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BUSINESS PLAN GUIDE

Objective of this Guide

The objective of this guide is to assist those people writing a Business Plan for the first time. The guide is primarily for start up businesses rather than for established businesses. It can of course apply to an existing business without a Business Plan.

We recommend that you type the Plan using Microsoft Word so that it can be easily emailed and modified where necessary.

When the Business Plan is completed you may wish to discuss your plan with an SBCS Counsellor who will be able to critique it for you. Please contact SBCS and a Counsellor via our web page www.sbcsc.org.au .

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1. Business Summary

This section sets out the broad parameters of the future business. It should cover only the core activities of the business to ‘set the scene’.

1.1. Business Overview

What the business is all about in general terms? What industry is it in? What is the key benefit, rather than the product or service that you are going to provide? What are the products or services, who buys them, and a general statement as to where the business will be in two to five years and how this will be achieved.

1.2. Product or Service Features

Give a brief explanation as to what the product(s) or service(s) are and the outline features that are going to give you the edge in the marketplace. State clearly what you are actually going to sell.

1.3. Market Analysis

Outline what market the product or service is going to be aimed at and why. What research is there to support your business expectations?

1.4. Marketing Strategy

Make a broad statement of the marketing plan and the tools to be used.

1.5. Key Objectives and Financial Overview

List your Key Objectives. There will only be a few at this summary level but they will be the ones that are essential for you to achieve. For example:

- *Achieve Sales in the first year of \$X at a Gross Margin of \$Y.*
- *Achieve a Net Profit Before Tax in the first year of \$X.*

Explain the basic financial needs of the new business, starting with the initial capital and your expected cash needs to run the business.

2. Detailed Plan

This section goes into the details that will make the Business Plan a ‘working’ and ultimately a ‘control’ document. It is therefore important that care is taken to get it right. It is not just a collection of words but a document that really sets out what is going to happen and can be reviewed at any time to check progress. If this Business Plan is going to be used for the basis of obtaining finance then it will be critically reviewed.

2.1. Market Analysis

It is essential to show that there is a sound customer base for the business. You should:

- *Explain who will buy your products or services.*
- *What is the geographical area?*
- *Is the market growing or declining?*
- *Is the market segmented and if so how?*
- *What influences will affect the market?*
- *How are you going to reach your customers?*
- *Are there seasonal trends?*
- *What is the pricing sensitivity?*
- *What competitive edge do you have?*

Explain how you have carried out your customer and market research – where have you found out the information.

Customers are usually uninterested in product or service features. They want to know what the benefits are of the product or service features. This is particularly so with a new product. Why should the customer buy your product rather than somebody else’s?

2.2. Competition

How do you compare to your competitors on pricing, product, promotion and distribution? How are you going to position your product or service against them? Tabulate a list that shows your features against theirs and what gives you a competitive edge. Do not ignore the negatives if there are any, as you must address them.

2.3. **Product(s) or Service(s)**

Describe the product(s) or service(s) you are going to offer. Discuss the branding, the packaging (where applicable), ongoing product development, etc. An analysis should be done of the features and their benefits and they should be compared to the major competitors.

2.4. **Marketing Strategy**

A good Marketing Strategy is vital to the success of a business. Customers must know about the product(s) or service(s) to be exposed to buying them. List in detail the key strategies and explain how they will work and dovetail together if relevant. The strategies might include:

- *Pricing – how is this to be used?*
- *Promotion – what type, where and how often.*
- *Literature – what type and how used*
- *Customer Service – what benefits?*
- *Advertising – what and where and the outline cost.*
- *Product or Service launch plan*
- *Etc.*

Show what your total marketing spend will be for the first and second year.

2.5. **Product or Service Production**

You should spell out how the product(s) or services(s) are to be produced and costed. For example is there a manufacturing process or is it a bought in item. The outline cost and price basis should be listed i.e. what proportion is material, labour and overhead recovery, all related to the selling price.

If it is a service then who provides it and on what basis is the cost charged out?

