

How to write a good business plan



As a small business owner, if you're looking to attract finance, apply for a grant or gain buy-in from stakeholders, a good business plan is vital. Matt Henkes of Business Zone in the UK investigates how to get it right.

Early in the life of any start-up, there is likely to come a time when you will require a well produced business plan. While the varying amount of work needed to produce one of these at different levels should not be taken lightly, there are people on hand to help.

Whether trying to attract finance, apply for small business grants or gain buy-in from potential investors, stakeholders or partners, a business plan will be an essential part of the process. Sample business plans are available on line, and will help give you an idea of what's required.

"It's the old adage, if you don't plan, you plan to fail," says Roger Hetherington of Business Link East. "Investors and stakeholders need to have something to show them what the return will be."

The level of detail required will depend on who you're pitching to. "I think any investor will be looking for a lot of argument in terms of their value to market," says Alexis Taylor, business plan project manager at Business Writing Angels. "For instance how the product adds value to their market place? This is going to require an enormous amount of background research."

Business continuity planning

However, there are other good reasons for creating a detailed business plan. "It also provides a way of making sure, as you start off in business, that you're going in the right direction," says Hetherington. "By putting a business plan together, you're going to be setting yourself some short to medium term goals and objectives and will quickly see whether you're hitting those or missing them.

"Therefore, you have a framework to be able to see whether you're failing or succeeding," he adds.

Obviously, if you're trying to secure a bank loan or tempt investors to sponsor your idea, you're going to have to include some fairly detailed financial forecasts in there, Hetherington says. "But if it's something you're using to measure your business against, it also needs to be something which you can readily understand and use."

"One of the common pitfalls I've come across is that people prepare a very wordy comprehensive business plan which goes up on a shelf somewhere and is never referred back to because it's far too complicated and not at all practical," he adds. "So consider whether maybe it needs to be something that's just a few pages, including the key points and the key measures that you're going to be measuring your business against."

"A business plan is something to give confidence to people who are going to be investing in your business from outside, but is also something that can help you run your business."

"If you're pitching to investors you've got to have a very good, one page executive summary," says Hetherington. "This should clearly indicate what you're about, what your product and service is, what investment you're looking for and what the return is going to be, so they can see very clearly what they're going to get out of it as investors, and the level of confidence they can have of this."

Key points

Start with a clear statement explaining what your business is about. What is the product or service that you're delivering? You should be able to state clearly where it is that you're trying to get to. Define the market you're going to be serving. Who are your customers? What is the need they have that your business will satisfy?

You should then look at creating an operational plan. How are you going to provide the product or service? What resources will you require, whether it's equipment or people? Be detailed.

You then need to look at developing your sales forecast. "A common pitfall," says Hetherington "Is that sales forecasts tend to be far too optimistic. You've got to be realistic. How much of your product are you likely to sell? What is the selling price you're likely to achieve? Then, based on your operational plan, what is the cost you're likely to incur in providing it?"

"Try and be conservative," he says. "Then you can start to say this is the kind of profit we're likely to make out of this sale to reinvest back in the business, and obviously to pay back any finance that you started off with."

"From that you can then develop a proper financial forecasts, profit and loss forecasts and very importantly, cash flow forecasts."

He acknowledges that this does sound like a hefty amount of work. "It sounds substantial but I do emphasise that for someone working day-to-day, a lot of these are headings which you might be having bullet points against already," he says. "Yes, it's not something to be entered into lightly, but help is available, certainly through Business Link."

Commission a professional

Taylor of Business Writing Angels sells the idea of hiring a professional firm to write your business plan. "The main benefits of coming to a business plan company as opposed to doing it yourself will be seen by people who perhaps are less confident about their ability to write it well enough and convey their idea well enough," she says.

"It can be done relatively quickly," she adds. "But the point of paying someone like us to do it is that you're getting a value added service, someone that will actually interrogate your business idea and make sure it will work. Look at your financials and make sure they make sense and also make sure it's presented in a way that we know will appeal to banks or investors and that it will answer all the questions they will have."

"The business plans we've done have ranged from £500 up to about £8000, which gives you an idea of the range available," she says. "The lower range would be appropriate for a small business on a small budget that needs to raise money from a bank."

Cheaper services are available, though Taylor advises that it's probably more cost effective to do it yourself than use one of these. "Based on some business plans that I've seen, it's possible to go to people who will promise to do a business plan very cheaply, but on the whole they will be doing it based on a sort of template business plan programme," she says. "I don't think you're gaining a whole lot over doing it yourself if you pay someone to do that. Probably for most people there will be a trade off between the quality of the research and writing as opposed to cost."

Hetherington warns against paying for a business plan that you will never look at. "A business plan has got to be your document," he says. "Yes, get help, very much so. If you decide that you would like a consultant then Business Link can help you find one that will be appropriate to your situation."

Things to consider

"Put the plan together, walk away from it for a couple of days, then come back to it in the cold light of day and challenge it," adds Hetherington. "Challenge some of the basic assumptions so you're confident that you've had that objective risk assessment."

"The other thing is recognising that a business plan is not a tablet of stone," he adds. "A business plan is a living document. It's got to be something that you use day in day out. And therefore, it's something you've got to be prepared to review and revise in the light of circumstances."

"A lot of people say they don't want to tie themselves down to a business plan, but that's not the point," he adds. "It's not meant to be a tablet of stone, it's meant to be a framework which allows you to make decisions because you know what the context is. It helps you make them quickly, and possibly as a result of those decisions, you may want to revise the plan."

Top tips for writing a business plan

Perspective

Plans should be written from the particular audience's perspective. Depending on why it's being written whether to secure funding or communicate future plans it should be tailored accordingly.

Understand the competition

Without understanding the competition in your market you are unlikely to succeed. Details outlining how you intend to compete should be included in the plan.

Research

Many entrepreneurs fail to get their ideas off the ground because they fail to probably research the market. Detailed market research should be undertaken and outlined in the business plan. Indications of how entry to the particular market will be achieved should also be included.

Do your sums

Anyone reading your business plan will pay particular attention to the numbers. Conservative and realistic cost figures should be included in the plan. If maths is not your thing then seek the advice of someone who is to draw up the necessary cash flow and other charts for you. Remember that for most businesses, the start-up phase can be particularly expensive.

Executive summary

Most experts say that the executive summary is the most important part of a business plan. For investors, if they don't like what they read in the executive summary they are unlikely to read on so getting it right is crucial. Experts advise entrepreneurs to write it at the end of the whole business planning process and make sure it has the 'wow factor'.

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