

Business planning for owner managers

Writing your first business plan



Live **WIRE**™

Small Firms *Enterprise Development Initiative*



Sharing Successful Business Practice

Small Firms *Enterprise Development Initiative*

The Small Firms Enterprise Development Initiative (SFEDI), established in 1990 as the Small Firms Lead Body, develops competence standards for small business owner managers and for those who provide them with business support and information.

In 1998, SFEDI became a founder partner of the national Management and Enterprise Training Organisation (METO), a government recognised body directed by leaders of commerce, industry and business support.

SFEDI has a major role in increasing the survival and viability of Britain's small firms. SFEDI's main task is to share successful business practice, which will develop owner managers so that their businesses can survive and thrive.

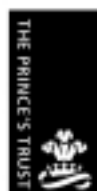
The Owner Manager standards were launched in April 1996 and thousands of owner managers have already profited from them. Starting your own business is a major commitment and the importance of planning to the success of your business can never be overstated. This series of workbooks, developed by Project North East and Shell LiveWIRE, will help you develop a winning business plan and a process to use time after time in the future. It will help you learn the basic skills to start up a successful business, matched against proven SFEDI benchmarks of Owner Manager performance.

At SFEDI, we believe that self-employment should be regarded as a positive career choice and never as a last resort. Owner managers need the same positive, personal development, skills, advice, support and choice of learning as any other forward-looking career option. This programme – "Become a Successful Owner Manager" – is a major contribution to the development of owner managers in Britain and SFEDI is delighted to give it our full endorsement.

"We want to enable everyone involved in the management of an enterprise - from the self employed trader to the MD of a multi-national plc - to receive the best opportunities for lifelong learning, employment, career and enterprise development."

Gordon Roddick
Chairman, Body Shop International plc and
Chairman, METO

This series has been endorsed by The Prince's Youth Business Trust



and is commended by The Prince's Scottish Youth Business Trust



Become a successful owner manager Writing your first business plan

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Writing your first business plan

The best managed businesses see planning as a continuous activity in which they set both long-term and short-term objectives. Having a plan should not be considered a straightjacket, but as a way of ensuring that everyday activities happen in a structured way. Well managed businesses will see a plan as a framework providing the ability to be flexible and responsive when opportunities arise, without being blown totally off course. Knowing that the bulk of your activities are performing according to plan will give you the freedom to explore those opportunities.

Regular monitoring of how a business is performing is also important to determine if goals and objectives are being met. Surveys of small and growing businesses suggest that those who plan are more likely to make a higher profit.

“Planning is about preparing for the inevitable, pre-empting the undesirable and controlling the controllable.”

Ideally, you should write down the results of your planning process - though you may find that your plan is best summarised as a list of key objectives together with a budget. There may be occasions, however, when you have to explain the plan to a third party in order to demonstrate a proposed course of action for the business. This is particularly so if you are about to start in business and are seeking financial support.

Henry Mintzberg

When a business is on top of its planning, it becomes a very straightforward process to summarise the different elements into a written plan. In the same way that a balance sheet gives a snapshot of the current financial position, a business plan should give a snapshot of the planning process.

Strategic thinking

Many small businesses think of strategic or long-term planning as something that is only undertaken by large businesses. The businesses that survive and prosper are those that meet their customers' needs by offering benefits to them at prices which not only cover the costs of providing the features but also generate a profit. To do this effectively, Peter Drucker argues¹ that organisations need to focus on the external environment in order to create a customer. Similarly, Michael Porter argues² that the way a business positions itself in the market place is of paramount importance. More specifically, your task is to match effectively the business's competences (that is, its knowledge, expertise and experience) and resources with the opportunities created by the market place. In other words, businesses should be market driven. Too many businesses think they can provide a product, but are unsure of whether it is really needed.

The starting point for any business is to set a mission, or purpose, and define goals.

Purpose defines 'what the business does'. All businesses have a purpose. For some, it is simply to make money. Others define their purpose in terms of activities and customers. Some also incorporate a values statement. Many of the most successful businesses are driven by an ideology which covers both their purpose and their values and which provides inspiration and guidance for the business. Defining a purpose is a pre-requisite for effective planning.

“The mission of Levi Strauss is to sustain profitable and responsible commercial success by marketing jeans and selected casual apparel under the Levi brand.”

Levi Strauss & Co

¹ Peter Drucker, "The Practice of Management", Pan Books, 1968.

² Michael Porter, "Competitive Strategy", Free Press, 1980.

The goals, or 'vision', define 'where the business is going'. They may be defined in terms of growth, or comparisons with competitors, or even about doing good for society. For most businesses it is the vision that drives the business forward.

