SENTENTIA

A way of thinking

# Writing a Business Plan

Essential for any business seeking any form of funding from any source and although a seemingly daunting task, in most cases writing a business plan is not as difficult as it may seem. In the most simplistic terms, a business plan tells a story about your business that clarifies and crystallises the ideas, evidence and assumptions behind your business.

Committing to paper a detailed business plan is an extremely powerful way of crystallising your business ideas, the strategy, the markets and the opportunities with the added advantage of being a blue-print for running and benchmarking your business milestones; plans, targets and objectives which can be refined and updated as events unfold and your business grows.

Concise; informative, short and easy to read are key elements of a well written business plan; you do not want any reader to get bored or confused and simply abandon your proposition.

A well written and succinct Business Plan allows the reader to gain a valuable insight into your business; your ambitions, your thought processes and the expected time frames that your business will operate against. This is essential for convincing (selling your story) to a bank or investor - they will always want to understand how long their investment is at risk and how soon they can expect the loan to be re-paid or for their investment to bear dividends.

Your business plan will also undoubtedly help any potential investors develop their questions about your business; many of which may be extremely challenging and detailed, so understanding your business plan in fine detail and being able to respond to questions with qualified and confident responses is essential to securing interest and investment.

Understanding who your reading audience will be is also critical when developing and structuring your business plan; i.e. a highly technical business using highly technical terms may not be easily understood by a non-technical audience and what may have been the ideal investor may actually be discouraged if they simply do not understand your proposal.

Always communicate your proposal in the language of the receiver and adapt technical terms into more easily understood information that everyone can understand and use appendices to provide more detailed explanations where required.

A good Business Plan will follow a consistent, well organised and cohesive order that explains the key business elements in a logical and sequential manner that always starts with the Executive Summary.

The following list, concisely written, will provide an investor with a structured; expected and welcome insight into your business proposal.

1. Executive Summary
2. The Business
3. Products and Services
4. Markets and Competitors
5. Sales & Marketing
6. Management
7. Operations
8. Financial forecasts
9. Investment requirements
10. Risk analysis
11. Exit Strategy
12. Appendices

Writing a detailed business plan focuses your mind on your project, it ensures that you can justify your assumptions; it will help secure support and investment and in some cases, secure key customer interest.

In the following sections, we aim to guide you through writing your business plan and help you build a succinct; informative document that forms the bedrock of your business and investors should value.

## 1. Executive Summary

The Executive Summary outlines your business proposal and will either spark or not spark interest.

In most cases, the Executive Summary is the most important single part of your business plan. It is nearly always what gets read first as it gives the reader in a short period of time the value judgement as to whether they should read any further or abandon the proposal. It is also quite common for investors to only ask to see the Executive Summary and because of this; your Executive Summary **MUST** be able to act as a stand-alone document

The Executive Summary will be the very first section within your business plan but should always be the very last section to be written; being a concise summary of the most important points detailed within your business plan.

Because your executive summary is such a critical component, you should make it as clear and concise as possible. It must be informative and cover the key highlights of your business, but not become embroiled in fine detail.

Your executive summary should be no more than 2 pages long and designed to be a quick read that sparks interest and makes your investors want to learn more.

Your Executive Summary should highlight the key elements of your proposal and start with a one sentence overview of your business that quickly describes what you are doing or what your business does – this is your "Value Proposition".

Your Executive Summary should then follow a fairly prescribed format that hits the reader with all the key information that they need to understand what your proposition is and what their opportunity may be. The following sections set out the format for your Executive Summary

- **Problem –** every business should be solving a problem or problems – describe the problem/s that you are solving which will quickly highlight the market need; the advantages of your product/s and the business potential to the reader
- **Solution -** .How does your product, service or ideas provide "the" solution to the problem?
- **Market –** Be as specific as possible in this summary; who are your customers, where are they, how many are there, is it a domestic market or larger?
- **Competition –** Every business has competition and your Executive Summary must identify the key elements of that competition. You must briefly explain how you will overcome or balance that competition.
- **Management Team** – it is often said that Investors invest more in great people than they do in a great product. Briefly detail your team and explain why they are the right people to bring your product to market and / or manage the business.
- **Financial Summary –** Highlight the key elements of your financial plan; a small chart makes a useful visual contribution to the detail that could contain Sales revenue, costs, profit and timeframe. How does your business make money and when?
- **Funding requirements –** if somebody is reading your business plan; you are probably seeking investment of one form or another. Here you merely need to say how much money is required and what it is required for i.e. Working Capital; Plant and Machinery etc.
- **Key Achievements to date –** Last but not least, tell your readers what you have achieved to date. That may be product design or patent protection, it may be a number of sales or Letters of Intent; you have a website ready to go or your supply chain agreed. This is your first opportunity to showcase why your idea is great and your business will be successful.

