

Business guide

# Business plan

The benefits of having one, the key elements, and how to prepare a great one



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If you don't know where you are going, then it doesn't matter which road you take. On the other hand, if you have a clear goal – albeit over the horizon – it is much easier to plan the safest, cheapest or quickest route to get there. This is the benefit of having a sound business plan.

## The benefits of a business plan

A business plan is like a route map to your destination. It is not, in itself, the answer to all the questions and problems your business might face on the way, though it is an essential first step. However, the only thing worse than action without planning is planning without action. So a good business plan has to be one that you can actually implement.

Such a plan helps in four ways:

- It gives your business a sense of direction.
- It convinces others that you have a sense of direction.
- It helps build commitment because you have publicly announced your objectives.
- It gives you something to measure your progress against – helping you identify issues early on and take appropriate action.

This is not just theory either. Research shows that businesses that undertake regular business planning have an average profit margin of 54%. For those that do not, the average profit margin is 35%.

## Sense of direction

Your business plan is the first step towards bringing your dreams to reality. However, it is not something you just do once at the start of your business, or when you need to raise funds.

Rather, a business plan should be seen as a continuously developing document or process. It's a vehicle to spell out your vision for what your business will look like at the end of a given period. It's also a template for action and directs everything you and your people should do to move you towards that vision.

Many businesses fail because they literally do not know what they are doing. They usually start with a good idea, but are often distracted by every money-making opportunity that comes their way. Some of these opportunities may turn out to be profitable, so it seems logical to follow where they lead – at least in the short-term. After all, isn't money-making what business is all about?

Unfortunately, the answer is not that simple, because, after a year or so, you may wake up one morning and find you are no longer in control of the business. The business is controlling you.

Indeed, what you may have is not so much a business as a collection of deals. This may be fine until one deal goes sour and the whole pyramid collapses. Bills still have to be paid, but you don't have the income-generating base to pay them. No one, especially professional financiers, would invest in a business like that. Also, resources such as time and cash are scarce for almost all businesses. So you must have some way to prioritise which opportunities you will pursue for the maximum long-term benefit.

That is why it's essential to have a clear vision in your own mind of where you want your business to go. Writing it down does two things. It forces you to address the details of your vision and it also helps you think through how you will communicate your vision to others.

## Convincing others

When you have the direction of your business clear in your own mind, you can more easily convince others to share it.

- First, you share it with your colleagues and employees. A good plan will set targets by which progress can be measured. This should lead to a shared sense of achievement that will help you motivate everyone in the business.
- Second, your plan has to convince your financial backers – investors, bank managers, the spouse who allows you to remortgage the house, and anyone else

on whose money you must rely. They will need to be assured that you have not only thought carefully about the future of the business, but also that your thoughts are sensible. The fact that a proper plan exists is as important as what it actually says.

To this end, there is something really tangible and even comforting about a solid business plan. It is something to which everyone can refer – you, your staff, your bankers and your investors. It is evidence of a shared commitment.

Banks and investors will often demand a business plan as a matter of course. Even where it is not required, it is a useful tool to persuade others to invest time, money and effort in your business. It can also help you to recruit better, higher-level employees.

## The key elements of a business plan

Although it is possible to include all sorts of additional information, a proper business plan must provide clear and concise answers to four easy questions:

- **Why** does the business exist?
- **Where** does it want to go?
- **How** will it get there?
- **What** will it cost?

Or, to put it more technically:

- **Why** = Purpose
- **Where** = Objectives
- **How** = Strategy
- **What cost** = Budget

## Purpose

Your purpose is sometimes called a “mission statement”. Long pompous statements are counter-productive. All you need is one or two short sentences on what you hope the business will achieve.

One might imagine that the sole purpose of a business is to make money – and one would be wrong. Money is a by-product of business, albeit an important one. Many people who set up their own businesses could often make more money doing something else. They are usually motivated by something else, such as a desire to be their own boss, or a fascination with a particular product or industry.

Of course they want – and need – to make money, but they usually want more than that. For example, a man fascinated by boats may set up his own boat-building business. The purpose of his business might be “to earn a living by building specialist boats to order” rather than “to make as much money as possible”.

Similarly, most established businesses have a more specific purpose than maximising profit. Successful businesses usually have a commitment to excellence in a specific sector, product, or service where their experience gives them an advantage. Those who wander off this home ground often come to grief.

On the other hand, a major failing of many smaller businesses is to become obsessed by making things for money without regard for profitability. Turnover without profit spells doom.

Once the purpose of the business is clear, you can decide on specific objectives to achieve that purpose.

## Objectives

While purpose should be general, objectives should be SMART, that is:

- Specific
- Measurable
- Actionable
- Realistic
- Timed

So, objectives should always have a measurable target eg not just “to increase exports” but “to increase exports by 15% by the end of the year”.

