

The business plan





Foreword

There is often a good debate to be had between academics over the worth of a Business Plan.

The result is usually a compromise with the conclusion that a good Business Plan is one that is not put in a drawer as soon as it is completed but one that is used as an important business tool.

Its principal purpose should be to help management make informed decisions about:

- Strategy and direction
- Financial control
- Communication with your team
- Setting budgets and targets

Whatever the ultimate use it should be a 'living' document rather than a chore that you feel obliged to do every year.

The purpose of this template however is to articulate the sort of thing that an **external funder** of the business would want to see before making an informed decision about whether to invest in the business or not.

Critchleys corporate finance team can draw on specialist expertise to provide you with comprehensive financial advice. Our experts in corporate tax, VAT, accounting, audit and financial planning are on hand to advise on broader issues affecting the success of your business. This multi-disciplinary approach provides a level of service which stand-alone corporate finance boutiques find hard to match.

We offer the full range of services to help you achieve your business ambitions; and measure our success by your success. Critchleys' experienced corporate finance professionals have the expertise, contacts and commercial acumen to effectively negotiate and conclude deals - and an impressive track record to prove it. We are committed to providing sound commercial advice to the mid-market, and have particular expertise in owner-managed businesses and SME's.

Justin Ray
Corporate Finance Partner



A) Executive Summary

The key objective of the Executive Summary is to provide an overview of the opportunity and to attract the funders interest. A Venture Capitalist will on average see over 300 business plans a year, quite often if they are not grabbed by the Executive Summary the rest of the document will not be read.

The summary should contain, in no more than a few pages:

- The purpose of the plan
- A brief description of the business and the opportunity
- A synopsis of any key factors (products, customers, suppliers, market share, competition and management)
- A financial summary
- Highlight the key strengths of the management team and their experience
- What investment is required and why
- SWOT analysis

B) The Business

This section helps explain how the business has evolved since its inception. Any key milestones or events should be highlighted and the general business environment in which the business operates should be put into context.

The Business section should contain:

History of the company

- Who were the founders?
- Why did they set the company up?
- Record chronologically the significant events leading to the present day business
- Current Group and shareholder structure
- Successful development of products/services
- Expansion of the management team and evolution of a balanced management structure
- Explanation of financing to date, including the previous and current involvement of outside shareholders, if any
- Description of past financial performance, together with an indication of the current position



- The influence of any industrial, economic, social or technological trends on the company

Details of the environment in which the business operates

- Membership of any trade or professional associations
- Published information, statistics and surveys on the industry
- Regulatory environment

Business Strategy

- Mission statement
- Strategy eg, making suitable acquisitions, management to diversify risks
- What are the personal objectives of the team?
- What objectives are there for the Company?
- Are these objectives consistent with the experience of other companies' experiences and trends in the sector?
- What are the likely objectives of the potential investors?
- Critical Success Factors

C) Products and services

This section should explain what the business does and how it is unique in its market place. Care needs to be taken to ensure that any technical jargon is explained and kept to a minimum, the best rule of thumb is would a laymen be able to understand it.

Products and Services

- An analysis of sales and profit by product type.
- Full description of all products manufactured and services provided
- What need does it fulfil?
- What features make your product unique? (Cost? Technology? Versatility?)
- How is your product perceived in the industry?
- Is demand seasonal?

Pricing

- How are products priced
- Gross margins achieved for each product type
- What is the VAT status of products eg, standard rated, zero rated or exempt?



Product Development

- Product development plans
- R&D spend and timetable
- Protection over any Intellectual Property
- Influence of new technology

D) Markets and Market Strategy

This section should summarise the market the business operates in and its position within it.