"To be the UK's number one computer aided design studio."
Octo Design Ltd

In setting goals for your business you need to satisfy three groups of people: owners, staff and customers. Each will have their own expectations:

- The owners will be looking for a return on their capital locked up in the business. This may be yours (and your partners') but you should still be aiming for a better return than you would achieve if the money was, say, in the bank or building society. If you have external investors, they will be looking for capital appreciation and evidence that their investment is being well managed.
- Staff will be looking for realistic rewards for their efforts, career opportunities and an environment in which they are happy to work.
- Customers will be looking for a product or service which fulfils need and which represents good value for money.

To be successful, a business needs to have some idea of how it is going to achieve its goals. Many businesses do this by setting out shorter-term objectives. The objectives should be action focused and must be accomplished within the resources available. The goals and objectives can be elaborated into a business plan together with the analysis of the market place, an indication of the resources that will be required and the way in which those resources will be deployed.

Strategy "converts what you want to do into accomplishment."

Peter Drucker



1. What business are you in?

What do you see as your business? Who are your key customers?

Preparing the plan

A business plan is a complete description of a business and its plans for the next one to three years. It explains what the business does (or will do if it's for a new business); it suggests who will buy the product or service and why; and, it provides financial forecasts demonstrating overall viability, indicates the finance available and explain the financial requirements.

A written business plan is however only an encapsulation of all of these components at a particular point in time. Your thoughts and ideas before you started in business will inevitably be changed by the experience of starting and running your business. Your business plan needs to reflect your growing experience. Use your plan to compare actual experience and results against your initial ideas and change it as often as you think is necessary. This will enable you to stay in control and help you to plan for success.

Personal aspirations affect how you feel about self-employment and what kind of business you want to run. Are you in it just for fun - or to make money? An assessment of your strengths and weaknesses will help you to focus on what products and services your business is capable of producing, and to identify the skills you need to develop further. Researching the market in which you are trading will enable you to identify the opportunities from customers and threats from competitors that exist for your business. From all this, it should be possible to develop a clear idea of what your business is doing, where you should be going, and how you are going to get there. As suggested above, you will also need to think about the resources

that will be needed - cash, equipment, premises, people - and how they will be deployed.

The rest of this guideline

This guideline is in sections which address the main elements to be covered by a written business plan. It suggests a framework for your plan within which you can describe the business, its potential market, how it will operate and the associated financial details. This guideline does not set out to explain in detail all the techniques required to derive the information for your business plan, though many of these are covered in *LiveWIRE*'s other guidance notes. It does, however, aim to show you how to pull together all the pertinent information about your business into a single coherent document. It will not provide answers to the many questions you will have, but will prompt you to search out solutions for yourself. This booklet is only intended as guidance - not a hard and fast rule book. If you feel information sits more comfortably or more logically in a different order to that suggested, then feel free to write it that way. Use this guideline as a checklist though - to ensure that you do not omit any vital information. The true-life examples from existing business plans will show you that others have trodden the same path successfully!

Compiling the plan

You will write your plan based on information which you collect from a variety of sources.

For most businesses, the business plan will be the main method of convincing prospective funders that the business proposal is viable and that the proprietor has the commitment and determination to succeed. It is important therefore to take the time to research the content carefully and to present it professionally.

Your business plan should be presented in a form that can be quickly and easily understood. The main part of a business plan normally needs no more than eight to ten pages supported, if necessary, with more detail in appendices. Your plan will then be manageable, and a working document in which you, and potential funders, can find the management information you need.

Think of your business plan as a marketing tool - in this case marketing yourself to prospective funders. It needs to be honest, but it should present you in the best possible light. It should be easy for busy people, such as bankers, to read and assimilate quickly the required information.

You will notice that some of the examples are written in the third person, eg "The Hawthorn Brewery was formed in May 1993", instead of "My business was formed in May 1993". This is recognised practice, and can look more professional, but is by no means compulsory.

Presentation

The cover gives the reader an instant impression of the business so it needs to look professional. It should show the business name and logo, if you have one, and your name. A well laid out cover page will present a professional image to funders and will attract their attention and interest. You should make every effort to have your plan typed up or word-processed. It will make the document easier to read.

Business Planning
CONTENTS
Summary
The business
The product or service
The market
Marketing plan
Management & organisation
Financial forecasts
Financial requirements
Appendices

The business plan contents

The summary

Although the summary is the first section that people will read, it should probably be written last. However, since it is the first bit you will read, we will describe it first.