For the period of the plan a business may have several objectives. These might include:

- **Financial objectives** – For example, “to achieve turnover of x and profits of y% by the year end”.
- **Strategic objectives** – For example, “to become the largest supplier of widgets in the county by the end of the third year”.
- **Operational objectives** – For example, “to increase productivity by 20% by the end of the second year”.
- **Marketing objectives** – For example, “to increase foreign sales by x% by 1 June next year”.

The various objectives should complement each other, but some prioritising may be necessary.

## Strategy

The old military maxim applies here: “Maintain your objective, but be flexible about how you get there”. So strategy can be flexible as long as you are clear about where you want it to take you. If you know where you want to go, and you know where you are now, strategy is simply a matter of working out the shortest, simplest or cheapest route from one to the other.

It is vital that you do market research on potential customers and competitors; economic and market conditions; the way trade is usually done in your sector; who the suppliers are; staff and technology required. You also need to indicate that you have done this research in your business plan.

Perhaps the most important aspects to research are trends and emerging technologies. There is little point in entering a declining market. And technological developments such as the Web may completely transform an existing market. Indeed spotting a new opportunity created by new technology may be your best hope for creating a new business and overtaking the existing leaders.

Analyse carefully what you have researched. Simply think through what your findings tell you and write down your thoughts in a systematic way. A good way to do this is with a SWOT analysis, where you simply list your internal strengths and weaknesses, and then the opportunities and threats in the outside world.

All your research and analysis comes down to being able to answer three questions:

- Who will buy from me?
- Why should they buy from me?
- How will I provide what they buy?

Above all, you must ask: “What makes me different?” Why should people give you money that they do not give to anyone else? Is your product new or unique? Is it cheaper than competitors’? Is the quality better in some way? Is your business located conveniently or the only one in the area?

The answer to all this will help you formulate your unique selling proposition (USP). This is the key to your strategy and will underpin everything you do.

## Budget

You must now put figures to your strategy. This is the part of the plan that other people will read with greatest attention. A 12-month cashflow and an estimated two-year profit projection are probably the safe option. Anything beyond that is verging on speculation.

Break down your budgets into monthly figures. For example, if you need to hire a secretary as part of your plan, divide the salary by 12 to show the financial impact of the person on the business month by month. Provide monthly estimates of cashflow, broken down between the main areas of expenditure and income. Cashflow is particularly important for seasonal businesses, and new ventures developing new products or delivery mechanisms.

Be realistic. You must be confident about the viability of the business, but nothing destroys other people’s confidence in a business plan

faster than wildly over-optimistic sales forecasts. Slow, steady growth convinces them far more than “get rich quick” promises.

Research costs as thoroughly as you can and get quotes where possible. Remember, things often cost more than planned, so include contingencies in every area of expenditure, as well as a solid contingency reserve.

The best advice about budgets is: “Be pessimistic”!

## Basic characteristics of a business plan

Your business plan looks at two periods in time: now, and a given time in the future – say a year. It will contain the following information:

- Details of your line of business and the products and services you offer.
- The make-up of the business: the number of employees, locations, turnover, and profit margins.
- Your growth to date.
- Your geographic scope.
- The markets you serve.
- Your competitors.
- When you envisage this plan becoming reality.

## Prepare your business plan

Many people think business planning is difficult. In fact, it can be relatively easy:

- Anyone can do it.
- Short and concise plans are better than big and impressive-looking ones. A single A4 page may be all that is necessary.
- Jargon, far from being compulsory, is actually to be discouraged.

There are three stages to preparing your own plan:

- Research
- Drafting
- Action

## Research

When setting up, and periodically during the life of your business, it is vital that you take a couple of days out to just think about:

1. Where you are now.
2. Where you want to be within the given period.
3. What you have to do to get from 1 to 2.

In essence that is all a business plan is – a route map.

The key to business planning is to think about where you want to go before thinking about where you are now. Similarly, think about how you are going to sell something before you think about how to provide it. Many businesses fail because they do it the wrong way round and concentrate on producing something wonderful without thinking about how they are going to sell it.

You can start to plan once you are familiar with both your own business and the market in which you operate. Consult with key members of staff and anyone else on whose advice and discretion you can rely, but always remember that the final decision about the direction of the business will be yours.

## Drafting your plan

There is no set format for a business plan. The important thing is that you show you have considered all the questions and issues listed above. That does not mean you have to know all the answers before you start putting pen to paper. Indeed, the best plans often start as crude outlines and are filled out progressively as data becomes available. Even a basic financial forecast early on may force you to reconsider some of your fundamental premises.