2.6. **SWOT Analysis: Strengths, Weaknesses, Opportunities and Threats.**

A SWOT analysis highlights the strengths and weaknesses within the business and identifies opportunities and threats in the external business environment. This is a very important analysis.

*Strengths are those that the company can exploit.
Weaknesses are areas of the business that need to be addressed.
Opportunities show the market place areas that can be built on.
Threats are those issues that could affect the business.*

Not only should you list each of the Strengths, Weaknesses, etc., but also you should assess what each means to the shape, direction, and tactical running of the business.

2.7. **Business Structure**

There are many options as to how a new business can be structured. For example, is it going to be as a Sole Trader; a Partnership; a Limited Partnership or a Proprietary Company? Are there Trade Marks or Patents and will the company trade under a Business name or a Company name. You should provide a clear description on the proposed ownership structure and why it is being chosen.

2.8. **Management & Ownership**

Describe the background of the key persons in the business and what other staff or contractors will be required. What level of remuneration is either expected or anticipated. Briefly list any issues that might be pertinent with the employment of staff.

2.9. **Key Objectives**

You should list your objectives or goals for the first year of operation. It is important to separate your objectives/goals under the operating sections of your business such as Sales & Marketing, Production, Finance, etc.

They should be succinct and must be both quantifiable and measurable. For example:

Sales & Marketing:

To achieve sales in the first quarter of \$X.

To achieve sales in the second quarter of \$Y.

To achieve X% market share.

Finance:

To achieve a maximum debtor days of X.

To reduce the overdraft from \$X to \$Y.

2.10. Financial Information

There are a number of key financial items that need to be prepared to show the progress and health of the business.

2.10.1. Establishment Costs

It is vital to assess the total funds required to set up the business and cover its operating costs until it becomes profitable. These should be listed and totalled. They should be split between pre-business costs and initial costs of operating.

2.10.2. First Years Projected Profit and Loss

The Profit and Loss for the first 12 months should be calculated. For a new business this should be done on a monthly basis and include the establishment costs. Make sure that you include all Sales Revenue, Cost of Sales (what the product costs are), the resultant Gross Profit/Loss and all the Overhead Expenses. It is important to ensure that you do not overestimate the sales revenue and underestimate the overhead costs. There is no point in fooling yourself by massaging the numbers to look O.K. if you know they are unlikely.

Shown below is an example of a simple Profit and Loss schedule. It is important for you to give careful thought to the make-up of the items, particularly the expenses. Sales Revenue and Product costs should be expanded if there are distinct product categories.

Projected Profit & Loss – first year													
	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Total</i>
Sales Revenue													
<u>Less</u>													
Product Costs													
GROSS MARGIN													
% Of Sales													
Less Expenses													
Salaries													
Rent													
Telephone													
Electricity													
Advertising													
Entertainment													
Insurance													
Legal													
Office Supplies													
Motor Vehicle													
Etc													
Total Expenses													
NET PROFIT													
Provision for Tax													
PROFIT AFTER TAX													

A Profit & Loss Template in Microsoft Excel can be opened by clicking on the file “SBCS – Profit & Loss and Cash Flow Templates”.

2.10.3. Cash Flow

This is probably the single most important control schedule that any new business needs. Irrespective of the profitability of the business it is critical to ensure that your plans don’t result in your running out of cash.

The projected cash flow highlights the surpluses and shortfalls of cash. In its simplistic form it records when you actually receive cash from sales (as opposed to when you might invoice a product on payment terms) and any other cash receipts less cash payments made for, buying product, overheads, tax, etc.

The Cash Flow schedule should commence right at the start of the new business set-up with a zero Bank Balance and with the initial cash investment inserted. This ensures that the true cash requirement of the business, from start-up, is tracked. Shown below is an example of a simple Cash Flow schedule that shows some of the more usual items.

