

The Business Plan

What is a Business Plan?

If you studied GCSE Business and for your coursework project completed the Planning a Business task, then you would have written a business plan.

A business plan precisely describes a business - the reader of the plan can see exactly what the business does, how it does it, what it intends to do, and how the firm finances its activities. The business plan gives a complete overview of the business.

For new businesses, the plan will make clear what the business will do, and how it intends to do it. It allows the planning of finance, of marketing, of people and so on.

For an existing business, it helps allocate resources properly, handle unforeseen complications, and helps make good business decisions.

Because it provides specific and organised information about a company and how it will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers, and others about the firm's operations and goals.

Why prepare a business plan?

There are a number of important reasons why a business should have an up to date business plan. These are

- **To set out the business idea** - as indicated above the business plan will show what business does, how it does it, and what it intends to do.

- **As part of the capital raising process** - it tells potential lenders and investors what the business does, what it will do with the capital invested, the level of returns expected from money invested, and how it intends to repay borrowed money.
- **To monitor performance** - as it sets out objectives of the business, the business plan will allow checking that these objectives are being achieved, and point out when and where action should be taken.

Who uses a business plan?

The primary user of a business plan, especially in a small business, is the **business owner(s)**. If the business plan is one for a potential rather than an existing business, then the preparation of the business plan helps ensure that the business opportunity has been investigated fully. Potential entrepreneurs often jump in feet first without considering many, if any, of the potential pitfalls of their business. Preparation of a complete business plan, makes these business people stop and think - who will be my customers? Who are the competition? What am I really trying to achieve? Can I be profitable? And so on.

For an existing business the preparation of a plan allows the owners to examine where they are now, where they intend to go, and how they will get there. It points out the business strengths and weaknesses. It allows the business owners to make clear the objectives of the business and the means of achieving these objectives.

Potential lenders and investors will also use a business plan. It is a 'must have' for a visit to

the bank manager, who will need to examine in detail the potential of a business before any loans or overdraft facilities are offered.

The contents of a business plan.

The basic parts include:

- Business Information and Statement of Purpose
- Marketing plan and Market Analysis
- Financial analysis
- Operations and production plan
- Concluding Statement

Business Information and Statement of Purpose.

A business plan should start with information that identifies the business and its owners and a statement of purpose i.e. what is the business plan for.

This section should describe:

- Name of company
- The ownership of the business and the legal structure.
- CVs of owners including the skills and experience the owners bring to the business, plus details of management responsibilities
- Location
- Objectives of business

If a loan or other form of finance is required, then it should be detailed in this section, specifically the plan should include

- Purpose of the loan / finance

- Amount and type of loan required
- Amount of money the owners are putting in
- Timescale for repayment
- Security offered

Marketing Plan and Market Analysis

The marketing plan describes the marketing strategy and tactics which will be used to achieve the business objectives. If the Business Plan is being used to raise funds then it must be realised that lenders will not accept management gut feelings as proof of market potential. The lender will be interested in who or where the new market is, why they will buy the product/service, who is the competition, whether it is a growth or static market and what percentage of the market will be targeted for in the first year and into the future.

The estimates of sales created from this analysis will form the backbone of the financial statements, as well as be a justification for receiving a loan.

Financial Analysis

The financial section contains the business's cash flow, start-up costs, equipment list, and projected Profit and Loss Account, a break even point and 'what if' analysis (looking at different sales figures etc) and historical records (for an existing business). It should make clear whether the business is financially sound and if the objectives are financially achievable.

Operations and production

This section will establish the day to day management structure of the business, the methods of supply of the product, and provide the reader with a picture of the actual functioning of the business - this is what we do, this is how we do it.

Concluding Statement

The Business Plan will finish with a Concluding Statement. This is a reminder, and will provide an overall summary of key points. The appealing factors of the business will be highlighted, the strengths of the business stressed and the objectives of the business and how they are to be achieved will be briefly repeated.

Does preparing a business plan guarantee success?

Just because a firm has prepared a Business Plan, it does not in itself guarantee business success. We should use the business plan to see how well thought through the business idea is. Any reader of a plan should be able to see clear indicators of the potential of a business project. When examining the potential of a business using a business plan, we should ask questions like:

- **Are the financial resources available** - even if loans are included, is there enough working capital?
- **Are the skills needed available** - do the owners and employees, have the abilities to fulfil the plans?
- **Are the objectives realistic** - can the sales levels be achieved, are the output targets feasible?

- **Will the competition react in a way that could undermine the business** - what if a financially stronger competitor reduces prices in reaction to the new competition?
- **Are the economic conditions right** - will a change in exchange rates impact upon the business?
- **Has the market research been effective?** Can the information gathered be trusted?
- **Has too much time and resources been spent on preparing the plan?** The opportunity cost of preparing a business plan

The answers to these questions will provide a good estimate of the risks involved and whether the preparation of the business plan has given the firm an improved chance of success.

Notes