The remaining sections of your business plan should provide all the supporting and detailed evidence summarised in your Executive Summary.

## 2. The Business

Often the shortest section of your business plan and a concise who, what, why, how; when and where.

In this section you should explain the background to your business or idea and include: -

- How long the business has been trading and / or how long you have been developing your current business or idea.
- Work carried out and / or achievements to date; what stage of development the business or idea is at.
- What related experience you have in business; this idea or market place.
- The current and proposed ownership structure of the business
- Legal status of the business
- Location – where will the business be located, what facilities does it currently have or need; how will they be provided?

## 3. Products and Services

What product or service you are actually producing, providing and selling and how that solves a problem (or "need") for your target market?

This section is the real meat on the bone for any business. It is in this section that you can showcase what the problem is that you are solving; how your solution is solving that problem; what competition there is and why your solution is superior to the competition.

This section should make it very explicitly clear: -

- How and why your product will stand out from the crowd.
- What advantage your customers will gain by using your product or service.
- How the business can be developed
- Be explicit about any weak points or threats
- Are there any specific regulations, technologies or major institutions who could scupper or support your product or service

As all businesses need to grow and evolve, you should also explain where and how you see your business expanding be that new products, new services or new markets and territories.

## 4. Markets and Competitors

It is essential that you have thoroughly researched the market; the opportunity and the competition and that both you and the investor understand what the market opportunity is; how you will access those markets, what competition there is and where your competitive advantage lies.

The world is a very big marketplace so you should only focus on the key market segments and customer demographics that you plan to target; i.e. females, males, babies, toddlers, pensioners, teenagers; overseas markets; auto-motive supply chain, B2B software, road safety; micro-businesses etc etc etc.

In this section you will need to: -

- Qualify; with evidence, how big the market is and where it is; evidence of sustainability and longevity is also extremely useful information.
- Whether the market is expanding or contracting with any forecast trends.
- Highlight the key trends that relate to your product or service.
- Detail what portion of the market you expect to capture and how that will impact on demand for your product or service.
- Where possible, outline the key characteristics of consumers / users of your product in each market segment i.e. age, income, sex, lifestyle.
- Indicate if you have customers already lined up or have existing sales, repeat sales, "Letters of Intent"; live orders and "Expressions of Interest" etc.

This section of your business plan must also highlight any competition; who they are and what level of threat they are to your business.

It is almost inevitable that you will have to make some assumptions about your competitors and how they will react to any threat from your business. Carrying out a **SWOT** (Strength, Weakness, Opportunity and Threat) analysis on each competitor or market segment will help you assess your competition and you should at least set out to: -

- Identify your primary established competitors
- Identify any new market entrants
- Identify the key advantages and disadvantages of those competitors and their products or services
- You should be able to explain clearly why users / buyers will choose your product over the established products already in the market place
- Try and anticipate how your competitors may react to your arrival and how you will counter any responses to your entry by them
- If you have any **Patents, Design Rights** or **Trade Marks** that help protect your business then they should be highlighted as key elements of your competitive advantage and protection of your position in the market.

## 5. Sales and Marketing

The single most crucial section in the full business plan. In this section you will explain how you will actually market and sell your product or service. A well thought out sales and marketing plan is also a great indicator of likely success.

A tried and trusted process for marketing products are the 4 P's of the Marketing Mix and 7 P's for service products

- **Product –** Branding, Ranges, Management
- **Price** – Perceptions, Costs, Value, Regulations
- **Place –** Location, Market coverage
- **Promotion –** Promotional mix, Constraints, Regulations

- **People –** Capability, Efficiency, Availability, Effectiveness, Customer Interaction, Internal marketing
- **Physical Evidence** – Essential evidence, Peripheral evidence, Premises, Equipment, Literature
- **Processes** – Order processing, Database management, Queuing systems, Service delivery, Standardisation

Detailed explanations of the 4 and 7 P's of the Marketing Mix are widely available on the internet and are far too extensive to detail in this document.

