

# THE BUSINESS PLAN

## DISCLAIMER

The Mission of the Business Enterprise Centre is to foster, develop and support small business by providing relevant, accurate and professional information and assistance to those intending to start a small business or those existing small businesses that need support. This information and assistance is offered free of charge on the explicit understanding that:

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- ◆ The Centre is not engaged in rendering legal, accounting, financial or other professional advice.
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The following chapter discusses how to write a formal business plan, which every business should do no matter how long it has been operating.

This is the most important topic in our Kit because all the reasons for business failure point to the fact that many businesses do not adequately plan and, as many have noted recently, "businesses fail because they fail to plan".

A business plan need not be a formal document. Simple notes kept by the proprietor will do, so long as it brings to their attention areas of the business that must be addressed. However, in any business environment (good or tough times) many interested parties now require a more formal business plan - for instance, your bank, creditors, senior staff and potential purchasers of your business.

The business plan is generally divided into the following sections:

1. Mission statement of objectives
2. Summary
3. Market research
4. Marketing strategy
5. Organisation structure
6. Financial projections
7. Performance indicators
8. Appendix

### **BUSINESS PLANS FOR EXISTING BUSINESS**

Why should you plan your business? Because over 70% of small businesses fail within the first 2 years and after 10 years, only 5% of people are still in business.

Research has shown that the predominant reasons for failure were:

- ī Poor management
- ī Inadequate industry knowledge
- ī Under capitalised
- ī Poor location
- ī Poor marketing
- ī Low profit margins

Most of these fatal flaws could have been overcome or foreseen if people had planned properly. Things such as pre-testing a product or service and accurate cash flow projections may have led the business person to rethink or abandon their idea.

The following is a basic outline or checklist of how to complete a formal business plan. The primary objective is for the existing business to re-assess its performance and direction. Other people may be interested to see a business plan, such as banks, creditors, potential buyers or senior staff.

### **USING THIS BUSINESS PLAN**

It doesn't have to be formal, simple notes to yourself will do. It should be dynamic and flexible, use it as another business tool.

Don't just file it away, refer to it and pay particular attention to the performance indicators that you have set for yourself. Review and update it in response to changing circumstances.

#### **1. MISSION STATEMENT**

No more than 2 - 3 sentences simply describing the business and your ultimate direction or goal.

#### **2. SUMMARY (Which is actually done last.)**

About 1/2 to 1 page summary in point form on the body of the plan.

#### **3. MARKET RESEARCH**

The most important part of any business plan.

Marketing is defined as determining whether there is a market or demand for your product or service, the size of the market, where the market is located or who buys your product or service.

Obviously if you know precisely who and where your customers are, it makes a lot of other decisions easier. Accurate market research will help you decide where to locate, how much to pay for a business, the type of advertising to be used, what your projected income should be, etc.

If you have this accurate information you will soon discover whether your business is viable, or if you're in a business already, what direction or changes you should make.

Statistics and information about your selected industry can be accessed through industry associations, local councils and the Enterprise Centre, Bureau of Statistics, commercial marketing or research firms, etc. The more you know about your industry the better.

Talk to people who are in the same line of business, or have been, as their anecdotal evidence can give you useful insights. You should survey potential customers or clients and make your sample as large and representative as possible. Don't be afraid to spend time and money on market research - it is as important as accounting or legal advice and most people spend large sums on these.

Before launching a new product or store, do some test marketing or test run on a small target segment, this allows you to detect customer preference, etc. Marketing also means costing your project or service, and working out your profit margins and volume of sales required to breakeven and produce an adequate return on your capital and labour.

You should also consider supply and distribution costs, ie. everything that gets your product to the customer.

#### **4. MARKETING STRATEGY**

Once you have determined the size, location, and composition of your target market, you are then better equipped to plan how you will cost-effectively get the product or service to the customer or client.

Your launch should be the first part of a well - planned marketing strategy - or a re-launch if you're already in business.

You may use a high profile person to host the launch or end of season sale and invite customers, suppliers and other local business people. You must notify the media and should issue a press release.

The next essential of your marketing strategy are the three "Ps" - Price, Promotion and Position.

Price means that you are near or under your competitors price for the same range of products or service. Emphasise quality and service as your competitive edge over your competitors.

Promotion on a planned an regular basis should keep your profile high, emphasising special deals, new products, sales, etc. It is better than large and expensive one-off advertisements.

Remember your mailing list of customers is a valuable asset and newsletters and discounts offered to them regularly keeps your business in the front of their minds.

If you have done your market research correctly you can set yourself an advertising budget and should know what is the most direct route to your customers. Again, employing marketing or advertising specialists could be of benefit.

Position - you will know the best place to locate yourself because of thorough research. You need to make yourself easily accessible to your customers, with as much exposure as possible.

Use technology such as computers and the latest processes to make your business the most up-to-date and competitive it can be. Also, join and become active in industry associations, local service clubs, Chambers of Commerce, etc. These will become useful networks for you and will provide an advantage over your competitors.

#### **5. ORGANISATIONAL STRUCTURE**

You will need to seek professional help on this from accountants or solicitors and always get a second opinion. Don't be afraid to ask questions and ask your adviser to justify their advice in plain English.

The various forms of Business Structure are:

- i Sole trader
- i Partnership
- i Company
- i Family trusts, unit trusts or discretionary trusts.

- i A combination of some of the above.

All have legal, taxation and administrative advantages and disadvantages. Obviously professional advice is required. Even if you have been in business for years, reconsider, and do an efficiency-audit on your organisational structure.

#### **6. FINANCIALS**

Produce an accurate and honest personal or family statement of assets and liabilities, and income and expenditure statement. The latter will tell you how much you need to make out of the business to survive.

Together with your accountant a month by month cash-flow budget is required - again, if you have done your market research properly, your sales figures should be more accurate than just a "guesstimate". Some people in business for many years, still don't budget and therefore are unable to effectively manage their cash flow or foresee problems until they arise.

A projected profit and loss statement and balance-sheet may also be required. Remember to analyse the figure and check profit margins and break-evens.

#### **S.W.O.T. ANALYSIS**

##### ***Strengths and Weaknesses***

The internal analysis should cover:

- i Products and product range
- i Market share
- i Production capacity
- i Research and development
- i Profitability
- i Level of borrowed funds
- i Staff and management skills

##### ***Opportunities and Threats***

The internal research should cover such factors as:

- i Competition - their present position, likely future, reasons for success or failure.
- i Politics - tax, environment, wages, regulations.
- i Economics - the state of the economy, interest rates, level of employment.
- i Social situation - changes in social behaviour, attitudes, standard of living, levels of incomes.
- i Technology - changes to existing products, methods of distribution and production.
- i Health and Safety - changes in zoning regulations, pollution standards.

**S.W.O.T.** helps to emphasise the good and bad points.