

Business Planning

The Business Plan

A Business Plan describes a business opportunity. It is like a road map because it tells you what to expect and what alternative routes you can take to arrive at your destination.

A number of research studies have indicated that successful small business managers set realistic goals and plan how they are going to reach them. Planning helps you to work smarter rather than harder. It keeps you future-oriented and motivates you to achieve the results you want. Perhaps most importantly, the process of completing a Business Plan enables you to determine what commitment you need to make to the venture.

Why Plan

- Control future risks
- Prepare for future uncertainty
- Control business environment
- Control business growth
- Avoid sales crises
- Avoid liquidity crises
- Avoid succession crises
- Ensure people development
- Ensure work space available
- Avoid stock buying crises

Principles of Planning

A plan must be:

- **Explicit**
All steps completely spelled out
- **Intelligible**
Capable of being understood by those who will carry it out
- **Flexible**
Capable of accepting change
- **Written**
Committed to writing in a clear and concise manner.

Planning significantly increases your chances of success by focussing on five areas in which small business operators sometimes get lost.

1. Realism

It is easy to be excessively optimistic about a new idea. Planning helps to prevent you from viewing the future in ways that the facts do not support.

2. The need for outside advice

Planning enables you to recognise problems that call for outside sources of information and assistance.

3. Recognising change

The nature of markets and consumer needs change rapidly. Planning cannot predict change but it helps you to recognise it and map your business strategy accordingly.

4. Balancing growth

Small businesses tend to either grow too fast for their capital base or too slow to maintain cash flow. Planned growth enables you to plan your capital needs in advance and to ensure that funds are available when you need them.

5. Result orientation

A detailed Business Plan enables you to monitor your results against a predetermined set of goals and performance standards.

Benefits of Planning

1. Reduces 'firefighting'

Many small business owners spend so much time 'putting out the fires' that they never have a chance to do anything else. By preparing a Business Plan you can anticipate problems that are likely to occur and decide how they should be handled in advance.

2. Justifies your plans and actions

Often, one decides to do something because it 'sounds' or 'feels' right. You may do something because that is the way that you have always done it. Preparing a Business Plan forces you to prove the validity, or at least consider the reasoning of your plans.

3. Tests your ideas on paper

It is much better to produce a Business Plan and find that the business is likely to be unprofitable than to start the business and find out the same thing.

4. Indicates your ability and commitment

A well-prepared Business Plan is an impressive document. It shows outsiders such as lenders and suppliers that you understand the business.

Preparing a Business Plan is an inexact science. Often, it is necessary to make estimates. Information that would be useful may not be available for a variety of reasons. Perhaps people who have the information don't want to give it to you; perhaps the information that is available is out-of-date and the new data has not been compiled yet; perhaps the information is available to you but the cost, effort, or timing involved in getting access to it is prohibitive.

Purpose of Planning

A long-term management tool

Decisions can be made in the future that best fit with the aim of the business.

Investigate and evaluate new business opportunities

Present a case for finance

Present a clear picture of the business and its potential.

Many of the areas covered in a business plan are common to all three of the above purposes. The amount and type of information will, however, vary with the purpose of the plan

A written Business Plan should contain the following:

The Business

1. The Idea

- An outline and description of the product or service and background on the industry.

2. The Entrepreneurs

- A history of the founders of the business including their skills, abilities and proposed ownership structure.

3. Business Objectives

- What the business intends to achieve including long range goals
- The advantage of the product or service over existing competitors
- The image and character of the business to be developed.

The Product or Service

Technical description of the business.

1. Manufacturing

- Description of process and machinery used
- Patents and design registrations
- Predictions on changes to the industry
- Costs of materials, machinery, etc
- Plant location and layout
- Labour availability and costs.

2. Retailing

- Goods to be sold
- Location
- Stocking policy and procedures
- Suppliers and potential suppliers
- Sales Terms.

3. Service

- Description of service
- Qualifications necessary to enter the industry
- Industry and/or legal controls
- Processes and services to be offered.

Financial Information

1. Capital Needs

- Fixed assets needed
- Working capital needed
- Starting capital needed.

2. Sources of Finance

- Types of finance needed
- Owners funds to be used.

3. Cost of Finance

- Set up costs
- Current interest rates
- Ability to meet borrowings
- Current returns on owners funds.

4. Financial Viability

- Projected profit and loss accounts
- Break even analysis
- Projected balance sheets
- Cash flow forecasts
- Working capital needs
- Budgets – Expenses/Sales/Income
- Taxation.

The Market

1. Market Research

- Market size
- Market description
- Market trends
- Customer profiles and target markets
- Preliminary sales forecasts and estimated market share.

2. Competitive Position

- Competitors
- Unique selling position
- Quality of existing products or services
- Marketing practices of competitors.

3. Marketing Program

- Distribution channels
- Sales outlets
- Storage and transport of goods
- Pricing policy
- Packaging
- Sales promotions and sales strategy
- Advertising strategy and costs
- Public relations.

Management and Operations

1. Personnel

- Numbers of staff needed
- Skills necessary
- Training programs.

Business Organisation

1. Form of legal organisation:

- Sole Trader
- Partnership
- Company or Trust
- Registration of business name
- Organisation chart.

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2. Legal Considerations

- Licences
- Commonwealth and State taxes
- Consumer Law
- Business Law
- Insurance.

3. Premises

- Space required
- Buy or rent contracts
- Commercial lease requirements and problems
- Availability of suitable premises.

- an acceptance or rejection of the new business idea/opportunity
- a clear statement outlining the benefits of investing in the business to a potential financier.

Do not forget to attach any supporting documents that may add to your plan (eg. pamphlets, brochures, technical drawings, patents, designs biographies of owners, information on competitors etc).

Questions to be answered in a Business Plan

1. Description of the business

- What type of business are you planning (retail, wholesale, manufacturing, tourism, hospitality, service)?
- What products or services will you sell?
- What type of business is it (new, part-time, expansion, seasonal)?
- Why does it promise to be successful?

2. Marketing

- Who are your potential customers?
- How will you attract and hold your share of the market?
- Who are your competitors? How are their businesses prospering?
- How will you promote sales?
- Who will be your best suppliers and why?
- Where will the business be located?
- What factors will influence your choice of location?
- What features will your location have?
- How will your building contribute to your marketing strategy?
- What will your building layout feature?

3. Organisation

- Who will manage the business?
- What qualifications will you look for in a manager?
- How many employees will you need and what are their job descriptions?
- What are your plans for employee hiring, salaries and wages, benefits, training and supervision?
- How will you manage finances?
- How will you manage record-keeping?
- What consultants or specialists will you need?
- What legal form of ownership will you choose?
- What licences and permits will you need?
- What regulations will affect your business?

Conclusion

Depending on the purpose of the Business Plan an appropriate conclusion should be developed.

This could be:

- a final summary of the objectives and key strengths of the business along with a clear statement of the direction of the enterprise