The summary should briefly describe the business and highlight its purpose. It should explain how the purpose will be achieved and why the proprietor is the person to make it happen.

If one of the uses for your business plan is to raise finance, then a clear simple outline will catch the attention of prospective funders and make them interested enough to read on. Remember that the people assessing your business are likely to be very busy. Highlight the strengths of the business and why you should be supported. Indicate the expected turnover and profitability for the following year. If you are already in business, briefly describe your history to date and, in particular, provide details of turnover and profitability for the previous one or two years. How does the business's performance compare with its competitors? What have been its major achievements?

Lastly, indicate how much money you need to raise and the proposed sources.



Fat Frog Design

Fat Frog Design will provide a graphic design and desktop publishing service throughout the north east of England and other areas within the UK.

In providing this service, it is believed that Fat Frog Design will attract clients through the introduction of an annual design package, a competitive edge through pricing and attention to the detailed needs of each individual client through designer/client liaison.

Although the present market is extremely competitive, Fat Frog Design have found through extensive market research that there is a definite demand for Fat Frog Design's features and benefits, such as the annual design package, which none of its competitors offer.

Once Fat Frog Design has become established and has gained a reputation for quality and reliability within the North East, the business hopes to expand its range of services throughout the UK thereby increasing its client base, its turnover and ultimately its profits.

The business

This section should briefly describe the purpose and goals of the business. Whether or not the business has started, explain who owns it. What was the trigger to launch the business?

If the business has already started, describe its history and performance to date. How high is the sales turnover? How profitable is it? What is its net worth? Provide summary figures here and detailed profit and loss account and balance sheets in the appendices. How does its performance compare with its competitors? How has the business been funded (eg equity, loans, grants)? What have been the major achievements to date?

Explain the legal structure of the business (company, sole trader or partnership). State if there are any distinguishing features such as a unique feature of the product or service or approval to ISO9000.



Network Advantage

Network Advantage is a computer consultancy specialising in networking and communications technology, particularly business applications of the Internet. Our primary aim is to market and sell consultancy, training and support in these areas, based around a number of standard product packages, which are then tailored to the individual needs of each client.



Sole Discretion

Sole Discretion is a footwear retail shop, situated in the centre of Darlington, aimed at men and women between the ages of 16 and 30.



2. Purpose and goals

Describe the purpose and goals of your business.

Product or service

Describe what you are selling, or intend selling, in language which any reader will understand. Avoid jargon wherever possible; a reader wanting more detailed information on technical aspects of your product will ask for it. Or else include such information in an appendix.

Explain why customers will want to buy the product or services. What needs does it fulfil? Describe not only the features but also the benefits. Benefits might include, for example, ease of use, comfort, safety, economy, flexibility, taste, etc. Remember that the customer buys the benefits but you pay for the features.

Are any of the features unique? Give details of patent, design registration or copyright if appropriate.



Marie-Bernadette Callan - AQUArelle

The business is predominantly based around the fashion and accessory use of marine leather, with the main thrust being to use these leathers in glove manufacture. However, the hide is put to a number of other uses within the business, which also carries out some trade in non-marine leather goods. Manufacturing of the gloves is handled by an outside manufacturer. AQUArelle is responsible for the manufacture of the other accessories.

The marine leather is imported, and a variety of marine hides are available, including salmon and spotted wolf fish. The tanning firm supplies approximately 94% of the world's marine leather market, and since they also supply fashion houses, their colour palette is in tune with AQUArelle, although they will dye to a specific colour palette on request. Their leathers have passed all quality tests with the London Institute of Leathers and are hand washable at fifty degrees. AQUArelle is the first business in Britain to work with spotted wolf fish leather.

All skins are recycled from waste products of the Norwegian fish industry, hence no fish is killed for its pelt, which means that AQUArelle's are more environmentally friendly than reptile and leather gloves.

Aquarelle marine leathers have a number of advantages over other leathers:

AQUArelle is up to three times tougher than leather of equal thickness, ensuring durability; it has all the aesthetic appeal and appearance of exotic leathers; and, since no two fish are identical, it follows that each AQUArelle is unique.

The product itself is enhanced by its packaging, since it is important to maintain the strong image throughout all of the corporate identity. All AQUArelle packaging and promotional material is designed and produced by B & S Design Associates. The corporate colours are cream, bamboo and black, and, with the use of striking surface graphics, the corporate identity is intended to conjure up images of something precious and unique. Each set of gloves comes complete with specially designed care instructions and an authenticity card. An example of some of the promotional and photographic material is contained in the appendices.



