**Guidance on Writing a
Business Plan**

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The business plan is an essential tool, whether it is for raising finance or for putting management’s objectives into writing. In either event, a business plan will give a business some form of direction and goals, and hence enable management to monitor the achievement of those goals and objectives. Typically, a plan should follow on from a Strategy day but if the strategy is known (for example, sale of a business, raising finance for an acquisition) then the strategy day is not necessary.

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1. **Why write a business plan?**

An effective business plan serves many useful purposes:

* It helps a business owner crystallise and focus ideas.
* It provides a structure for management activity both in the early years of a business and in taking an existing business forward.
* By identifying and quantifying specific business objectives, it creates benchmarks against which the management team can measure progress.
* It provides a persuasive vehicle for attracting capital to help finance the business.
1. **Content of a business plan**

The content of a business plan should be (but not always, depending on type of client, industry sector and the reason for writing) as follows:

* Executive summary;
* Background report;
* Products or services;
* Management;
* Market;
* Operations of the business;
* Financial analysis;
* SWOT analysis (strengths, weaknesses, opportunities and threats);
* Exit route; and
* Objectives and timings.
1. **Who should write the plan**

Unless owners have had considerable experience in writing proposals designed to influence financial institutions, it is quite possible that advisers will be able to write a more professionallooking plan than the owner.

Outsiders find it more difficult to capture the spontaneity and enthusiasm of management, which in many cases will be critical to the success of the proposal. It is vital that the plan is the owners’ plan, and that they are fully involved and able to explain and justify its flavour and overall content.

1. **How long should the plan be?**

 There is no right answer.

A business plan should be long enough to cover the subject adequately and short enough to maintain interest.

This length will depend on individual circumstances – a £50 million, hi-tech start-up with sophisticated research and manufacturing elements may require a plan of well over 100 pages, including appendices, to cover all the key points. On the other hand, a proposal for £250,000 to develop an existing product may be too long at ten pages.

What’s important is that the plan grabs the attention of the reader QUICKLY! And then fully describes all aspects of the business.

The current trend is to produce shorter business plans. This has some logic behind it, as the shorter the plan, the more impact it can be expected to have on the reader.

Investors will also invariably follow up good plans with a detailed investigation of their own, and thus in most cases would not necessarily expect to see every last detail covered at this stage.

As a tentative rule of thumb, for all projects requiring less than £5 million you should think carefully if the body of your plan is over fifteen pages.

1. **How specific should the plan be?**

Many owners are reluctant to commit themselves in writing to details of their future plans, preferring to leave themselves as much future operational flexibility as possible. Some plans may even ask for finance in excess of the requirements shown in the financial projections in order ‘to take advantage of attractive business opportunities as they arise’, or similar wording.

Such an opportunistic strategy may be appropriate, and indeed preferable, for some companies, however, this throws more onus on the ability of management to identify and exploit these opportunities successfully. In cases where this may not be easy to demonstrate, all business plans should include, as a minimum, specific mention of:

* How much funding is sought and at what times?
* What detailed projects the money is to be used for?
* How the company plans to go about achieving its objectives?
* The expected financial impact of the proposed programmes?
1. **Should the plan specify the form of finance required?**

Normally the answer is no. The plan should state what a great business it is and, by the way, it could be even better with some finance. It is best not to be too specific about the form you would like the finance to take. This is because there will always be many alternative types of finance appropriate for any one project, singly or in combination, including various types of equity capital, preference capital or lending.

Potential investors may be limited by internal policies in the types of finance they can provide. Hence, to demand any one financing package in a business plan may lose the chance of working with a suitable investor who might be very happy to invest in an alternative but acceptable form. It can also often be beneficial to leave the question of the level of investor participation (e.g. equity shareholding on offer) to be negotiated at a later stage.

1. **What level of confidential information should be disclosed?**

Many business owners show an understandable reluctance to divulge certain confidential information – details of a technological design, for example, or highly sensitive features of marketing strategy – even to prospective investors. This is to their credit, although it should be remembered that the institutional investment community in this country works to the highest professional standards and its executives are trained to respect confidentiality.

