

## BUSINESS PLAN

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### Why you need a Business Plan

To be taken seriously by funders, potential development partners such as Housing Associations, many professionals and some potential members, you will need a business plan. You will need one anyway to be clear about how your development is going to work.

There is a lot of information and resources available to support business planning. Although most of this is targeted at commercial businesses, the principles are the same. The business plan provides an opportunity for the group to assess for itself

- The skills it has within it
- Its overall financial resources
- The likely costs of the development and the parameters for pricing the houses
- How the houses will be marketed
- The potential risks and how they can be ameliorated

The business plan will require people to give considerable information about their financial circumstances to enable the group to build up an accurate picture of its total assets. The plan writers need to respect this information but, at the same time, the process of sharing it makes an important contribution to the development of trust within the group.

Understanding different perceptions of risk within the group and different levels of tolerance towards it will also be important. Understanding the diversity of financial situation within the group will help you to start thinking about how you are going to deal with costs and charges later on.

Although the business plan is best written by a very small number of people, it is very important that everyone in the group understands its basic purpose and the general thrust of what it is saying. Taking time to ensure that everyone “owns” it, is time well spent.

The business plan will clarify your business idea and define your long-term objectives. It provides a blueprint for running the business and a series of benchmarks to check your progress against. It is also vital for convincing your bank - and possibly key customers and suppliers - to support you.

### What a Business Plan includes

#### 1. Executive summary

The executive summary outlines your business proposal. Although it is the last section to be written, it goes on the first page of the business plan. It will be read by people unfamiliar with your business, so avoid jargon.

1.1 The executive summary highlights the most important points and should sum up six areas.

- Your product or service and its advantages.
- Your opportunity in the market.
- Your management team.
- Your track record to date.
- Financial projections.
- Funding requirements and expected returns.

#### 2. The business

2.1 The background to the business idea, including:

The length of time you have been developing the business idea in its present form.

Work carried out to date.

Any related experience you have.

The proposed ownership structure of the business.

## 2.2 The product or service

Make it clear how it will stand out as different from other products or services, your customers will gain through buying your product or service, the business can be developed to meet customers' changing needs in the future. It is important to cover any disadvantages or weak points you feel the business may have. Be frank about these - it inspires confidence.

## 2.3 Explain any key features of your project

What makes your project special? Do you have any unique aspects?

## 3. Markets and competitors

3.1 Focus on the segments of the market you plan to target - for example, local customers or a particular age group.

Indicate how large each market segment is and whether it is growing or declining.

Illustrate the important trends - and the reasons behind them.

Outline the key characteristics of buyers in each segment (eg age, sex or income).

Mention members you have already lined up and any sales you have already achieved.

3.2 What are the competing products and who supplies them?

List the advantages and disadvantages of all your competitors and their products.

Explain why people will desert established competitors and buy from you instead.

Show you understand your competitors' reaction to losing business and demonstrate how you will respond to it.

Unless there is a viable market and you know how you are going to beat the competition, your business will be vulnerable. You must show you have done the market research needed to justify what you say in the plan.

## 4. Sales and marketing

This section is crucial. It often gives a good indication of the business' chances of success.

4.1 How will your product or service meet your customers' specific needs?

4.2 How will you position your product?

This is where you show how your price, quality, response time and after-sales service will compare with competitors.

Quote minimum order figures, if appropriate.

4.3 How will you sell to customers?

For example, by phone, through your website, face-to-face or through an agent.

Show how long you predict each sale will take. Many new businesses underestimate the time involved in winning each order. In year one you may spend up to 80 per cent of your time making contacts and selling.

Will you be able to make repeat sales? If not, it will be hard to build up volume.

4.4 Who will your first customers be?

Show which prospective members have expressed an interest or promised to buy from you and the sales they represent.

How will you identify potential members?

Unless you can demonstrate that you have a clearly defined pool of potential members, starting your business is likely to be a struggle.

4.5 How will you promote your product?

For example, using advertising, PR, direct mail or via email and a website.

4.6 What contribution to profit will each part of your business make?

Most businesses need more than one product, more than one type of customer and more than one distribution channel.