Active Designs

Active Designs' products are unique learning aids for children and are designed to offer a hands-on approach to National Curriculum subjects. The National Curriculum sets out subject aims and objectives for all children to be taught at various levels. Teachers now seek products that cover these aims and can save them valuable teaching time. Active Design's products are designed to fulfil all of these criteria.

The existing product range consists mainly of the 'Insides-out' body tunics for primary level. These are tunics that children put on then velcro-on different 3D organs and bones to themselves. This activity is to encourage children to relate learning about the human body to their own bodies, making the information more memorable and understandable.



3. Describing your product

Describe your product or service. In particular, explain its features and its benefits.

The market

Define carefully who you perceive to be your customer groups or niche markets. Your market research may have suggested that you aim your sales at a precisely defined target market or segment.

Outline the research that you have undertaken - primary and secondary research are both important - including summary information in tables or graphs. Detailed supporting information can be included in the appendices.

You need to demonstrate that a market exists. What is the overall size of the market? Estimate likely demand for your product or service in the short and long-term and justify this estimate. It is on the basis of such information that you will estimate your sales turnover.



Hong Khrua Thai

Hong Khrua Thai expects to provide high quality cuisine in the upper price band of the restaurant market. The restaurant will only accept prior bookings in the evening as our market research suggests that its customers will expect high quality cuisine and service. In this respect, time to prepare the food and setting is essential to ensure customer satisfaction.



Optimum Test Solutions Ltd

The electronic manufacturing industry in Scotland is one of the largest market sectors and export earners for the country. Over the last two decades "Silicon Glen" has been firmly established as the centre of the electronics industry in Europe. With multinational organisations establishing their European headquarters in the Scottish central belt, the future for the industry in Scotland looks bright.

All electronic manufacturing companies utilise specially prepared test equipment within their production processes. This usually consists of high cost general purpose test machinery to which is added a uniquely

prepared fixture specially made to test particular components or circuits. Whilst the main test machine is a fixed part of the production process, the test head (fixture) is regularly changed depending upon the component being produced at any given time. Optimum Test Solutions has been set up to manufacture these frequently required new fixtures, and also to support generally the precision engineering requirements of the electronic component test process.

You need to explain to the reader the extent of the competition. What competition is there? How many competitors will you have? Is there likely to be further competition in the future? Explain why your product is going to be preferable to those of your competitors. What is your product's unique selling point?



Hong Khrua Thai

Competition can be split into two sectors:

- a) Direct competition (specialist Thai restaurants).
- b) Indirect competition (restaurants and outside caterers offering other types of food).

Are there any barriers to entry to this particular market - and, if so, what are they and how will you overcome them?



4. Describing your market

Describe the market for your product or service. Explain the market research that you have undertaken and estimate your expected sales.

Marketing plan

You described the purpose of your business in the summary or in the business section. That purpose should be translated into marketing objectives and goals which will support its realisation. Objectives should be quantifiable, measurable, challenging and achievable. Typical objectives might be profitability, sales growth, diversification and improvement in market share.

Objectives might include, for example:

- to sell 220 units and generate £100,000 in 1995;
- to achieve a gross profit margin of 45%; or,
- to capture 18% of the defined market.

The marketing plan to achieve these objectives should be described using the 4Ps. Your chosen “positioning” will also affect how you implement the 4Ps.

Explain how you propose to position the business (and the product) in the market place. Is the product a quality product targeted at a quality market (and therefore able to command a premium price)? This is known as differentiation. Is the product a commodity - with nothing to choose between competitors except price? This is called cost leadership.

Product

You have described already what your product or service is. Set out plans for future development over, say, the next two years. Will you phase in additional products or services as you start to make more money? Will you pilot an initial product to test the market? Will you add to the product range later?

Place

The location of your business and the way you will distribute your product to your clients are both important. How will the product or service be sold to customers - directly or via dealers or agents (such as wholesalers or retailers). How will the product be transported to its point of sale?

If customers come to the business, can it be reached conveniently? Does it give the right image? Explain why you have chosen the site or premises from which you intend to operate.

Price

The price must cover all your costs and provide a profit. You will need to explain how you reached your decision on price.

If you choose a differentiation strategy, quality and service is, within reason, more important than price. If you choose a cost leadership strategy you will need to set the price by reference to the market - and then control your costs to enable you to sell at that price whilst still making a profit. The latter is often a difficult strategy for small businesses - so most, either consciously or unconsciously choose the differentiation route.

Promotion

Finally, you need to explain your promotional strategy - how you intend to break into the market and let the customer know you exist.

Explain how you will promote what you have to offer, for example, through advertising, direct mail, door-to-door leaflets, etc.