Current Markets

- Full description of the existing markets in which the company/business operates (market size, level of development, growth rates)
- What is your market share now, and what are you aiming for?
- Business sectors served (main characteristics and trends)
- Analysis of sales by geographic location and by sector
- Indicate the major factors affecting market growth (economic, industrial, political, climatic, population shifts)

Prospective Markets

- Details of new markets in which the company's products could be sold
- Are you aiming for particular market segments?
- What are your plans regarding the export market? Consider competition from overseas
- Copies of market surveys commissioned

Competitors

- Main competitors of the business (name, market share, size, geographical location)
- Details of any advantages that the business has over its competitors
- What are competitors' strengths and weaknesses? (Financial backing? Technology? Market share?)
- Consider the potential for new competitors to enter the market
- Indicate how your products will be able to compete favourably and take market share from them, and what responses this will provoke from them
- Will competitors be able to copy your product/service?



- Are there any barriers to entry
- Compare competing products or services on the basis of price, quality, performance service, warranties and other relevant features

Customers

- An analysis of sales by customer in current and two previous years
- Description of main customers (private, corporate, business sector, size, geographical location)
- What do they expect in the way of price, quality and service?
- Credit terms given, credit control activities
- Any bad debts or debts in dispute with the customers?
- Does the business have written contracts with its customers?
- Have prospective customers been identified?
- Highlight customers who have made or are prepared to make purchase commitments and indicate future major customers and why they will become so
- Exposure to foreign exchange fluctuations?
- Details of major sales contracts entered into

Marketing strategy

- Method of selling: face to face, telesales, over the Internet, distribution channel, retail?
- Are sales agents used? (Analysis of sales by agent, nature of agreement with agent, commissions payable?)
- What marketing strategy do you employ (eg, advertising, PR, direct marketing, exhibitions, press releases)?
- Marketing mix (product, promotion, placement, positioning and provision)
- Annual marketing budget
- Is there a marketing database?
- How are potential customers identified?
- Which customers will be the target in your initial marketing effort?
- How do you attract customers away from the competition?
- Description of sales department and how it is organised

E) Manufacturing, Operations and Facilities

This section should explain key elements of the company's operations and manufacturing capability.



Operations

- Full description of how the business is organised and what resources it has
- What is the production capacity? Is it sufficient for the future?
- Describe how the sales are fulfilled (customer order through to completion/delivery).
- Is there a procedures manual?
- Details of the production process/operations
- Quality control procedures and accreditations

Distribution

- How is distribution affected?
- Is the company reliant on third parties for distribution?
- Does it have its own distribution vehicles and warehouses?
- Method of controlling and recording delivery to customers

Suppliers

- Analysis of purchases by suppliers in current and two previous years (nature of purchase, location of supplier etc)
- Is the business dependent on certain organisations eg, for materials or skilled labour?
- Security of supplies and alternative sources
- Are there long term contracts that guarantee a competitive price and secure supply?
- Summary of terms of key supplier contracts
- Credit terms received from suppliers
- Purchasing process and controls over input prices, availability of bulk purchase discounts.
- Normal delivery period and method of delivery of materials

Alliances

- Does the business have strategic relationships?

Stock

- What stocks are held?
- Stock age profile
- Stock and WIP controls and information systems



Premises

- Description of all of the premises from which the business operates (size, suitability, facilities available and location)
- Freehold property (date purchased, mortgaged?, current market valuation)
- Leasehold property (main terms of lease eg, rent payable, expiry date, penalties, landlord)
- Is there any environmental pollution resulting from operations?
- Is the correct planning permission in place?
- Is there sufficient space to allow the business to expand?

Fixed assets

- Description of main items of plant and equipment used
- Condition of plant and equipment (servicing and maintenance)
- Does the plant incorporate the latest technology?
- Capital expenditure planned for current year and for future years (as included in the projections)

F) Management and Staff

This section should explain and bring out the strengths of the management team and their experience.

Organisational structure

- Organisation chart, showing key managers, distribution of responsibilities, number of employees in each department

Board of directors

- Chairman and non-executive directors (what particular skills and contacts do they have?)
- Are regular board meetings held? Are board minutes kept?
- What are the responsibilities of each director?