Look at each in turn. Examine your likely sales, gross profit margins and costs.

Identify where you expect to make your profits and where there may be scope to increase either margins or sales.

## **Keep it real**

Sales forecasts produced for new projects are often over-optimistic. Here are some important reality checks.

How soon can you start selling?

Will potential members hold off for a year before they take you seriously and place an order?

How many days can you spend selling?

How long will each lead take to line up?

What percentage of leads will turn into sales?

How long after a sale will it be before you can collect payment?

How much income can you realistically expect each month?

## **5. Management**

People reading the business plan need to be given an idea of why they should have faith in the management of your project.

5.1 Outline the management skills within your team.

Define each management role and who will fill it.

Show your strengths and outline how you will cope with any weaknesses.

Describe the background and experience of each team member.

Clarify how you intend to cover the key areas of production, sales, marketing, finance and administration.

Management information systems and procedures should be outlined. For example, management accounts, sales, stock control and quality control.

Show how many 'mentors' and other supporters you will have access to.

5.2 How committed are you?

Banks and any other potential investors will want to be sure you are committed to the business. Show how much time and money each of the management team will contribute, and what any salaries and payments will be.

## **6. Financial forecasts**

Your financial forecasts translate what you have already said about your business into numbers.

6.1 A realistic sales forecast forms the basis for all your other figures.

Break the total sales figure down into its components (e.g. different types of products or sales to different types of buyer).

6.2 Your cash flow forecast shows how much money you expect to be flowing into and out of your bank account and when. You must show that your business will have access to enough money to survive.

Demonstrate that you have considered the key factors affecting cash flow – e.g. level and timing of sales revenue, outgoings.

Show when there will be more money coming in than going out ('cash-positive').

6.3 Your Profit and Loss (P&L) forecast gives a clear indication of how the business will move forward.

6.4 For a larger project, you will also need projected balance sheets.

These will show you the financial state of your business on day one and at year end, perhaps for the first two or three years.

6.5 Do not get too protective about your forecasts. You may need to revise them.

For every forecast, list all your key assumptions (e.g. prices, sales volume, timing).

## **7. Financial requirements**

The cash flow forecast will show how much finance the business needs. Your assessment of the risks will determine whether or not you need to arrange contingency financing.

7.1 Say how much finance you will want, when and in what forms.

For example, you might want a fixed-interest loan and an overdraft facility.

7.2 State what the finance will be used for.

Show how much will be for buying equipment and how much for working capital (financing stock and debtors).

7.3 Confirm that you will be able to afford it.

## 8. Assessing the risks

8.1 Look at the business plan and isolate areas where something could go wrong (e.g. if a main supplier closes down).

What you would do if it actually happens?

8.2 Consider a range of what-if scenarios (e.g. what happens to your cash flow if sales are 20 per cent lower or 15 per cent higher than forecast). If there are serious risks:

- you can arrange contingency funding to cover the finance you may need
- you may decide that the business is too risky and abandon the whole project.

Assessing risk will help you minimise problems and help build up your credibility with any investor or bank.

## 9. Appendices

9.1 Detailed financial forecasts (monthly sales, monthly cash flow, P&L) should usually be put in an appendix.

Include a detailed list of assumptions.

For example, the profit margin on each product, debtor collection period, creditor payment period, stock turn, interest and exchange rates, equipment purchases.

9.2 You may want to give other relevant information.

Detailed CVs of key personnel (essential if you are seeking outside funding).

Market research data.

Product literature or technical specs.

Names of target customers.

A list of external data sources used in your research will add credibility to the information.

## Presenting the plan

The more solid information you can gather for your own use, the better the business plan will be. But a banker or other outsider will not have time to read through all the details.

Keep your business plan short. Most business plans are too long. Focus on what the reader needs to know.

Make it professional. Put a cover on the business plan and give it a title.

Include a contents page.

Test it. Re-read it yourself. Would reading your plan give an outsider a good feel for your business and a grasp of the key issues? Show the plan to friends and expert advisers and ask them for comments.