Active Designs

Objectives

- to double turnover from £20,000 in year one (1995) to £40,000 in year two (1996).

- to increase the range of products from two to five designs by the end of April 1996 and to have them featured in the 1997 mail order catalogue.
- to double the number of mail order customers from four in 1995 to eight in 1996.
- to be in a position to rent studio accommodation in year three (1997).

Product

Active Designs will offer a range of original 'hands-on' learning aids to mail order suppliers, with new products available each year. Products introduced to suppliers in 1996 will feature in 1997 catalogues. Product launches will be timed with new school budgets in March/April. In year two Active Designs will begin exporting the 'Insides-out' tunics to distributors in Germany. If this is successful then other products can be introduced later in the year and other European countries investigated.

Price

Research indicates that schools will spend on good, functional and original resources that offer value for money for the classroom. The prices direct to schools are fixed and it is intended to keep these constant for 1996. Mail order suppliers have so far all agreed to sell at these prices. The large mail order organisations require higher profit margins than the original cost structure can support. This has been overcome by increasing batch size to reduce unit production costs. Individual contracts are then arranged with each supplier for a limited period and quantity. Mail order firms order monthly to top up minimum reorder stock levels. Invoicing is well spread, the debtors level fairly constant and the credit extended to each account monitored. At trade shows the prices are discounted to encourage orders to be placed at the show.

Place

Active Designs will continue to trade from home, due to financial restrictions in year one; as soon as profits allow a business studio will be sought. Active Designs has few visitors, therefore business premises are not crucial. However, space will soon become a problem, especially if a part-time assistant is required while the business is still trading from home. The current product range is made by sub-contractors who deliver to Active Designs. Products are sold and shipped to mail order suppliers who buy regularly to satisfy demand generated by catalogues. Orders are despatched on receipt of the customer's official purchase order, by local courier service, collected by the customer or sent by Royal Mail.

Indirect Promotion

- **Message** - Active Designs produces a range of 'hands-on' learning aids that offer an original, 'fun' approach to education. They provide an alternative method of teaching, enabling children to grasp information more easily through interactive resources.
- **Media** - The product range will be featured in selected mail order catalogues which schools order directly from. Active Designs has recently produced a colour leaflet on the 'Insides-out' tunics and the new Wildlife Wall Hanging.
- **Publicity** - Initially Active Designs received a burst of local press coverage, an interview on Northants Radio and a Business Break advert on Central Television. More recently, The Times Educational Supplement had a photograph of an 'Insides-out' tunic in a major article on anatomical learning aids, and another article selected the 'Insides-out' tunics as one of their 'best buys of 95'. Other editorial successes include February 1996 features in 'Nursery Equipment' and 'Childcare Business'. There is a possibility of selection for the April, 'New Resources' feature in 'Child Education'.

- Image - The Active Designs' logo was designed in house and subsequently used on quality business cards and letterheads. A smart image is certainly important when dealing with clients and customers. Recently a new colour leaflet has been designed and printed.



5. Your marketing plan

Describe your marketing plan.

Management and organisation

It is important to demonstrate that you have the ability to carry out the tasks to make the business work. Focus only on the key points.

People

Describe the people involved highlighting the particular strengths and skills they bring to the business. This may include technical skills (such as joinery or sales experience), personal attitudes (such as enthusiasm or ability to work under pressure), education and specialist training. If you wish, provide curricula vitae for the key staff in the appendices. If there are apparent weaknesses, explain how these will be overcome (for example, by sub-contracting a particular aspect of the production process).

Production

Describe the production process (if appropriate) and highlight any competitive advantages.

Premises

The reader is already aware of the logic behind your choice of premises; here describe the premises themselves, including details of any necessary licences, health and safety requirements, planning permission, etc.



Optimum Test Solutions Ltd

The management team and staff

The company has built up its employee base quickly from start and it now extends to six people;

- two directors
- one tool maker
- one general purpose worker
- one toolroom apprentice
- one office assistant and book-keeper

Michael Richford and Garry Tibbitt, the directors, have worked together as toolroom apprentices and craftsmen for some time and in 1995 decided to set up OTS.

Both directors worked in a company that still trades in this market and, as such, have gained valuable experience of the industry. In their eight years (each) of this work, they have also linked directly with the potential customers and know the key buyer requirements. Through this past experience they have gained considerable knowledge in technical sales, designing and manufacturing test solutions. Skills have also been gained in the field of automation in the electronic test process - with personal involvement in the improvement and re-design of automatic test equipment

in Motorola. In addition, they have recently been working with, and for, a subcontract test equipment company in Belgium (ITE nv).

