

Chapter 4 Developing business plans

Key terms

Business plan A document that provides important details about different aspects of a business that may be used by an individual in setting up a business or required by a bank when considering a request for a loan. It is the process of setting objectives, researching the market, deciding on a strategy, planning and implementing actions, and monitoring and reviewing the business.

Competitive advantage The ways in which a firm appeals to its consumers through adding value which makes the firm unique in some way. This uniqueness can be both defended and is distinctive in a way that means that it is difficult for its rivals to be able to imitate or replicate these features.

In this chapter you will learn about the importance of planning for a new business start-up. You will learn that careful thought and effective planning at the early stage in the life of a business will help to identify potential problems and prepare the business for these, and will also tell an individual whether a business is likely to be viable.

The purpose and contents of business plans

However good the business idea and however skilled the entrepreneur, without effective business planning a new business will quickly lose its way. A **business plan** is designed to help an entrepreneur in setting objectives, researching the market, planning strategy, and monitoring and evaluating finance and progress. A well-researched business plan that is regularly reviewed and updated can make the difference between success and failure.

A business plan is a document that sets out how the business will operate and what it hopes to achieve. One of the important points about such a business plan is that it serves to help the prospective business identify whether it will be viable or not. There is always a tendency to ignore the evidence collected and assume the business will be a roaring success, even if everything you have collected suggests it will not!

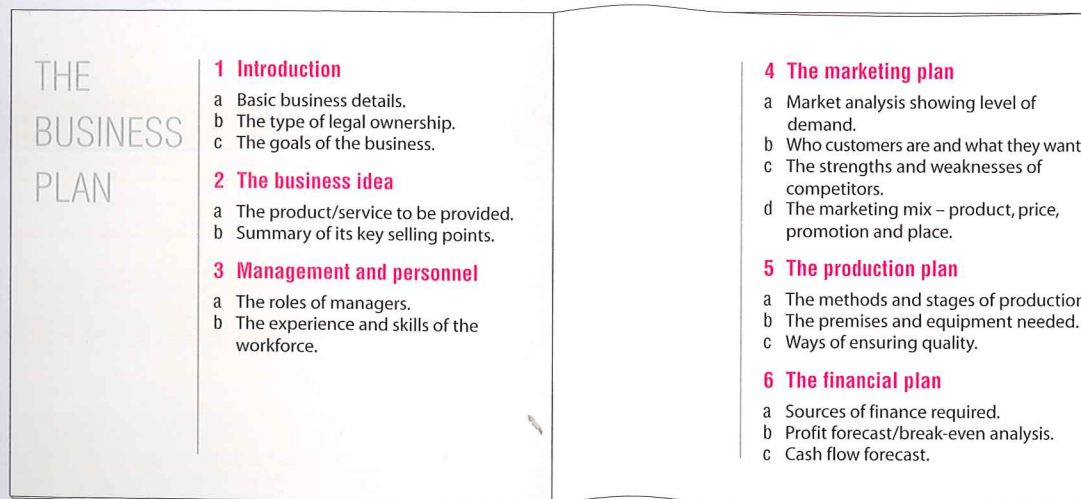


Figure 4.1 The business plan

A business plan is an essential business tool, providing the framework within which a business can develop. It brings a number of benefits:

- Providing focus and direction for the ideas that lie behind the new business venture. The business plan forces an entrepreneur to consider all the key aspects of running the business, and whether it has a good chance of success.
- Testing the viability of the business proposal through financial forecasts that show whether the business has a good chance of success before committing any money. Potential problems can be identified at an early stage and action taken to avoid them.
- Convincing potential investors or lenders such as the high-street banks that this is a business idea they should be willing to support.
- Planning and reviewing the business strategy through the targets and forecasts in the plan provides a way of measuring the actual performance of the business over time.

There are also drawbacks to business planning. These include:

- Planning can lead to a lack of flexibility – there is a desire to stick to the plan regardless of the situation.
- Getting accurate information to help develop a business plan is not easy – especially forecasting future sales and costs.
- Business plans take time and commitment – it is not a task to be undertaken lightly.
- If your business plan is based on faulty or inaccurate data, the whole plan can be rendered useless.
- The planner might not have the skills or expertise to analyse and report on every aspect of a business plan.
- Unrealistic financial projections can lead to misplaced confidence in the likely success of a business venture.