Steps the owner can take to mitigate this problem include:

* Ensure prior to the submission of the plan that potential investors do not have any major conflicts of interest, e.g. a significant investment in a competitor.
* Ask the potential investor to sign a confidentiality agreement or “Non-Disclosure Agreement”
* If the owner is still worried, leave out the more confidential data and send potential investors an extract of the business plan. Done judiciously, this can still be a highly effective document, presenting all the necessary data without compromising the truly confidential aspects of the business.
1. **Whom should the plan go to?**

As individual funding requirements are different, and the institutional investment community in the UK is exceptionally large and the sources of capital are varied, owners should seek advice before distributing the plan to anyone. This is to ensure owners do not contravene the complex prohibitions against invitations to invest in securities embodied in the Financial Services and Markets Act 2000.

It is generally inadvisable to circulate the plan to a large number of institutions. This is firstly because potential investors may not be as interested in the proposal if they feel they are in competition with a large number of other institutions. Secondly, if the project generates significant interest from many sources, a large amount of management time will be taken up in dealing with follow-up enquiries.

The well-organised owner and their accountant will research carefully the type of investors they feel will react favourably to his proposal, draw up a shortlist of three of four to whom

to circulate his plan. If this is done in conjunction with experienced fund-raising advisers, the proposal may be taken more seriously by the potential investor.

1. **The question of risk**

In their evaluation of target companies, investors place considerable importance on risks inherent in the business and the ability of management to identify and minimise them. A good business plan must therefore show that management is aware of all major potential pitfalls and can react appropriately to minimise their effects.

One way to do this is to add to the plan a specific section on risk, stating all significant identified risks and the steps taken by management to either prevent them or minimise their effect. This is sometimes expanded into the heading of ‘Risks and rewards’ by contrasting the risk with the anticipated rewards which can be expected from the investment – for example, by showing the likely future valuation of the company if the profits projected in the plan are realised in practice. Alternatively, risks can be contrasted with areas of upside potential not quantified in the financial projections.

This approach has provoked some controversy among readers and authors of business plans, with two conflicting schools of thought emerging. Opponents of this method consider that it may lead to an undue concentration on the negative aspects of the business, to the detriment of its true potential. Its adherents, on the other hand, argue that this approach can work positively by, first, demonstrating management foresight and, second, cutting down investment timescales by reducing follow-up questions from the reader.

Whatever view is taken, these factors should be borne in mind:

* If a specific section is devoted to risk assessment, it must be complete, not selective. If it is obvious that only those risks which can be adequately countered have been included in the plan, the mutual trust between investor and owner, so essential throughout the financing proves, will prove significantly harder to establish.

* If the question of risk is not dealt with directly as outlined above, it must be done indirectly at the appropriate place in the plan. For example, if a manufacturing company has relied significantly on one or more components whose ready availability at reasonable prices may be a problem for the business, the plan should discuss alternative sources of supply and projected costs.

One useful technique often used to demonstrate that risk has been taken into account is sensitivity analyses or “what if“ analysis. This is really a parallel set (or sets) of financial projections, setting out the likely financial effects if certain key factors on which the plan was based were to differ significantly in practice from those assumed in the base projection. These are often included in summary from – for example, a statement might

be added to the narrative accompanying the financial projections noting the effect on projections noting the effect on profits and cash flow of, say, an annual sales growth of 30% against an original budget of 35%. This enables a potential investor to identify the amount of contingency funding that an investee company would require.

The use of Excel has given many businesses the facility to perform extensive sensitivity analysis with minimum effort – but it can be overdone. The figures derived from sensitivity analysis are meaningless in isolation and must be analysed to have any point. In this context, too much sensitivity analysis can be as bad as too little if the assumptions used have little chance of happening in real life. Where this technique is used, revised assumptions are applied, in limited number, to especially significant or volatile numbers or events, (e.g. sales growth, capital expenditure, costs, units produced etc.).