Most of their time is spent on manufacturing activities. However, the additional work of managing the company is divided thus:

- Michael: manage production, general admin, financial control and stock.
- Garry: promote company, sales, quotes and design drawings.



6. Managing your business

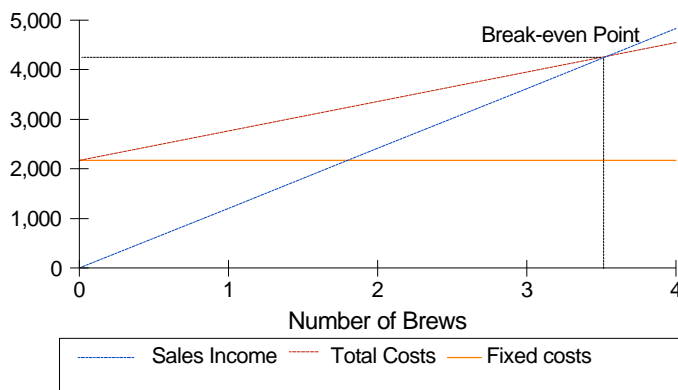
Describe how you will manage and organise your business. Who will be involved and what are their skills? What are their development needs? Include an explanation of how you will monitor business performance from start up.

Break-even analysis

Once you have worked out your likely costs, and determined the price at which you will sell your product or service, you can work out exactly how much you need to sell in order to cover costs - either in terms of units sold or productive hours worked. The level of sales at which you start to exceed your costs is known as the break-even point. Beyond this you start to go into profit.



Hawthorn Brewery Company



The easiest way to plot the lines is to work out the variable costs and sales income for various levels of output; in this case, for one, two, three and four brews.

The point at which the sales line crosses the total costs line is the break-even point - in this graph, it is around 3.5 brews. This translates into sales of £4,222.



7. Break even point

Explain how you have derived the price for your product or service and show the expected break even point. Mention the margin of safety.

Financial forecasts

The two key financial requirements are to generate a profit and to generate sufficient cash to be able to make payments to suppliers, staff and others as they fall due. The objective of this section of the plan is to demonstrate that the business will achieve both of these requirements.³ Forecast for at least one year ahead. If a substantial investment is sought or if the business is unlikely to show profitability within the year, then forecasts for two or even three years may be required.

This section will normally include a cash flow forecast, a forecast profit and loss account and a forecast balance sheet. let us look at each in turn:

- A forecast of the profit and loss account: The sales turnover is derived from the market research section. What are the direct costs, the gross profit, the overhead costs, and the likely net profit? How will the profit be distributed? It may also help to explain how the price has been derived. Remember to include drawings and interest when adding the total overhead cost to the direct costs.

- A cash flow forecast: Explain likely delays in receipt of income and in

PROFIT & LOSS ACCOUNT		
SALES	50,232	
Less Direct Costs	14,065	
Gross Profit		36,167
OVERHEADS		
Wages & NI	3,456	
Rent	2,820	
Heat, light & power	400	
Advertising	510	
Telephone	265	
Insurance	420	
Transport	3,660	
Stationery & post	60	
Professional fees	250	
HP & lease	990	
Bank charges	300	
Other	420	
Depreciation	750	
TOTAL		14,301
OPERATING PROFIT		21,866
Interest		880
Drawings		12,000
Tax		4,247
Retained in business		4,740

paying for expenditure. Provide a cashflow forecast to show receipts and payments on a month by month basis and, therefore, the required level of external finance.

³ A detailed examination of the requirements for financial forecasting are provided in "Financial forecasting for the first time", PNE/LiveWIRE, 1996.



