

Developing a Business Plan

Why Write a Business Plan?

Preparing a business plan is essential. The process encourages owners/operators to understand more clearly what they want to achieve, and how and when they can do it. A business plan can play an important part in helping to avoid mistakes and identify new opportunities

For a new business it provides the owner with an opportunity to develop goals and understand financial and other necessary resources. It acts as a continuous reference point against which to measure success (or otherwise).

For any business it demonstrates that careful consideration has been given to the business's development.

Purpose of the Business Plan

A formal business plan:

- helps to clarify, focus and research the business's development and prospects
- provides a considered and logical framework within which a business can develop and pursue business strategies over the next three to five years
- serves as a basis for discussion with third parties such as shareholders, agencies, banks, investors etc; and
- offers a benchmark against which actual performance can be measured and reviewed

In some States and Territories it is required in as part of the Master License application.

Designing and presenting the business plan

Obviously, the precise contents of any business plan will depend on the nature of the business concerned, and the purpose for which the business plan is being prepared. The business plan should have a clean, precise and professional look when it is completed.

Checklist – a business plan should contain the following as a minimum –

1. cover page
2. contents page
3. executive summary
4. business background: structure and organisation
5. analysis of strengths, weaknesses, opportunities and threats (SWOT analysis)
6. the market(s) and marketing strategies

7. strategies for other key areas such as production and human resources
8. profit performance
9. financial projections

Although you will never think of everything that you should put in a business plan, a basic business plan should include all the information you need to run the business efficiently.

1. Cover page

The first part of your business plan will involve creating a cover page. This will include:

- Trading name of your business and ABN
- Period covered by the plan
- Plan prepared by
- Plan prepared for
- Date of preparation

2. Contents page

After your cover page, you will have to put together a contents page. This should incorporate:

- executive summary
- business background: structure and organisation
- SWOT analysis: strengths, weaknesses, opportunities and threats
- the market and marketing strategies
- strategies for other key areas
- profit performance
- financial projections
 - projected operating results
 - projected capital expenditure
 - projected cash flow
 - projected balance sheet
 - business ratios

3. Executive summary

This should be written **after** the rest of the business plan is finalised. It should be as succinct as possible – one page is ideal, if you can manage it.

The executive summary provides an overview of the important points in your business. It should come after the contents page and at the beginning of your plan. It should be a brief and emphasise those factors that will make your business successful.

Use the following headings for the executive summary:

- Mission statement:
 - What is your business all about?
 - What are your products or services?

- What are your goals and objectives for achieving success?
- How will your business reach these goals and objectives and be successful?
- Planned results, in terms of:
 - Sales
 - Gross profit
 - Net profit
 - Cash flow.
- A summary of the key features of your planned financial position at year-end, pay particular with regard to the relationship between what you have put into the business versus what you have borrowed (if any). Show how these will move over the course of the period of your business plan.
- Market analysis.
- Other strategies (e.g. production, human resources).

4. Business Background : Structure and Organisation

The purpose of this section is to provide an overview of how the business operates, its key personnel, and how it all fits together.

- when was the business established?
- details of master license or security
- where is the business located?
- what type of business? eg. manpower security, electronic security, etc.
- what are the business facilities?
- how many employees?

Structure

How is the business structured?

- **Company** – a proprietary limited company may have one or more members and is usually formed for the purpose of acquiring profit. It is a complex form of organisation bound by the Corporations Law.
- **Sole Trader** – a sole trader is the sole owner of the business and has complete control of its operation.
- **Partnership** – a partnership is the legal relationship of two or more persons carrying on business together with a view to profit.
- **Other** – other types of business structures include joint ventures, co-operatives, and trusts.

Organisation

An organisation chart is a diagram describing the basic arrangement of work positions within an organisation.

Include in your plan an organisation chart showing:

- the relationship between departments
- the key responsibilities of each department
- the number of staff in each department
- any planned changes to the organisation during the period of your business plan
- a brief résumé of key staff to provide an insight into the quality of management.

5. **SWOT analysis:** strengths, weaknesses, opportunities and threats

A key feature of your business plan is to show how you will take advantage of strengths and opportunities, overcome weaknesses, and head off threats.

This section of a business plan is an assessment of the **internal** strengths and weaknesses of a business and an assessment of its **external** opportunities and threats.

Strengths

Competitive advantage is that special edge that allows a company to deal with the market and other external factors better than its competitors. What advantages from your business's strengths can be turned into competitive advantages? Examples include:

- skilled workforce
- strong reputation
- quality of service
- market share
- management skills
- strong financial position

Weaknesses

A clear understanding of weaknesses within your business will help to form a realistic response to overcoming them. Examples include:

- outdated capital equipment
- limited technology
- under funding
- high workforce turnover
- past planning failures
- poor customer relations

Opportunities

External conditions can change rapidly; management needs to be vigilant and respond quickly. Profitable opportunities may be available to your business through:

- new and changing customer needs
- development of new products or services
- government policies
- changing economic factors
- new technologies
- weak competition
- other factors.