Most important is ‘break-even analysis’. This calculates the minimum sales level necessary to cover all fixed costs, assuming anticipated margins. This is often included as part of the financial projections and the ration of forecast sales: break-even sales can be a valuable performance indicator to an investor in the early years of a new project which is budgeting for initial losses.

1. **Who’s reading the report?**

Too many plans are still over-long, indigestible, badly structured and designed, or just plain incomprehensible. It is important to remember that, in most cases, investors will not be specialists in the company’s field, especially in any area of high technology. The reader may be unaware not only of much of the terminology used in the plan, but also of some of the basic technological or marketing concepts that the owner may take for granted.

Use a lay reviewer to read through the plan for sense before it goes anywhere.

1. **Keep it short!**

Business plans should be as clear as possible, and since brevity aids clarity, they should also be as short as possible. A useful way of achieving this without losing any important points is to stratify the plan by confirming all details, where possible, to an appendix, leaving only the overall message in the body of the document. This will enable the reader to master the basic points of the proposal more quickly.

Some business plans have over 50% of their length accounted for by appendices.

1. **The executive summary**

Another way of enhancing the clarity of the business plan is to begin it with a brief summary of the proposal – the so-called ‘executive summary’.

Any sort of summary will be a key element and one should be included in every business plan over ten pages long.

Its purpose is to attract the reader’s attention and encourage them to read on (remember the competition for readers’ time!). As such, the summary should first of all be short – preferably on one page, and certainly not more than two. It must also convey concisely and clearly what unique factors will enable the business to succeed in a competitive marketplace.

As a minimum, the summary should include:

* A statement of how much finance is required, and when (if applicable)
* A brief (one paragraph) description of the business and the markets it plans to operate in.
* A summary of the highlights included in the financial projections – usually anticipated sales and re-tax profits for the next three to five years.

In certain cases where it will be immediately apparent that the calibre of management will be a critical factor (e.g. in start-up companies or in the case of new projects with new management teams), a brief description of the background or attributes of the key managers may also need to be included.

1. **Setting benchmarks**

All companies planning ahead must set themselves objectives, both as targets to aim for and as benchmarks against which to monitor and evaluate current performance. Not all of these objectives will be financial as, to at least some degree, financial performance is merely the monetary result of a given course of action.

Examples of such non-financial objectives include time schedules for:

* The introduction of new products to the market.
* Patents to be applied for.
* The build-up of staffing levels in key departments.
* The construction of critical production facilities.

These objectives and time scales need to be included in the plan, either together in one section or separately in the relevant section of the plan to which each will apply. Where their completion will take some time, it may help management to split down the tasks to be attempted into ‘milestones’, to serve as more frequent gauges of progress and

performance. Such milestones will normally be specified in some detail in the company’s internal business plan for the use of management; it may not, however, in all cases be necessary to include all of them in any extract of the plan to be sent to outsiders, unless by way of an appendix.

This will be especially important for companies whose performance at any one time cannot primarily be measured in purely financial terms. In such cases, it may be advisable to emphasise in the narrative section of the plan that the financial projections on which the proposal is based provide only a long-term measure of performance, noting where in the document (e.g. an appendix) the key non-financial performance monitors, or milestones, can be found.

1. **The importance of presentation**

The physical presentation of the plan is important in determining its impact. This is not to advocate elaborate or expensively produced proposals, which may prove counter-productive. However, a document which gives the impression that some care has gone into its production will help distinguish the plan. Among the useful techniques are:

* Provide a table of contents and tab each section. This will help readers to identify more easily those areas they are most interested in.
* If the financial projections are likely to prove a critical part of the plan and they are to be included as an appendix, consider using a double page layout for the key information, typed on the right hand page only. This will enable the reader, by opening out this page, to refer easily to this data at any time while reading through the body of the plan.
* The use of a loose-leaf binder to package the plan will facilitate any subsequent revisions or insertions you may find necessary.
* To add interest and ease comprehension, consider the use of charts, graphs and diagrams, especially if they can be produced easily on a microcomputer. The

inclusion of any available photographs of products, production facilities, etc may also both inform and add life to your proposal.
* Use power point as the basis for the plan.
1. **Forecasting results**

