

Marketing strategy

Business success requires a thorough understanding of the target market, including its size and the market share that can be achieved. With a clear understanding of the market in terms of size, location, groups of potential customers and their profiles, potential competitors, trends and influencing factors it's easier to define the overall marketing strategy clearly. This strategy should be broken down into objectives and targets relating to the volume and share of the market (or market segments). The marketing strategy should include statements about when each objective and target will be met.

For example:

- Who are the initial marketing targets (specific groups or market segments)?
- What products, services or particular deals will the business offer to them?
- What is the unique selling proposition (USP) of the business and how does this differentiate it from competitors?
- Is there a specific volume, value or share of these market segments that the business needs to achieve?
- When will these targets be achieved?
- Why are these market segments being targeted first?
- Who will the business target next, for instance in six months' or a year's time?

Marketing plan

How will marketing be carried out? Once there is a clear marketing strategy, there needs to be clarity about how it will be brought into effect and who will make this happen. A detailed marketing plan should explain how each of the marketing targets and objectives defined in the marketing strategy will be achieved. It can be broken down either into statements about how each particular target segment will be pursued or into the types of marketing activity that will be engaged in, or both.

Such a plan will include some or all of the following:

- The marketing methods employed for each of the target market segments.
- The specific action needed to reach each segment.
- A timescale or timetable for each marketing activity.
- The people or organisations that are going to carry it out.
- The estimated costs to undertake particular marketing activities (the marketing budget).
- How progress will be monitored and reviewed.
- How responses to marketing activities will be handled.

It is also important to identify how the overall marketing plan will be managed, including aspects such as ensuring that the entire budget is not spent too early, monitoring results, adjusting the plan and introducing new tactics and activities as required. See BIF 44, Developing a Marketing Plan, for more information.

Sales targets and objectives

The marketing plan, when implemented, needs to be converted into perhaps the most important business goal of all: the sales revenue targets.

Sales forecasts should be set out in terms of:

- Sales of different product or service types by volume and value.
- Sales from different customer groups or territories.

- Sales from different distributions or advertising channels.

See BIF 236, How to Forecast Sales, for more information.

Current financial requirements and financial forecasts

How much money does the proprietor need now and for what purpose? A business plan should include a breakdown of financial requirements, the sources of finance that are available and any additional finance that may be needed going forward. This should include:

- The cost of starting the business, for example both the capital expenditure required for the purchase of equipment and working capital requirements for cash flow purposes while the enterprise becomes established and generates and receives sales income.
- The personal budget of the business owners, often known as a 'personal survival budget'. This is typically required by funders when considering applications for publicly funded business loans such as Start-Up Loans or applications for loans under the New Enterprise Allowance (NEA) scheme. A personal survival budget should set out the business owners' personal living expenses and indicates how much income they will need to derive from the business in order to survive.
- Details about the personal finances that the business owners intend to invest.
- Details about any additional finance that has been secured.
- A table showing what the finance will be spent on, with details of each piece of equipment or service that will be purchased and its cost.
- A break-even analysis and timing calculation giving details of how much of the product or service must be sold at a given price to cover all the costs and contribute towards the profit, and when this break-even point will be reached.
- A detailed cash flow forecast estimating how much cash will be available in any particular future month. See BIF 58, How to Forecast Cash Flow, for more information.
- A profit-and-loss forecast estimating when the business will start to make a profit, which will be essential for longer term success. See BIF 8, A Guide to Understanding Profit and Loss Accounts, for further information.
- A balance sheet forecast giving a snapshot of the trading position of the business at a particular point in the future, identifying what the business will owe, what it will own and how strong it will be financially. See BIF 7, A Guide to Understanding Balance Sheets, for further information.

Operational requirements

How will the plan be turned into action? In other words, what are the operational requirements of the business?

Details about the operational requirements will be essential when preparing financial forecasts. Basic operational planning should cover the following aspects of the business and include an estimate of their costs:

- Premises - details of the premises and a sketch plan of the layout.

- Equipment - a list of necessary equipment and the price of each item.
- Staff - details of what roles need to be filled, including job descriptions.
- Suppliers - details of various suppliers and the credit terms they will offer.
- Compliance - details of regulations regarding health and safety at work and any other regulations specific to the business or sector, together with a demonstration of how these will be complied with.
- Licensing - details of any licences or permits that are needed to trade in the proposed line of business.
- Insurance - a statement of what insurance cover is required, including details of relevant policies.

