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How to Create a Business Plan

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The current climate is hardly encouraging for new enterprise. Nevertheless business is being done and some is start up or expansion. The government is increasing incentives in the form of grants and loan guarantees, private equity and business angels remain – although, as ever, start ups are particularly difficult to fund.

Every successful funding starts with a thoroughly prepared business plan. There is no right or wrong approach - success being the only criteria. I estimate my own funds-delivered rate at around 90% - for differing businesses and from differing sources – banks, private and public investors.

A Google search will deliver a raft of business plan advice, guides, and free and paid for templates, and its not a bad idea to start there. Here I set out my own approach and format together with a few dos and don'ts – focusing on a multi channel organisation.

Benefits of a plan

No one will invest or lend without a plan. A business without a plan is a journey without a map (what are the odds of success?). A plan evaluates and determines the route and defines the destination. With the funds in place the business plan becomes one of your tools to measure progress.

A business plan may focus on all or just part of the business. The approach is the same for either an internal or external audience.

Planning the plan

Venture capital organisations, investors and banks receive literally hundreds of business plans. A committee out of your reach invariably makes the ultimate funding decision. You will present your case to a bank or investment manager who should champion your case to his committee but he will need your business plan which is your own personal representation to those exasperatingly unreachable decision makers.

Make your plan speak for you. This is important. It should reflect your personality whilst also ensuring it ticks all the investment boxes.

Agree with your stakeholders exactly what the plan must deliver and who it is aimed at. Everyone involved must buy into the process.

Your plan has two immediate challenges - to stand out and to stand in. To stand out your plan must present a compelling investment case. Your proposition especially must be straightforward and appealing. Make it easy for the reader. If the proposition is a me-too identify its differentials - the competitive advantage that gives you an edge.

To stand in, to get that essential first meeting to discuss your plans, your plan must cover all investment criteria – comprehensively, logically, rationally and anticipating every argument. An incomplete plan will be rejected instantly.

A few rules

Use the conventional format – being a set of logical headings setting out your business step by step - your audience must focus on your business case, not struggle to find their way around your document. Again, make it easy for them.

Ensure your plan is rational, logical, and easy to read and understand. Avoid jargon. Read and reread. Remember your school day précis exercises. Be succinct, focused and concise. Edit wooliness and ambiguity. Grammar and spelling must be flawless.

Exclude, or carefully qualify, any detail on which you are uncertain – being caught out, even only once, casts a shadow on your credibility. Qualify uncertain statements by stating that this is an opinion or to be confirmed. No one is infallible and presented authoritatively this can add depth and credibility.

All third party references and charts must be sourced. The reference should have an adjacent superscript numbered to the source at the foot of the page.

Length is not necessarily an asset. Brevity is appreciated but not at the expense of completeness. Many investors will have (nearly) made up their mind by the end of the executive summary. The purpose of the main document is to prove detail and completeness. Do not risk switching a positive reaction to the executive summary to a negative response by being long winded, boring, woolly or including unnecessary detail.

Ruthlessly cut out repetition. Many facts and phrases are relevant to more than one section. But repetition is tedious and confusing - the investor's attention is easily distracted through checking back as a result of repetition.

Your business may be the most compelling and no-brainer proposition you have ever seen. It would be lucky and rare for a potential investor to share your view. Investors and banks have their own priorities, mostly centred on ROI and minimising risk - and are not entrepreneurs and are inherently risk averse. Write your plan with this very much in mind.

Format, front cover, and presentation

A4 with a spiral binding with a transparent cover and card back is typical. Let the surprises and the creativity be in the content. Printed one side is easier to read, unless you have a more sophisticated binding. My view is that the exposed front should be anonymous, with a simple title such as "Information Memorandum" together with a Private and Confidential statement.

Inner page

Company name and brand, logo and disclaimer. If you are distributing the plan outside of the business the disclaimer is essential. The disclaimer is firstly in respect of Financial Services Authority rules and, secondly in respect of directors' responsibilities and liabilities for the information provided – obtain accountant's advice on these.

It is a wise precaution to number each copy of the plan, and any re-versions, and make a note of the distribution.