The plan

In the early stages a business idea may only be fairly sketchy without much detail. For example, if you were considering setting yourself up in business as a window cleaner, you might be able to identify a local need and be thinking of targeting home owners. You might also have worked out what you need to run the business – a van, ladders, bucket, squeegee, and so on – but do not have much in the way of details about how much these things cost or the precise nature of the local market. The next stage, therefore, is to try to get more detail.

Business plans can be difficult to draw up because getting accurate information about the range of things that are included in the plan might not be easy, but it can also be due to a lack of care in the gathering of information.

We will look at a typical business plan based around a decision by an individual to set up as a window cleaner. The case will go through the main sections of a business plan and briefly outline what the individual in this example might include.

Guru's views

'It is not the plan that is important, it's the planning.'

–Dr Graeme Edwards

1 INTRODUCTION

This section will contain the basic business details – name and address, what the business function will be, the type of legal ownership and the goals of the business. In the case of a window cleaner, the business function will be to provide high quality window-cleaning services. The legal ownership is likely to be a partnership, sole trader or private limited company (see Chapter 7). The goals of the business might include some comment on the business philosophy – to provide high quality window-cleaning services, and about the expectation about the returns for the entrepreneur. This area of the plan might also consider the following areas: legal requirements of the business (health and safety, employment legislation, and so on) and tax liabilities – Value Added Tax (VAT), Income Tax and National Insurance Contributions (NICs).

2 THE BUSINESS IDEA

This section will provide more details about the nature of the business and the product or service to be provided. This might include more details on exactly what the business proposition is going to be. This might detail whether the service will cover residential accommodation, shops and offices, skyscrapers, city centre buildings, rural areas, and so on. If the aim is to provide window-cleaning services for businesses in city centres, then that might well be a different proposition from someone planning to offer window-cleaning services to a new residential development on the outskirts of a town.

This section will also include some details about the key selling points – what will this business offer that is different from any other window-cleaning service that already exists? This is where the entrepreneur has to think about the market they are targeting and what its needs might be and how they might add value. In addition, this is where the entrepreneur will have to think carefully about what it is about this business that offers **competitive advantage**.

3 MANAGEMENT AND PERSONNEL

This section will outline the role of management and personnel in the organisation. A sole trader may only have themselves to worry about, but many sole traders employ other people and it needs to be clear what the relationship is between the people in the business and what their roles and responsibilities will be.

As a means of giving further information to prospective lenders, as well as identifying constraints for the business, the experience and skills of the workforce will be included. This helps the business to identify areas where they may have skill deficiencies, for example, in accounting or in administration.

This section might also include information about the insurance that is required.

4 THE MARKETING PLAN

Marketing is about identifying consumer needs, seeking to satisfy those needs profitably and gaining a competitive advantage over rivals. In a window-cleaning business, you might want to specify a

particular unique selling point (USP), such as time of day or special kind of service which might persuade customers to use your service. You will also need to identify the level of demand for such a service and the type of market you will be targeting. If you plan to focus on a new housing estate, you will need to think about how many potential customers there are, how often they might want your service – every week, every month? – what the level of competition is, what the opportunity for market expansion is, and so on.

This section might also include some detail on networking. This involves the contacts that businesses might need to help develop, and may include building relationships with local trade associations, such as the local Chambers of Commerce and trade associations.

Networking is becoming increasingly important for many small businesses as a means of building contacts that help to develop the business, and can be a key part of the marketing process.

5 THE PRODUCTION PLAN

Because the example we are using is a service, the details of the production plan might be different from when a business is manufacturing a product. This is concerned with the day-to-day activities of the business referred to as operational planning. If you are considering a business that is actually making something, you will need to consider how this will work in practice and what you will need to be able to produce effectively and efficiently.

Some of the issues to think about in this section will be:

- Where will you get your supplies/raw materials?
- How reliable and secure are these supplies? (You do not want to let customers down!)
- Will you need to have a website? Will you need to sell online?
- What security arrangements might you need to make with regard to your business?
- How might you expand the business in the future?