Cash Flow Forecast														
Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	TOTAL	Accruals
Sales														
Sales by volume	1,750	3,500	4,200	4,900	4,800	6,120	7,200	7,360	6,500	5,740	5,360	5,360	62,790	
Sales by value	1,400	2,800	3,360	3,920	3,840	4,896	5,760	5,888	5,200	4,592	4,288	4,288	50,232	
Receipts														
Debtors			1,400	2,800	3,360	3,920	3,840	4,896	5,760	5,888	5,200	4,592	41,656	8,576
Owners	2,000												2,000	
Loans	7,000												7,000	
VAT	0	0	245	490	588	686	672	857	1,008	1,030	910	804	7,290	
Total	9,000	0	1,645	3,290	3,948	4,606	4,512	5,753	6,768	6,918	6,110	5,396	57,946	
Payments														
Raw Materials	700	800	900	1,100	1,100	1,400	1,600	1,600	1,500	1,300	1,200	1,200	14,400	
Wages & NI			192	192	192	192	192	384	384	576	576	576	3,456	
Rent	136	136	266	136	136	325	200	200	385	250	250	400	2,820	
Heat light & power	100			100			100			100			400	
Advertising etc	60	60	60	50	50	40	30	50	30	20	30	30	510	
Telephone			60			60					70		265	
Insurance	210						210						420	
Transport etc	140	200	210	220	240	330	390	390	420	400	360	360	3,660	
Stationery & post	5	5	5	5	5	5	5	5	5	5	5	5	60	
Professional fees												250	250	
HP & lease	165	165	165	165	165	165							990	
Bank Charges	25	25	25	25	25	25	25	25	25	25	25	25	300	
Loan repayments		300	300	300	300	300	300	300	300	300	300	300	3,300	
Loan interest		80	80	80	80	80	80	80	80	80	80	80	880	
Other	35	35	35	35	35	35	35	35	35	35	35	35	420	
Principals' drawings	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	
Capital	3,000												3,000	
VAT	206	216	269	288	274	384	413	399	428	369	329	412	3,987	
VAT to C & E	0			(446)			818			1,297			1,669	1,634
Total	5,782	3,022	3,567	3,250	3,602	4,341	5,398	4,468	4,662	5,757	4,190	4,748	52,787	
Balances														
Cash increase (decrease)	3,218	(3,022)	(1,922)	40	346	265	(886)	1,285	2,106	1,161	1,920	647	5,159	
Opening balance	0	3,218	196	(1,726)	(1,686)	(1,340)	(1,075)	(1,961)	(676)	1,430	2,591	4,511		
Closing balance	3,218	196	(1,726)	(1,686)	(1,340)	(1,075)	(1,961)	(676)	1,430	2,591	4,511	5,159		

- Ideally, you should also include a forecast of the balance sheet - otherwise the prospective funder will attempt to derive one from the other information you have provided. This might not, however, show the business exactly as you would like; you might, for example, be introducing fixed assets or stock which will not appear on the cash flow forecasts.

BALANCE SHEET		
FIXED ASSETS		
Capital Equipment	3,000	
Less Depreciation	750	
		2,250
CURRENT ASSETS		
Stock	335	
Cash at Bank	5,159	
Debtors	8,576	
		14,070
CURRENT LIABILITIES		
Trade creditors		
Loans	3,700	
Others	5,881	
		9,580
NET CURRENT ASSETS		4,490
NET ASSETS		6,740
REPRESENTED BY:		
Profit & Loss	20,986	
Carried Forward	0	
Owners	2,000	
Less drawings	(12,000)	
Less tax	(4,247)	
TOTAL		6,740

8. Financial forecasts

Prepare detailed financial forecasts which should include at least a profit and loss forecast and a cash flow forecast. Ideally include a balance sheet forecast also. Include a brief explanation of how and when you will monitor forecasts against actual progress.



Prospective funders are interested in risks - the risk that you may not achieve your forecast, the risk that you may default on the loan and even the risk that your business might cease to trade. It will help them considerably - and demonstrate that you too have thought about risk - if you include a break-even analysis (explained earlier) and a sensitivity analysis.

Sensitivity analysis

Sensitivity analysis looks at “what if...?” questions. What will be the effect, say, of a 10% fall in sales or a 20% increase in raw material prices? You can help the business plan appraiser by briefly considering such questions yourself and assessing the likely risks particularly of falling sales or rising prices.

Financial requirements

Indicate how much money or other assets will be invested by yourself (and any partners). Give details of how much is sought from other sources and explain whether it is wanted as overdraft (for working capital), as term loans (for equipment for example), as equity, or as a combination of these.

If any security, for example, in the form of a house, is available, then say so. Most banks look for at least some security, particularly if they are being asked to provide the bulk of the finance. The offer of security is a demonstration of your commitment to, and confidence in the business. It is also a demonstration of your willingness to take risks, especially if you have little cash of your own to invest.



9. Your financial requirements

Explain your total financial requirements and the way in which, ideally, you would like these to be met; explain how much you will be introducing to the business and whether you have any security.

Appendices

Keep any additional material to a minimum. You may find there are some aspects of your business where more background information might be helpful, but don't regard this as an excuse to include everything.

In addition to the items mentioned earlier, you might include:

- photographs;
- quotations for equipment and necessary insurance;
- legal information - partnership agreement, leases etc;
- a copy of your primary research questionnaires; and,
- relevant secondary research information.

