Writing a Business Plan

Business Information Factsheet

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Introduction

Writing a business plan is one of the most important tasks when starting up a new business. It is a way of organising research and ideas about the business, setting targets, planning for the future and confirming that the business proposal is realistic and workable. The business plan is also an essential tool for attracting funding. It should be reviewed and updated regularly to help with monitoring and improving the performance of a business.

This factsheet describes what a business plan should include, how to go about writing one and what will be achieved by doing so. It is aimed particularly at business start-ups that need to raise funding, but the principles are equally valid for established businesses looking to grow.

The benefits of writing a business plan

Although business plans are often written to convince potential funders to support a business, they are principally for the owners and operators of the enterprise, and can help them to:

- Bring together their ideas and research into a structured format.
- Decide whether or when the business will be commercially viable.
- Clarify the purpose of the business and communicate it to any partners or staff.
- Predict future scenarios and pitfalls and address them before they threaten the success of the business.
- Set out the business strategy, particularly the marketing strategy.
- Set targets and objectives, including sales and financial targets, so that business performance can be continually monitored.

How to approach the plan

If the plan is to be used to convince potential funders to support the business, it is crucial to understand their objectives and address these in the plan so that it will meet their particular lending or investment criteria.

The plan should be easy to read, comprehensive yet concise, and without any contradiction. For example, figures included in the plan for expenditure on equipment must match those that appear in the plan's financial forecasts. All too often they do not match so the business plan loses credibility.

It is important to identify as early as possible what any prospective funders need to know about the business and the people running it. The reasoning behind decisions (for example, why a particular business location was chosen) should be made clear so that funders are not left guessing or think that certain key issues have not been addressed. Honesty, clarity and credibility are vital.

The plan needs to be realistic and convince funders that the business can be successful. This means they will want to see evidence to back up any claims that are made (for example, the market research results that led to the projected sales forecasts). The plan will also need to show that (at least in the medium term) the business will be able to support its owners and any borrowing requirements they may have.

What should be included in the plan?

Every business and situation will be different, but the following headings cover the essential elements that should be included in a logical order in any business plan. This is to ensure that it addresses the most important issues that an investor, bank or other funding body will need to be reassured about.

Table of contents

The plan should first include a table of contents listing the main sections and page numbers. If it is difficult to find key information the person assessing the business plan may be less likely to consider it positively.

Executive summary

This should be a brief summary of the rest of the plan and should be no more than two pages long. It is the first thing that a potential funder will read so it must be clearly written, should engage the reader and, ideally, ensure that the plan will stand out from the many other business plans funders receive.

The key questions that funders will expect the executive summary to answer are as follows:

- What it is that makes the business idea, product, service or approach to the market unique or original, and gives the proposed business an edge over similar businesses and products?
- What experience do the people starting the business have in their target market, or in this line of business, that will make a funder confident that they are capable of making it succeed?
- Has the plan provided enough evidence that the business is going to stack up financially and will be viable and profitable?
- How and when will a loan provider get their money back? What plans are there to ensure that an investor will achieve an exit with an attractive return when the business is eventually sold or when the business's owners buy back their shares in the case of equity investments?

The executive summary should also include:

- Details of the trading name of the business, its owners and its address.
- Details of the products and services provided.
- A summary of the target market and competition.
- The amount of finance needed, for what purpose and over what term.
- The amount of money the business owners are investing.

Aims, objectives and vision

Some people start up a 'lifestyle' business to fit in with their preferred work-life balance, or to develop a hobby into a part-time income generator. Others have ambitious aims to grow their business and create significant employment opportunities and personal wealth. Funders will want to know about the motivations of those starting up the business and their vision of how it might develop, so, for example, it will be important to consider the following types of questions:

- Why is the business being started? What do its owners want out of it?
- Will the business supplement or replace the main income of its owners?
- Is the business being started as an investment to sell as soon as possible?
- Will the business provide jobs for the owners' family members?

The answers to questions such as these will have an impact on the business owners' aims, development and strategy. For example, where someone is starting a business as an investment opportunity, the focus of planning will be the lead-up to their exit - the sale of the business. The strategy must, therefore, focus on building the business quickly and maximising its value to get the best selling price possible. Where does the business need to be in five years? This must be clearly stated in the plan in order to demonstrate how the business will be steered towards that point.

Defining the vision for the business will help with the identification of clear and challenging objectives and determine how these will be pursued as the venture evolves.