Management team

- Introduce key management personnel and their backgrounds, skills and past accomplishments
- Do management have specialist expertise in the business area?
- Is there a balance of skills among the members of management (marketing, research, finance, administration)?



- Give descriptions of people to be appointed
- Is there secondary management?
- Are there gaps in the skills base of the management team? How will these be filled?

Staffing

- Do all staff have contracts of employment?
- Summarise terms of employment (eg, notice period, entitlement to pensions, company cars, etc.)

Pension scheme

- Description of pension schemes (members, final salary or defined contribution, employer contribution rates, professional charges)

Staff incentive schemes

- Details of any share option or profit sharing schemes in operation

Recruitment

- Identify extra staff needed in order to achieve the projected financial performance
- Method of recruitment used (advert, agent) – the cost should be reflected in the projections
- Staff turnover and labour relations
- How difficult is it to recruit suitable people?

Subcontractors / external consultants

- Are any subcontractors or external consultants used?
- Has their tax treatment been agreed with the Inland Revenue?
- Is the business dependent on them?

G) Financial Performance

This section should highlight and explain the historical and current trading of the business. It is an important section as any investor will use historical trading as a base to assess the reasonableness of the forecasts.



Profit and loss account

- A summary of past financial performance
- Explanations for any changes in trends (sales, cost of sale, gross margin, overheads)
- Details of any change of accounting policies over the last three years

Balance sheet

- Suitable narrative to explain movements in Balance Sheet items, key components

H) Financial Projections

This section should explain the financial prospects of the business along with the key assumptions.

- Summary of projections and resulting cashflows
- Key assumptions used
- Details of any forward order book
- Details of any capital expenditure requirements

Forecasts should show integrated profit and loss, balance sheet and cashflow statements and be structured such that sensitivities can be run.

I) Funding

This section should explain the current funding structure of the business.

Current funding structure

- Relationship with bank. Have facilities been exceeded?
- Details of debentures and charges
- Loan agreements
- Overdraft facility and security given to bank, interest rate, date of renewal
- Details of other financing facilities used eg, factoring
- Summary of hire purchase/finance lease liabilities at last year - end (description of asset, its net book value in the accounts, amount outstanding, period of repayments).
- Details of any operating leases



Shareholders funds

- Authorised share capital
- Where has funding come from so far (eg, seed capital, reinvested profits)?
- Consideration for recent share issues
- Any shareholders agreements? Conversion rights?

Share options

- Different rights attaching to different classes of shares
- Ability of the management team to commit personal funds to the project
- Who controls the company?

Grants

- EC, Government or regional grants?

J) Legal Issues

This section should explain any key legal issues or regulation faced by the business

Industry laws and regulations

- Compliance with Health and Safety regulations
- Details of laws and regulations (national or local Government) which the business has to comply with
- The impact of any pending or recently completed regulatory or other enquiries or proceedings
- A description of the intellectual property (IPR, copyright, patents, trademarks, license agreements, registered designs and registered business names)
- Is there sufficient protection? Are any of the patents due to expire shortly?
- Include the cost of obtaining intellectual property protection in the projections eg, patent registration fees and professional fees
- Does the product meet recognised product standards eg, ISO 9000?
- Details of warranties given on products? Have customers claimed under warranties? What costs have been incurred by the business as a result?
- If sales contracts or licensing agreements need drafting, include the legal costs in the projections



Litigation

- Is there any litigation threatened?
- Have there been any legal disputes in the company's history? Do any issues remain unresolved?
- Establish the nature of any outstanding litigation notified or threatened

Insurance

- Provide a summary of insurance policies held (risks covered, insurer premium, amount of cover, renewal dates)
- Are all assets covered?
- Is keyman insurance appropriate?
- Has the company made any insurance claims?

K) Appendices

- CV's of key members of the team
- Latest management accounts
- Last set of audited accounts
- Organisation charts
- Financial Forecasts
- Product literature
- Marketing literature
- Industry reports