Training needs

The business plan should include details of any relevant training courses that those who will be running the business have attended and any training that will need to be completed in the future. This will help to identify any skills gaps and prompt information gathering about training providers and the funding needed for this. It will also assist in budgeting for training costs in the cash flow forecast.

Business risks

What could go wrong, and what will need to be done if the worst happens? The plan should include an honest assessment of the risks involved in the business, as well as how these will be minimised. All possible outcomes should be considered and planned for. Investors will need to see that the plan is not overly optimistic and that the realities and risks of the situation have been recognised.

Which of the following risks are relevant to the business?

- Lack of management experience. This risk can be addressed by getting support or assistance from a business adviser, mentor, accountant or solicitor.
- No trading history. This will make it difficult to borrow money or obtain credit, so it might be necessary to make other plans to finance the business initially.
- Economic uncertainties. For example, if money has been borrowed and the loan is subject to interest, it will be necessary to make contingencies for interest rate increases.
- Over-reliance on key staff.
- Over-reliance on key suppliers.
- Over-reliance on a small customer base.
- Customer bad debts leading to cash flow problems.
- Partnership difficulties.
- A sudden increase in competition.
- Security issues.

- Failure to meet sales targets.
- Lack of resources at key stages of development.

PEST analysis

PEST is an acronym for 'political, economic, social and technological', and a PEST analysis provides a framework for reviewing the business in the light of external factors that may affect it in the future. By remaining aware of trends and changes in the external business environment, the owners can gain a competitive edge.

The inclusion of a PEST analysis in a business plan demonstrates that the bigger picture has been taken into account. The analysis may also generate new ideas or raise alerts about potential dangers to be aware of in the marketplace.

SWOT analysis

A 'strengths, weaknesses, opportunities and threats' (SWOT) analysis helps to achieve a focus on the internal strengths and weaknesses of the business, including those of its owners, staff, products/services and processes. At the same time, it also enables examination of external opportunities and threats that impact on the business, such as market and consumer trends, competitor activities, changes in technology, legislation and financial issues.

A SWOT grid, as shown below, can be completed quite quickly and provides a useful graphical addition to the plan. It will help achieve focus on the business strategy and on the important issues that are being faced.

SWOT grid

Strengths	**Weaknesses**
Opportunities	**Threats**

Appendices

Appendices should include all the documents that support the plan, for example:

- The CVs of the proprietors and key employees.
- Certificates for any qualifications or relevant training courses.

- Copies of the lease for any rented business premises.
- Market research data.
- Financial forecasts.
- Details of any professional advisers, key suppliers or insurance providers that have been engaged with, if applicable.

The first page of the appendix should list all the documents it includes so they can be found easily by anyone reading the plan. The documents and their location in the appendix should also be referenced in the main body of the business plan. It may be easier to index and number each document and file them in a logical order in a ring-binder file.

Hints and tips

- Software packages are available to help with writing a business plan. Some banks also offer their own business planning software free of charge to customers who are planning to start up in business. However, they tend to focus on the financial aspects, and usually provide very little space in which to set out the practical and operational parts of the plan.
- Business plans should be discussed with an independent business adviser or accountant. Advice can also be sought from an adviser at a local enterprise agency or similar business support organisation or from a bank.
- Presentation matters. A front cover should clearly identify the contact details of the business owner(s) to make the plan look professional. White space, illustrations and short sentences in the plan make the content much easier to read.
- Someone who has not been involved in writing the plan should be asked to proof read it, checking for grammatical errors, spelling mistakes and inconsistencies.

Further information

To access hundreds of practical factsheets, market reports and small business guides, go to:
Website: www.scavenger.net

BIF 7 A Guide to Understanding Balance Sheets
BIF 8 A Guide to Understanding Profit and Loss Accounts
BIF 32 Choosing the Right Business Legal Structure
BIF 40 A Summary of Sources of Finance for Starting a Business
BIF 44 Developing a Marketing Plan
BIF 58 How to Forecast Cash Flow
BIF 62 An Introduction to Financing Your Business with Venture Capital
BIF 132 An Introduction to Researching Your Competitors
BIF 152 Business Activities Regulated by Local Authorities
BIF 185 A Checklist for Start Up Market Research
BIF 236 How to Forecast Sales
BIF 324 An Introduction to Approaching Business Angels

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