Brand page(s)

I like to include a page or two here highlighting the brand and identifying the proposition, for example a catalogue front cover, or product photo, and/or an introductory letter. These pages are the eye-catching hook to the plan's product pitch. They set the tone, add personality and provide an invaluable initial visual picture. Done well your reader will instantly grasp your brand's proposition and values, and hopefully, be a convert.

Contents page

Provide a list of each heading. Start numbering each page from here, including the appendices.

Executive Summary

Not more than 3 pages, 2 are better. This is the most important section of the plan. Crisp and succinct, the Summary conveys the essence of the business case, its growth, funds, ROI and exit, provides top line numbers, and follows the logic and sequence of the main plan including a paragraph on each of the main plan headings.

Ensure every important message you want to convey is in the Summary. Your reader may well reject plans regularly on the strength of the summary only. Do not forget to outline the funds required and at what valuation, how the funds will be spent and what the exit plan is - when and how much.

Main Plan headings

These suggested headings will need adapting. Ensure a logical theme and sequence with one heading subject leading logically to the next. One guide is the order of your P&L account - being a succinct summary of the business activities. Use charts that add colour and invariably illustrate the point more effectively than text.

Introduction

Expand on your own and the background to the business. Set out objectives and your strategy to achieve them.

Provide a summary annual P&L account (at main financial category level) and summary balance sheets for a minimum of three years. Outline current funding, future cash flow and headroom required and the resulting funding requirement.

Provide an application of funds table – how the new funds will be spent (do not forget lending or funding and transaction costs). It is generally not a good idea to propose to pay off loans or investors or reward management with the new funds! Outline the investment deal and proposed shareholder structure.

Market

Outline the market sector, trends and forecasts. Demonstrate knowledge of the sector, its participants, drivers, distribution channels and issues. Validate with quotes and charts from at least one authoritative external source including the full report, or its summary, as an appendix.

Audience

Describe your customer profile, its demographic and trends. Comment and validate likely developments.

Proposition

Describe the brand and its values, your proposition, the products and services. Define your USP and differentials. Investors worry about barriers to entry.

Describe the competitive picture and identify the important competitors. Define your market positioning. A positioning chart provides an effective visual - being a single quadrant graph, or for more depth a four quadrant graph, defined by the usual vertical and horizontal axis, for example a multi channel position chart may have price or value on the vertical axis and single/dual/multi channels along the horizontal with competitor brands inserted according to their value and channel diversity.

Marketing

Define your marketing strategy, your routes to market and expected takeup. Outline any testing, comparable results and benchmarks.

Opportunity and risk

Identify future opportunities, how your strategy will develop, how growth will be assured. Provide a SWOT chart. Demonstrate risk evaluation skills, highlight and comment on life threatening risks and how you intend to avoid and monitor the risks.

Management and business processes

Outline new management, staff and resources required, and how existing resources will be applied. Highlight benefits of scale new business over incremental costs. Demonstrate everything necessary has been costed. Outline outsourcing options and alternatives to decisions you have taken.

Finance

Provide projected P&L accounts for 5 years (a minimum of 3). Provide monthly projections for the P&L, balance sheet and cash for the first 3 years. All as appendices. Provide explanatory comments on these as necessary.

Detail capital expenditure. List key assumptions, including key sales or response rates, sales reductions (returns, cancels etc), margin, supplier and credit card merchant terms and credit insurance dependence, stockturn, stock write offs, other industry specifics.

Expand on your planned financial headroom. Outline the basis and impact of worst-case scenarios. Provide the same monthly projections illustrating the impact of the worst-case scenarios. Be prepared to be asked for worsening variants on your scenarios.

Demonstrate a financially prudent approach, e.g. a modest decline in market response rates, rather than an improvement (unless compelling reasons exist), and, realistic worst-case scenarios.

Expand on the deal and current and proposed shareholder structure. Provide realistic projections on the proposed investor exit and valuation. Suggest examples of potential trade partners, acquirers or alternatives.

Appendices

These will consist of the detailed financial tables, research reports, and any other supporting material. Keep it all relevant and avoid repetition.

Putting together a business plan is time consuming and hard work, especially when you have everything else to do. However investors have no time for a badly presented, inadequately thought through or incomplete plan. There is increasing competition for decreasing funds. To have any chance of success your plan has to be the very best you can make it.

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