You will need to explain clearly: -

- "HOW" your product will meet your customers' specific need.
- "WHO" are your customers?
- "WHO" will be your first customers – the early adopters and late adopters – have your received any orders, pre-orders, Expressions of Interest; Letters of Intent etc
- "HOW" you will sell to your customers – ecommerce, direct sales, re-sellers, distributors, tele-sales etc – is this standard to the market or have you created a unique channel? – is it
  - a spontaneous immediate purchase such as FMCG or
  - a long conversion and negotiation period such as Capital Plant for manufacturing or
  - Bulk order and high volume or
  - Small orders and low volume
- "HOW" your product or service will be positioned – Price, Quality, Delivery time – how does this compare to the competition – are you unique?
- "HOW" you will promote your product

Each route to market (channel) will have an inherent cost and revenue attached to it and it is important to understand how each channel and price point will affect profit margins and cash flow. These must be taken into account and reflected within the financial plan that will accompany your business plan.

## 6. Management

Investors are not simply investing in an idea or a product or service; they are also investing in the management team and owners of the business. It is therefore a requirement of all business plans to highlight the key skills and expertise within your management team – Angel Investors and many Institutional Investors will often take a senior role within an investee business as a condition of their investment.

Your business plan should provide details of the management roles and who will fill that role – providing a short biography of each Manager / Director is common practice and welcomed by investors.

As a company grows, you will undoubtedly need a range of different skills and knowledge to keep the business moving forward and growing so it is quite usual to keep some senior roles vacant until such time as those skills are required and the business can afford them so allow for future growth and strategic recruitment in your business and financial planning.

You may opt to include a small organisational structural tree with key appointments detailed but un-filled – one further option is to put a date or turnover level into an un-filled position which will demonstrate a well thought out recruitment programme to savvy investors.

## 7. Business Operations

Outsourcing, Strategic Alliances, Partnerships; Distributors, Agencies, Re-sellers, e-commerce; Tele-sales; Direct Sales; employees and multi-channel routes to market are all mature business processes and the arrangements and requirements for each business will vary relative to each business.

Your business plan will need to detail as a minimum “HOW” your product or service will be delivered to the end consumer and what resources or facilities are available to the business or will be required by the business in order to deliver it to the end consumer.

Your business plan must therefore detail “HOW the business will manage its operations: -

- **Location** – where will the business be located, what premises and services are required and what are the pro’s and con’s of this location.
- **Facilities** – Warehousing, workshops, plant and equipment, offices.
- **Capacity –** Production or service capacity – what volumes can be achieved, how easy is it to increase / decrease production, minimum order quantities, supply chain risks, supplier choice; guarantees and indemnities.
- **Suppliers** - how did you choose your suppliers and what is their track record?
- **Stock –** holding idle stock can be essential but expensive – what stock holding will you need to hold and for how long?
- **Distribution** – how will your products or services get from point A to point B?
- **Employees –** All businesses need human resources – a well written business plan should contain a list of employee roles required, a recruitment timeline and the skills required. This does not have to be in fine detail but must be reflected within the financial plan.

## 8. Financial Forecasts

Conservative and realistic with qualified assumptions that translate your written business plan into a believable financial forecast with numbers and profits.

As each business is different this document only gives brief guidelines as to what to include: -

- **Sales Volumes** – how many units and when – do you need to weight the sales volumes relative to seasons and sales channels?
- **Sales price** – revenue per unit – if you have more than one type of buyer, you may need to break these down into their respective components and values especially if the sales price and buyer volumes vary.
- **Cost of Sales / Cost of Goods and Services –** The total costs directly incurred in selling your product or service
- **Gross Profit -** Subtract your COGS from your Sales to get this number. Most Profit & Loss statements also show this number as a percentage

of total sales (Gross Profit / Sales = Gross Profit Margin %'age)

- **Operating expenses –** These are effectively all the other costs associated with running your business excluding tax, depreciation and amortization. Salaries, fuel, insurances, distribution, marketing; telephones and utilities, travel expenses, entertainment, repairs and maintenance all come under Operating Expenses.
- **Operating Profit – otherwise known as EBITDA.** Subtract your Total Operating Expenses and COGS from your Sales income to produce your Operating profit. Again, it is common practice to include a percentage figure.
- **Interest, Taxes; Depreciation and Amortization** – are often referred to as "below the line". This simply means that they are shown on financial statements below the operating income / profit of the business
- **Total Expenses –** add your Operating Expenses to your Interest, Taxes; Depreciation and Amortization to calculate your Total Expenses
- **Net Profit –** The ultimate figure that shows whether you have made a profit or made a loss during an operating period which can be a month, a quarter; a half year or a full year; it all depends on how you have set up your reporting timeframes.