Threats

You will need to consider your response to the following:

- actions taken by competitors, including:
 - undercutting
 - discounting
 - promotions
 - strategic alliances with other firms
 - product enhancements
- changes in customer preferences and buying behaviour
- economic factors
- shortages of resources eg. materials, staff
- legal issues, including:
 - legislation (national and state)
 - by-laws (local)
 - contract law
 - other legal issues
- developments in technology
- other factors.

6. Markets and Marketing Strategies

Defining your market

Use this section to document what you plan to do in marketing terms to achieve your business' profit target, while responding to your SWOT analysis.

Things to Consider

- Identify your market:
 - who are your present customers?
 - who are your potential customers?
 - who are your major customers?
 - what are their buying motives?
 - do they have common characteristics?

- Identify the size of the market, if necessary considering both:
 - local market
 - and
 - interstate market

- Assess the competition:
 - who are your main competitors?
 - what is their share of the market?
 - how will you counter their activities?
 - how will your company protect its market share?

- Analyse customer needs:
 - do they buy on price?
 - do they buy on quality?
 - do they buy on service?
 - what is their price range?
 - what services do you provide?
 - how will they purchase them?

- Analyse your products:
 - what is your company's product or products?
 - what are your products' advantages? (eg. design, pricing, reliability, versatility, service support, market testing, innovation)
 - what is the production time?

Marketing Strategies

Marketing strategy is the development of a business's objectives, the selection of its target markets, the development of an appropriate mix for each and the allocation of the resources necessary to achieve its goals.

It is important to understand that the practicality of your business plan is determined to a large degree by how realistic the sales forecasts and the supporting marketing strategy are. To develop an effective marketing strategy you will need to understand your market and the customers to whom you wish to sell.

The four variables you can use to shape your marketing strategies for meeting customer needs are:

- service/product features
- quality of the service/product
- level of service to the customer
- price – and this must be profitable to the business.

7. Strategies for other key areas

Use this section to develop strategies regarding production

Production

Write a brief description of the processes and technology your business uses to deliver your product or products.

Things to Consider

- Are you using a quality assurance program?
- Do you hold on any of your products:
 - patent?
 - copyright?
 - trademark?
- Do you lease your plant on:
 - short term?
 - long term?

What is your relationship with suppliers? In relation to their products, how do you rate:

- availability?
- quality?
- cost of materials?
- what is your capacity to meet production schedules?
- what is your long-term capacity for future growth?

Human resources

The ability of your business to achieve the objectives and strategies of your business plan is linked to the effective management of your human resources.

Members of staff working either as individuals or as team members will be responsible for:

- achieving your financial goals
- achieving your production goals
- increasing opportunities to sell products and provide services
- increasing skills and abilities through training.

You have already covered some human resources matters under "Business background: structure and organisation".

Things to Consider

- do you have productivity incentives?
- do you recognise achievements?
- what is your training policy?
- how do you involve your employees in:
 - decision-making?
 - planning?
 - job design?

8. Profit performance

This key section is used to describe important features of the profit you plan to achieve in the period covered by the business plan.

The profit target

- state your planned level of profit for the year
- relate this profit to sales and any other key variables
- compare your profit target to actual profit achieved in previous years

Why the profit target is needed

State the purposes for which you need to earn profit, and the dollar amount involved in each case. There are six possibilities:

1. to meet loan repayments
2. to pay company income tax
3. to finance growth in working capital items – namely, stock and/or debtors
4. to remunerate the owners of the business in the form of dividends, salaries or other compensation
5. to finance the purchase of fixed assets
6. to plough back (retain) profit in the company for the purpose of recouping any past losses and/or financing growth and expansion

In the following example, defining your profit requirements might indicate that you need a minimum of \$437,000.00 profit in a given year for your business to function successfully.

Loan Repayments	\$ 150,000.00
Company Income Tax	\$ 62,000.00
Growth	\$ 100,000.00
Returns To Owners	\$ 50,000.00
Purchase of Fixed Assets	\$ 35,000.00
Retained Profit	\$ 40,000.00
Total	\$ 437,000.00

Key factors on which profit performance depends

Identify and describe the key success factors on which the achievement of your profit depends. For example, factors relating to how well you:

- keep in touch with customer needs
- meet these needs
- control your costs.

9. Financial projections

This section is used to set out your financial projections for the year based on the information in previous sections. These projections will comprise:

- Operating results
- Capital expenditure
- Cash flow (Statement of Financial Position)
- Balance sheet
- Business ratios – these ratios are useful to include in a business plan, particularly when making presentations to lending institutions, which often compare the ratios supplied with averages from similar industries to help them gauge the feasibility of the application.

Conclusion

You should now have now covered eight of the nine sections – the final one to complete is **No. 3 – executive summary**

1. cover page
2. contents page
3. executive summary
4. business background: structure and organisation
5. analysis of strengths, weaknesses, opportunities and threats (SWOT analysis)
6. the market(s) and marketing strategies

7. strategies for other key areas such as production and human resources
8. profit performance
9. financial projections

It is also useful to precede each of the sections with a brief commentary highlighting key points eg. –

8. **Profit performance** - "Targeted profit for the year 2007 is minimum \$437,000.00' –

then follow this with your analysis and conclusions on profit performance for the given year.