Conclusion

In describing your business, in highlighting the features and benefits of your product or service, in demonstrating your knowledge of the market, in providing details of actual performance or forecasts of potential and in demonstrating your willingness to take risk, you have prepared a business plan. You could now think about writing the summary.



10. The summary

Now write your summary.

Earlier, we suggested that the quality of the information you gather for your plan will determine the quality of your business plan. Equally, the quality of the business plan will determine the success or otherwise of any application for funding. No less importantly, the quality of your business planning will determine the success or otherwise of your business.

Remember that your plan is neither a static document nor simply a tool with which to get funding; it is an evolving statement of all the ideas, research and actions which you are employing to ensure the survival and growth of your business.

Your business will require frequent changes of direction as new opportunities present themselves. How you meet those opportunities will be a function of the quality of your planning, of your flexibility of approach, and of how you develop and use your plan.

Further reading

- "Planning to Succeed in Business", David Irwin, Pitman Publishing, 1995.

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Assignments, business plans and NVQs

Have you completed the assignments in this book? We hope you have, because they each provide information for your business plan. If you complete them successfully, then all you will need to do is to pull them together into a single document. As you complete the assignments, tick the elements in the table below. If you have completed all the assignments in the earlier books in the series and in this book, you should not only have a detailed business plan but also be nearly ready to start a business. In addition, with no extra work, the assignments will also provide you with evidence for the NVQ3 Business Planning for Owner Managers (OM3). It is worth pursuing the NVQ as many banks are now recognising the importance of accredited training and are offering reduced commission and reduced loan rates to people who achieve OM3.

Assignment	Business plan	OM3 element	Tick when completed
1	✓	4.2(1)	
2	✓	1.2(1), 1.3(3), 3.1(1), 3.1(6)	
3	✓	3.1(1), 3.1(2), 3.5	
4	✓	3.1(1), 4.2(1), 4.3(4)	
5	✓	3.1(1), 4.3(2), 4.3(4)	
6	✓	3.1(1), 5.2(4), 6.1(1), 6.1(2), 6.2(1)	
7	✓	3.1(1), 3.1(4)	
8	✓	2.2(1), 3.1(1), 3.1(3), 3.1(4)	
9	✓	2.2(1), 2.2(4), 3.1(1)	
10	✓	1.2(1), 3.1(6)	

Completing the assignments will provide considerable evidence for elements of the NVQ as indicated, although it is possible that your assessor may require further evidence in support.

The authors



Project North East is an enterprise and economic development agency whose purpose is to develop and manage innovative, quality services which offer individuals and organisations the opportunity to realise their potential primarily through the creation and development of business enterprises. Project North East has been writing and running training programmes for people starting in business since 1985 and has been providing further assistance through intensive counselling and through the use of assignments designed to help clients prepare business plans which demonstrate viability and determination.



LiveWIRE, managed by Project North East and sponsored by Shell U.K. Limited, is the national organisation which encourages young people to consider starting their own business as a realistic option and, for those people who wish to pursue that option, it provides support and assistance from start up through to early growth. In all the services it provides, *LiveWIRE* stresses the importance of regular planning, whether formally or informally, as a major requirement for success in running a business.

Become a Successful Owner Manager

This is one of a series of workbooks intended to provide practical information to help you research, develop and implement your business idea. Successful completion of all the assignments will provide you with the information you need for a detailed business plan.

The workbooks are intended to complement a formal programme of training, but will also benefit people who prefer to work on their own or simply with the support of a business counsellor. In addition, with a little extra work, the assignments will provide the evidence required to achieve a National Vocational Qualification at Level 3, Business Planning for Owner Managers.

Writing your first business plan

Writing your first business plan provides a summary of the key contents of a business plan. Ideally, you should become familiar with other books in the series, particularly "Market research for the first time", "Marketing for the first time" and "Financial forecasting for the first time", completing the assignments in each. This book may then be used to help you to pull the results of those assignments into a detailed business plan. In addition to a brief overview it provides examples taken from real business plans which will give an idea of how easy it is to set out your own business plan.

Its specific objectives are:

- ▶ to summarise the key contents of a business plan; and,
- ▶ to suggest an appropriate order and format for your business plan.

The Series

- ▶ Planning to start in business
- ▶ Unlock your potential
- ▶ Market research for the first time
- ▶ Marketing for the first time
- ▶ Personal selling made easier
- ▶ Organising yourself
- ▶ Organising your business and keeping it legal
- ▶ Financial forecasting for the first time
- ▶ Writing your first business plan
- ▶ Employing people for the first time
- ▶ Book-keeping and financial control



LiveWIRE™