Business description and purpose

What exactly will the business do? The plan should be as specific as possible about the type of business that is being started. If it is a restaurant, for example, will it be a family restaurant serving good-quality, local food at competitive prices in a family-friendly environment? Or will it be more upmarket, serving gourmet dishes to discerning diners in an intimate setting?

How will the products and services differ from those offered by competitors? Why should customers want to use them? How will the business be differentiated to make it successful?

A business description should give a clear summary of the purpose of the business, and should be easily understood by owners, staff, customers and potential funders.

If the business cannot be described in these terms, the business idea needs to be reworked, focusing on the business's core purpose, target audience and mission.

Legal structure

What legal structure will the business have? Will the owner be a sole trader, or will the business be a partnership or a private limited company, or a community interest company trading as a social enterprise? These decisions will affect the tax liability of the owners and determine when they will pay tax, and so will have an impact on cash flow.

Funders will also be concerned about the legal structure of the business and its impact on liability, so it is important to choose the most appropriate legal structure to meet future needs.

Licences and permissions

Are any licences or other permissions needed before trading can begin? If so, the plan needs to demonstrate that steps have been taken towards getting these. For example, start-ups in the food and childcare sectors must be registered and many types of petcare business require a licence.

In some cases, planning permission or building regulations approval may be needed. Evidence that necessary approvals have been, or will be, received should be provided in the plan.

Management processes

How will the business be managed? Being organised from the start will make a business more efficient and ultimately more enjoyable to run. Even where there is only one person involved, it is still worth looking at key skills, responsibilities and management processes at this stage. The plan will need to consider the following key management functions:

- Marketing and sales.
- Finance.
- Recruitment and staffing.
- Product development or product sourcing.
- Legal compliance.
- Administration.

The plan must also demonstrate how the performance of the business will be monitored and measured against objectives and targets, and how the roles of any key staff will be coordinated.

Marketing strategy

Business success requires a thorough understanding of the target market, including its size and the market share that can be achieved. A clear understanding of the market in terms of size, location, groups of potential customers and their profiles, potential competitors, trends and influencing factors makes it easier to define the overall marketing strategy.

This strategy should be broken down into objectives and targets relating to the volume and share of the market (or market segments). The marketing strategy should include statements about when each objective and target will be met.

For example:

- Who are the initial marketing targets (specific groups or market segments)?
- What products, services or particular deals will the business offer to them?
- What is the unique selling proposition (USP) of the business and how does this differentiate it from competitors?
- Is there a specific volume, value or share of these market segments that the business needs to achieve?
- When will these targets be achieved?
- Why are these market segments being targeted first?
- Who will the business target next, for instance in six months' or a year's time?

Marketing plan

How will marketing be carried out? Once there is a clear marketing strategy, there needs to be clarity about how it will be brought into effect and who will make this happen. A detailed marketing plan should explain how each of the marketing targets and objectives defined in the marketing strategy will be achieved. It can be broken down either into statements about how each particular target segment will be pursued or into the types of marketing activity that will be engaged in, or both.

Such a plan will include some or all of the following:

- The marketing methods employed for each of the target market segments.
- The specific action needed to reach each segment.
- A timescale or timetable for each marketing activity.
- The people or organisations that are going to carry it out.
- The estimated costs to undertake particular marketing activities (the marketing budget).
- How progress will be monitored and reviewed.
- How responses to marketing activities will be handled.

It is also important to identify how the overall marketing plan will be managed, including aspects such as ensuring that the entire budget is not spent too early, monitoring results, adjusting the plan and introducing new tactics and activities as required.

Sales targets and objectives

The purpose of implementing a marketing plan is to meet perhaps the most important business goal of all: the sales revenue targets.

Sales forecasts should be set out in terms of:

- Sales of different product or service types by volume and value.
- Sales from different customer groups or territories.
- Sales from different distribution or advertising channels.

Current financial requirements and financial forecasts

How much money does the business need now and for what purpose? A business plan should include a breakdown of financial requirements, the sources of finance that are available and any additional finance that may be needed going forward. This should include:

- The cost of starting the business, for example both the capital expenditure required for the purchase of equipment and working capital requirements for cash flow purposes while the enterprise becomes established and generates and receives sales income.
- The personal budget of the business owners, often known as a 'personal survival budget'. A personal survival budget should set out the business owners' personal living expenses and indicate how much income they will need to derive from the business in order to survive.
- Details about the personal finances that the business owners intend to invest.
- Details about any additional finance that has been secured.
- A table showing what the finance will be spent on, with details of each piece of equipment or service that will be purchased and its cost.
- A break-even analysis and timing calculation giving details of how much of the product or service must be sold at a given price to cover all the costs and contribute towards the profit, and when this break-even point will be reached.
- A detailed cash flow forecast estimating how much cash will be available in any particular future month.
- A profit-and-loss forecast estimating when the business will start to make a profit, which will be essential for longer-term success.