As a starting-point, you might wish to write up your conclusions in the order in which you should have considered them:

- Purpose
- Objectives
- Strategy
- Marketing, explaining what makes you unique.
- Operations, including production, manpower, and technology.
- Budget

Avoid jargon. Keep it short, clear, and concise. It may be possible, even desirable, to say everything on one page and have another for budgets. Here is an example of how to map it on a single page, using bullet points:

### Where you are now:

- Staff and skills
- Turnover, profit
- Positioning relative to competitors
- Profile, etc

### Where you want to be by (date):

- Your vision
- Staff and skills needed
- Turnover, profit
- Positioning, relative to competitors
- Profile, etc

### Your strategies for getting there:

- Staff: who will you hire
- Turnover: how will you increase turnover, profits
- Turnover, profit
- Positioning: how will you change your marketing, corporate image?
- Profile: how will you raise it

Even if you decide a more detailed plan is necessary, it may be a useful exercise to summarise your plan this way. Then everyone can see at a glance what is involved.

It is easy to get carried away creating a huge master plan replete with detailed figures. This may be a waste of time, however, because few people, if anyone, will read it and the plan may soon be out of date. Anyway, most of these impressive business plans are never implemented – they are often impractical because they are too complex.

Another danger to avoid is that of “paralysis by analysis”. For example, market research generally only needs to be at a broad level and not to decimal places. Fashion, fluke and competitors will soon change things.

### Action

Finally, a good plan is an action plan. On the basis of the plan, but not necessarily in it, one should be able to say who is going to do what and when. Specific targets should be set, tasks assigned, and deadlines agreed.

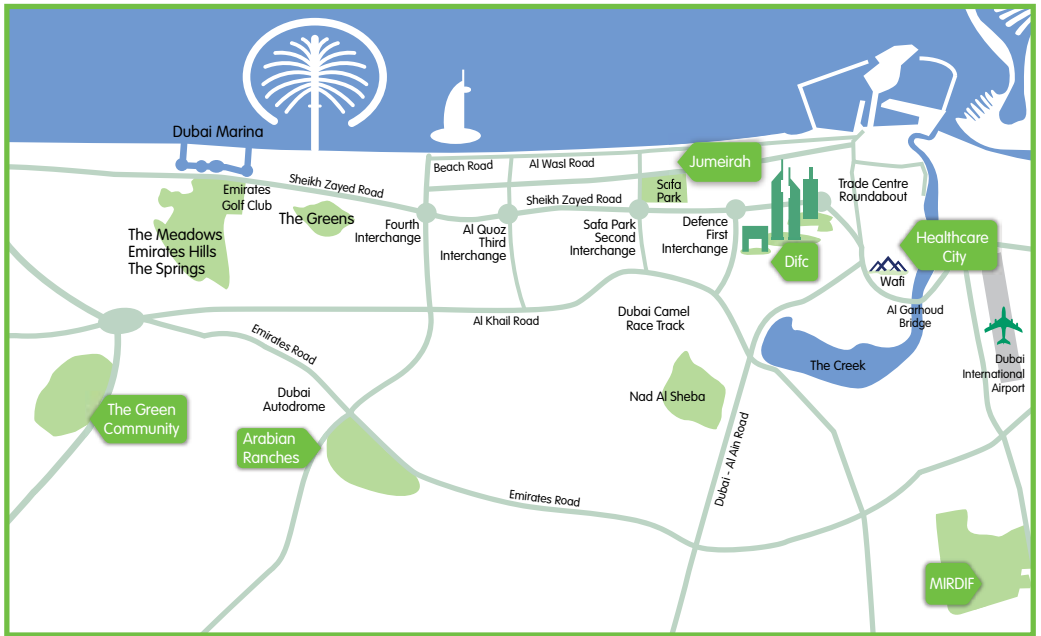
A good plan will influence every aspect of your business’s operations. You probably know better than anyone what you want your business to do. All you have to do is write it down as clearly and concisely as you can. And after all that trouble preparing, do refer to it and use it regularly. Don’t file it away, ready to be dusted off and laughed at next year...

### Summary

- Be clear in your own mind what you want before attempting to convince others.
- Set aside time to think.
- Know your business and your market.
- Ask yourself what you want from business.
- Ask where your business is now.
- Where do you want it to be?
- What is the shortest route from one to the other?
- What makes you different?
- Keep your plan short.
- Be clear and concise. Avoid jargon.
- Be realistic.
- Act on your plan.
- Maintain your objectives but be flexible.

### Actions based on strategy

Action	Who	By when
<b>Staff</b>		
Recruit 6 salespeople	You	30/11
Devise sales commission structure	David	13/12
Induct salespeople	Jill	24/12
Etc		
<b>Turnover</b>		
Etc		



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