Projected Cash Flow – first year													
	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>
<i>Opening Bank Balance</i>													
<i>Cash Receipts</i>													
Investments													
Sales Income													
Bank Interest													
Other Income													
<i>Cash Inflow</i>													
<i>Total Cash Available</i>													
<i>Cash Payments</i>													
Admin. Outgoings													
Marketing													
Cost of Goods													
Interest Expense													
Capital Costs													
Tax													
Other Payments													
<i>Total Payments</i>													
<i>Net Movement</i>													
<i>Closing Bank Balance</i>													

A Cash Flow Template in Microsoft Excel can be opened by clicking on the file “SBCS – Profit & Loss and Cash Flow Templates”.

2.10.4. Balance Sheet

A Balance Sheet identifies the net worth of the owners (usually also the shareholders) of the business and how it is made up, at a particular point in time. It brings together the results from the Profit & Loss Statement and the Cash Flow Statement. It is therefore a useful Statement to complete particularly if the new business is going to be reliant on borrowed money. The lack of sufficient equity in a new business is the greatest cause of failure.

It is suggested that a Balance Sheet be prepared for the start of the business, six months later and at the end of the first year drawing the information from the Profit & Loss Statement and the Cash Flow Statement. Below is a simple example of a Balance Sheet that can be expanded if necessary.

BALANCE SHEET	Start Date	Six Months	Year End
ASSETS			
Cash			
Debtors			
Stock			
Capital (plant & equipment)			
Other			
Total Assets			
LIABILITIES			
Loan			
Overdraft			
Creditors			
Provisions			
Total Liabilities			
Net Assets			
SHAREHOLDERS EQUITY			
Capital (Shares)			
Retained Profits			
RETAINED SHAREHOLDERS EQUITY			

2.10.5. Source of Finance

The projected cash flow will show how much money is required to set up and commence the operation of the business. You need to explain where this money is coming from and where, if necessary, future additional finance might be available, for say, expansion. This is critically important if the Business Plan is going to be used to obtain finance.

2.10.6. Break-even Analysis

A break-even analysis is a calculation to show the level of sales or services required to pay for all the overheads of the business and at least come out even. This should be calculated over a 12 months period and can easily be constructed from the Profit & Loss and Cash Flow Statements. A simple commentary with the numbers is all that is required to explain what the break-even picture is.

2.10.7. Return On Investment

Personal money tied up in the business is an investment. If it was not tied up in the business it would, presumably, be earning interest in some other form of investment. Will the business provide a return on the investment, if so what return and by when and as to whether this is an issue?

2.11. **Action Plan**

The Business Plan has got to be used to manage the business. If it is not then it is a waste of time having written it. To ensure that it does serve the purpose of guiding your business development it is important to now set down the specific tasks that have to be done to achieve the Objectives/Goals set.

You do this by preparing an Action Plan. This should be done in a tabular form by the operating sections of the business. The items should not be too detailed or else they become unworkable. The purpose of the Action Plan is to act as a checklist of the key actionable items and the time they have to be done by and who is to do them. A simple example is shown below.

Key Objectives	Task	By Whom	By When
MARKETING			
Determine Launch Plan	Outline Plan	TS	1 May
	Agreement and decision on implementation	TS/GT/TGJ/FB	1 June
Create a Brochure	Agree concept	TGJ	1 July
	Approval of copy	TGJ/CGT	30 July
	Print	DFT	1 September
	Brochure ready for distribution	TGJ	1 January
FINANCE			
Finalise Cash Flow Plan	Review P&L with Managers	GT/TS/ FB	1 January
	Complete Cash Flow Plan	GT	1 February
Finalise Initial Finance	Review finance documents	GT	1 March
	Sign by	GT	1 April

3. Final Point

It must be stressed again, that a Business Plan is not just written for the fun of it, it is a critical document as it focuses on what the business objectives are, it sets out the thinking behind the business and shows the methods by which the objectives will be achieved.

It is for this reason that care must be taken to pull all the details together in one cohesive document.

The volume of words used is never the judge of a good Business Plan. It is important to be concise!