The window-cleaning business, for example, might involve consideration about where the equipment will be stored when not in use to prevent theft or vandalism, and whether an online presence is really required for this type of business. How many employees do you need now, and, if the business is a success, in the next 12 months? Where will you get these employees from and what will you require of them in terms of qualifications, training, personality, and so on?

Details of the production process, in this case, might involve the equipment needed to make production levels efficient. In the case of a window cleaner, thought needs to be given to the equipment needed. In addition, the business might think about how to actually go about the job of cleaning windows – is there a routine, a way of cleaning the windows on a house that maximises productivity (number of windows cleaned per hour)? The business will also need to consider how it is going to provide and maintain quality and what it will do if it receives complaints about quality.



Further material and resources relating to this section can be found at www.collins.bized.co.uk. Keep checking for updates.

6 THE FINANCIAL PLAN

The financial planning section requires you to consider the following issues:

- costs and prices
- cash flow monitoring
- record-keeping
- setting up financial reserves and contingency plans
- availability of long-term or emergency finance.

In the case of a window cleaner, the production plan will have identified the equipment needed to be able to run the business. Checking on the costs involved, therefore, needs some further research. Examples are given below:

- Transport – what type is appropriate, how much will it cost, what are the insurance and tax costs? How much will the petrol costs be?
- Ladders – how many and what type? If the round is likely to be residential properties only (as opposed to high-rise office blocks, for example) then a ladder that can reach relevant heights is essential. Also needed is a ladder that is able to reach lower levels but is not so bulky to carry around.
- Basic equipment – cloths, leathers, buckets, squeegees, and so on.
- Business cards to advertise the service.
- Invoices to record payments and money owing for services carried out.

Having detailed the costs, some consideration will need to be given about how the finance to pay for the start-up will be raised. There will need to be detail of prices. This, along with the market information from the section above, helps the business to be able to produce a forecast profit and loss account, a break-even forecast and a cash flow forecast.

Sources of information and guidance

New businesses can get advice from a range of different sources. The business plan is going to be an important source of information about the business and is often used as the basis for advice. It helps pinpoint particular areas of concern.

The main sources of help are listed below.

Banks

Many businesses will use a high-street bank as a source of funds for their business, as well as holding a business account with them. For the bank, it is important that the business flourishes, so they do provide support services and advice for small businesses.

Accountants

Most small businesses will employ an accountant to prepare and check their accounts each year. Many accountants will also offer the benefit of their experience and expertise to the business. They might be able to

see particular problems or potential problems facing the business, and as a result, be able to offer valuable advice to the business.

The Small Business Advice Service

This is a body managed by the National Federation for Enterprise Agencies (NFEA) and is funded by sponsors who offer free and independent information for small businesses. It has a website with a series of frequently asked questions and will also provide individual advice to particular questions. It also has a number of resources available from the site to help those thinking of starting up or who have just started up their business.

www.smallbusiness.co.uk

The website www.smallbusiness.co.uk is a source of online-only advice which covers all the main areas of advice for start-ups and new businesses including finance, market research, business formation, sales and marketing, legal advice, business technology and operating abroad.

Small business advisors

There are a host of small business advisors providing advice and consultancy services to small businesses. They are represented by the Institute of Business Consulting (IBC). The IBC is dedicated to increasing the standard of advice provided by its members in helping improve the performance and standards of new and small businesses. There is a directory to find a local business advisor but the business will have to pay for the advice received.

Government agencies

One of the main sources of government-sponsored help is Business Link. Business Link is financed by the Department for Trade and Industry and has nine main regional offices in England representing different parts of the country. It also has a website that contains large amounts of information for small businesses and those thinking of starting up a business. It also has affiliated organisations elsewhere in the United Kingdom (as a result of devolution) which include Business Eye in Wales, Invest NI for Northern Ireland, The Highlands and Islands Enterprise in Scotland and Business Gateway which is based in Glasgow.

In addition to this, various government departments will provide some form of advice and Her Majesty's Revenue and Customs will also offer advice to small businesses in relation to tax and national insurance matters.



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