**Things to note:**

- You will need a **Cashflow forecast.** A Cashflow forecast is not the same as a profit and loss account or budget. Your Cashflow forecast must accurately record how and when money (cash) flows in and out of your bank account; this ultimately controls how much money you will need to invest and how much money you will have to spend at any given time – it is also the Cashflow forecast (not your budget) that will demonstrate how much investment money is actually required and when – generally referred to as the "Draw Down" and extremely important for any investor to understand.
- Ensure that you have taken into consideration any lead and lag times in payments and expenditure – it is almost inevitable that a manufacturer will have to incur the cost of production way ahead of any sales income being generated from those products and a retailer will have purchased products ahead of any sales income being received.
- **Budgets** – your financial forecast is effectively your budget and should clearly set out the financial targets and objectives for the business and equally important, demonstrate when your business will generate more income than expenditure (turn cash-positive). Any assumptions should be included as a part of your forecast as readers will need to understand the methodology and strategy behind the business plan – most often set out as "assumptions".
- For both medium-term business planning and investors; your business and financial plan should cover a period of three full operating years and two full years as an absolute minimum.
- Do not be afraid of your projections and lack of early stage profits, many new businesses take two years or more to turn cash positive although some businesses; notably software based businesses, can significantly shorten that timeframe.

## 9. Financial (Investment) Requirements

The cashflow forecast will detail when and how much money is required to finance the business and we would recommend that you build in a contingency arrangement of around 10%; a business running out of money is the usual cause of business failures so it is wise to plan for the un-expected.

- **Investment Finance –** there are a multitude of options for financing business ranging from private equity in exchange for an equity stake in your business through to secured loans against private properties or asset re-finance. In all cases the investor will want to know what the money is required for and when it will be required, i.e. £150,000 for working capital (paying for the running costs of the business) and

£100,000 for capital equipment. For running costs, it is good practice to break the expenditure down into key cost areas, i.e. Sales & Marketing, Wages, Rent, Production costs etc.

## 10. Risk Analysis

A good business plan will have dedicated considerable time to "what if" scenarios. The "what if's" are simply a series of inward questions that you have to answer to understand the risks to the business.

An established route to risk analysis is to carry out a PEST analysis (Political, Economic, Socio-cultural & Technological). There are numerous guides on the internet for PEST analysis and against that insight you should review and challenge each of your core assumptions; such as: -

- **Market** – what would happen if there was a sudden change of legislation that was either detrimental or beneficial to your business product or service – how would or could you respond.
- **Revenue –** what would happen if sales under-performed by 25% or perhaps sales demand exceeded expectations by 25% - how would you fund the growth?
- **Suppliers –** do you have a contingency plan if one of your main suppliers closed down or declined your future business; equally, if demand increased beyond available capacity, how would you manage the short-term shortfall.
- **Finance –** what happens to your cashflow if sales are outside of the plan and contingency funding? – how could you raise extra money quickly if required?
- **Competition -** what are the risks from the competition and how may they affect your business plans? What would you do if one of your competitors suddenly made an unexpected approach to "buy you out"?

Understanding and addressing potential risks will ultimately help you minimise threats to your business and inspire confidence with any potential investor.

## 11. Exit Strategy

A business plan is generally expected to have a section dedicated to the Exit Strategy. The exit strategy may be the exit strategy for the business owners or it may be how and when the investors can realise their investment return and exit the business; i,e. after 3 years with a buy-back option with the owners or IPO or sale to a competitor.

At Sententia we do not promote hard and fast rules for Exit Strategies as every business is unique but if you have or are looking for investors they will want to know your thoughts on how they or you or both exit the business.

Investors are inherently in the market to make their money make more money and they will want a return on their investment. They are risking their money in your business and the only way they are able to truly maximise their investment return is when they are able to sell their equity holding (shares) to someone else so write a short paragraph about how and when this might take place.

## 12. Appendices

Appendices are not a requirement unless there is key information that helps the reader understand essential information not otherwise detailed within your business plan.

Copies of patents, charts, large quantities of essential market information that would be out of place within the main business plan, letters of intent, copies of orders; illustrations of your products are all likely candidates to be held in your appendices but they only should be if there is a real reason that adds tangible value to the business plan.

**Finally:**

Your Executive Summary should not; as a general rule, provide detailed insight into your invention or idea; merely an insight into "what" you are doing not "how" you are doing it.

It is common practice for an NDA (Non-disclosure Agreement) to be signed ahead of releasing your Executive Summary to anyone and most definitely before you release the full business plan.