Forecasts are produced for many reasons:

* As an ongoing management tool for control of a business, against which actual results can be compared and variances investigated;
* For fundraising purposes:
* For purposes of a prospectus or listing particulars to be issued in connection with company’s listing of its shares or a major transaction;
* For presentation to a financial institution either as a means of attempting to raise finance or as an ongoing control procedure required by the financial institution.
* For inclusion in a business plan;
* For inclusion in an information memorandum when a company’s shareholders are looking to dispose of their business.
* For capital investment programme; and
* For valuation purposes when forecast or projected results are to form the basis of the valuation.

Many owners feel uneasy about having to forecast results three, four or even five years in the future, in circumstances where they may find it difficult to estimate what will be happening in 12 months’ time. This is particularly true of start-ups.

Financial projections are inherently uncertain – but important. It is thus vital to understand their purpose to avoid any later misunderstanding. The purpose of financial projections in a business plan is in fact two-fold namely:

* To set out the financial implications of the company’s strategy; and
* To estimate performance.

The projections will set out the financial implications of the company’s strategy which, in narrative form, will provide the core of the plan. Here, the reader will be looking at the overall shape of the company’s expected financial performance as much as the exact estimate of profit in year five, and trying to get some idea of:

* The growth potential of the company.
* The sensitivity of profitability to fluctuations in sales and margins, and the relationship between product contribution (which depends on sales) and fixed costs, which tend to rise more irregularly.
* If applicable, the likely time-lag between investment (e.g. capital equipment, marketing or research and development) and return through sales or licence income.
* The major factors affecting cash flow (e.g. the major factors which will determine when the company will make the transition from a cash-consuming to a cash-generating business).

All the above trends can only become meaningful if analysed over time. And as the company’s strategy set out in the plan will cover a number of years, so should its financial impact, embodied in its financial projections.

Thus, financial projections, for all but short-term investment proposals, should be prepared for sufficient periods into the future to enable readers to identify and analyse these trends. This will usually mean at least three years, or longer in the case of projects with extended payback periods (an example of this could be a Hi-Tec company with a heavy emphasis on research).

The content of financial projections will also depend heavily on the second major purpose for which they are used: as a measure of performance.

1. **How much cushion should you put in the numbers?**

The financial projections included in the plan should be as realistic as possible, many entrepreneurs feel more comfortable if their projections are conservative, to avoid potential problems with investors if their targets are not achieved. This is no bad thing, as no new venture ever goes exactly according to plan. The question is how to recognise this in the projections while at the same time remaining realistic. The following hints may help here:

* As noted above, if there are significant uncertainties over figures in the projections (e.g. sales) it may be appropriate to produce two sets of figures, on a ‘realistic’ and ‘pessimistic’ basis.
* If only one set if projections is used, and anticipated revenues or expenses fall within a range of expected values, choose a figure at the lower end of the range.
* If looking for extra funds to take account of unexpected events, do not try and quantify this in the projections, which are only estimates anyway. Instead, add an appropriate modest percentage onto the amount you are seeking, under the heading of ‘contingency’.

Note: Undue conservatism may prove self-defeating if projections are unrealistically modest to the point of significantly reducing the value of the company in the eyes of the reader; realistic and achievable are the key facets.

1. **What about inflation in the projections?**

Problems always arise on the treatment of inflation in financial projections:

* If inflation is disregarded, this may complicate any investor’s calculations of return on investment, and prove misleading if the price of significant items in the projections rise faster or slower than the general level of inflation. In addition, future profits expressed at constant prices will be distorted by the effect of revenues or expenses calculated from historic data (e.g. interest income or charges).
* On the other hand, if inflation is to be taken into account, an inflation rate must be assumed. This may well prove to be wrong unless the time-span of the projections is very short.

There is no right answer to this question and both approaches described above are commonly used today. For the sake of clarity and simplicity, constant prices are to be used unless the distortive effect of differential inflation or historic-based revenues and expenses is expected to be significant.

Otherwise, a reasonable rate of inflation giving conservative results should be used.