- A balance sheet forecast giving a snapshot of the trading position of the business at a particular point in the future, identifying what the business will owe, what it will own and how strong it will be financially.

Operational requirements

How will the plan be turned into action? In other words, what are the operational requirements of the business?

Details about the operational requirements will be essential when preparing financial forecasts. Basic operational planning should cover the following aspects of the business and include an estimate of their costs:

- Premises - details of the premises and a sketch plan of the layout.
- Equipment - a list of necessary equipment and the price of each item.
- Staff - details of what roles need to be filled, including job descriptions.
- Suppliers - details of various suppliers and the credit terms they will offer.
- Compliance - details of regulations regarding health and safety at work and any other regulations specific to the business or sector, together with a demonstration of how these will be complied with.
- Insurance - a statement of what insurance cover is required, including details of relevant policies.

Training needs

The business plan should include details of any relevant training courses that those who will be running the business have attended and any training that will need to be completed in the future. This will help to identify any skills gaps and prompt information gathering about training providers and the funding needed for this. It will also assist in budgeting for training costs in the cash flow forecast.

Business risks

What could go wrong, and what will need to be done if the worst happens? The plan should include an honest assessment of the risks involved in the business, as well as how these will be minimised. All possible outcomes should be considered and planned for. Funders will need to see that the plan is not overly optimistic and that the realities and risks of the situation have been recognised.

Which of the following risks are relevant to the business?

- Lack of management experience. This risk can be addressed by getting support or assistance from a business adviser, mentor, accountant or solicitor.
- No trading history. This will make it difficult to borrow money or obtain credit, so it might be necessary to make other plans to finance the business initially.

- Economic uncertainties. For example, if money has been borrowed and the loan is subject to interest, it will be necessary to make contingencies for interest rate increases.
- Social and political uncertainties.
- Over-reliance on key staff, key suppliers or a small customer base.
- Customer bad debts leading to cash flow problems.
- Partnership difficulties.
- A sudden increase in competition.
- Security issues, including cybersecurity.
- Failure to meet sales targets.
- Lack of resources at key stages of development.

SWOT analysis

A 'strengths, weaknesses, opportunities and threats' (SWOT) analysis helps to achieve a focus on the internal strengths and weaknesses of the business, including those of its owners, staff, products/services and processes. At the same time, it also enables examination of external opportunities and threats that impact on the business, such as market and consumer trends, competitor activities, changes in technology, legislation and financial issues.

PEST analysis

PEST is an acronym for 'political, economic, social and technological', and a PEST analysis provides a framework for reviewing the business in the light of external factors that may affect it in the future. By remaining aware of trends and changes in the external business environment, the owners can gain a competitive edge.

The inclusion of a PEST analysis in a business plan demonstrates that the bigger picture has been taken into account. The analysis may also generate new ideas or raise alerts about potential dangers to be aware of in the marketplace.

Appendices

Appendices should include all the documents that support the plan, for example:

- The CVs of the business owners, operators and key employees.
- Certificates for any qualifications or relevant training courses.
- Copies of the lease for any rented business premises.
- Market research data.

- Financial forecasts.
- Details of any professional advisers, key suppliers or insurance providers that have been engaged with, if applicable.

The first page of the appendix should list all the documents it includes so they can be found easily by anyone reading the plan. The documents and their location in the appendix should also be referenced in the main body of the business plan.

Resources for creating a business plan

Apps and software packages are widely available to help with writing a business plan. Some banks also offer their own business planning templates free of charge to customers who are intending to start up in business.

Business planning apps and software typically provide step-by-step prompts to ensure that the plan contains all the information funders need to see. They also include tools to make the plan look professional, for example by adding graphs and tables that make the content much easier to follow. Some software also automates the financial calculations needed for business planning.

However, it will still be essential to check the finished plan carefully. Someone who has not been involved in writing it should be asked to proofread it.

Related factsheets

BIF040 Sources of Finance for Starting a Business
BIF044 Developing a Marketing Plan
BIF185 Checklist for Start-up Market Research
BIF392 Creating a Marketing Strategy
BIF394 SWOT Analysis
BIF495 Sources of Business Start-Up Support

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