

A practical guide to preparing a business plan

Every business, from start up to an established multinational group should prepare a business plan, which is regularly updated. Each business plan should be tailored to the particular circumstances of the business concerned and often may be targeted at potential investors.

The benefits of having a business plan include:

- providing a framework within which cohesive decisions can be made and action taken;
- focusing ideas from a wide variety of groups with the business;
- the plan can be used to communicate ideas, decisions and action to people within the business;
- providing a basis to raise finance through a professional document which can be presented to banks and venture capitalists;
- financial backers to the business (e.g. shareholders and bankers) draw confidence from a business plan, thus making it easier to raise future funding for expansion, new projects etc;
- identification of action which will improve profitability and cashflow;
- providing management with a benchmark by which to monitor actual performance against target set in the business plan;
- identification and reconciliation of conflicting objectives (e.g. between

major shareholders, partners, divisions, or product lines); and

- the very process of preparation concentrates the minds of key executives on where the business is going – an issue which is often overlooked in the day to day management of business.

As a management tool, the business plan should be a living document used first and foremost by management. However, it may also serve a specific additional purpose – it is one of the key means by which a finance provider will make a decision about lending funds and in these circumstances it should aim to convince potential investors of the company's ability to exploit its potential.

A provider of finance will not know the background of the company. The business plan will be his initial guide as to whether the proposals are viable and whether there will be sufficient rewards for the risk involved in providing finance. Thus, in preparing a business plan, the following fundamental points should be addressed:

- the strategic aims of the business;
- how business intends to implement initiatives to achieve its strategy;
- the financial consequences of these actions;
- how to set targets, such as financial projections to measure achievements; and
- how to monitor the results of implementing these strategies.

The business plan is a direct reflection of you and your business – do you understand your market place, do you have the vision and skills to take your business forward, have you evaluated the risks you face and taken steps to minimise them?

Who should produce a business plan?

A business plan should reflect the strengths of the business and the abilities of the management. It will therefore almost always be most effective as a working document if the management are closely involved in its production.

However, the business planning exercise will involve taking stock of where the business is now before deciding on where it is going. It is often in this area that management find that they are too closely involved in the everyday running of the business to be objective.

Grant Thornton has helped a diverse range of owner-managers to prepare credible business plans. We understand what is important to both the management and to finance providers – what they need to see and what they don't; how to present the information to help them reach a decision quickly. Ultimately, any finance provider's lending decision will be based on an assessment of the quality of the management and the strength of the proposal. But a good business plan will ensure you communicate the basis of your proposal succinctly and effectively.

Contents

The suggested contents of a business plan are summarised below. Each section is considered in greater detail on the following pages:

- executive summary;
- history of the business;

- management and personnel;
- markets and competition;
- products;
- marketing and selling methods;
- manufacturing processes;
- historical trading performance;
- financial analysis and underlying assumptions;
- risks and rewards; and
- appendices.

Depending on the size and complexity of the business, the plan could be a simple document of a few pages or a lengthy report of several volumes.

Executive summary

The objective of the executive summary is to provide a concise overview of the major points of the business plan. The executive summary should be restricted to one or two pages. The summary should cover:

- the purpose of writing the business plan;
- the major elements of the business plan;
- key strategies;
- important actions to be taken;
- any investment required and how it is to be used;
- management experience and its relevance to the proposals; and
- expected returns showing the potential reward to the investor.

History of the business

The following points should be considered for inclusion in this section:

- a brief history of the business;
- the development of the business, highlighting significant successes and their relevance to the future;
- the principal reasons for making the decision to pursue this new venture; and
- details on the present financing of the business, including details on

shareholders or partners and any security already given to lenders.

Management and personnel

This section is one of the most important, as the capability of management will be one of the key factors in the investor's decision as to whether or not to invest in the business. The following points should be considered for inclusion in this section in order to highlight managements' ability:

- the relationship between ownership and management;
- brief details of key managers, setting out their age, experience, expertise, past track record, achievements, contribution to the development of the company and their present roles;
- state additional management requirements for the future and how they are to be selected;
- ensure that any vacant positions or weaknesses in the management team are clearly stated along with plans to rectify them;
- if mistakes have been made in the past, state them, identifying how these have been a lesson for the future;
- set out the remuneration policies for key managers, including performance related packages and details of service contracts etc;
- give brief details of other managers and employees, setting out their roles, skills, remuneration, pension arrangements, industrial relations, union recognition and future requirements;
- set out recruitment and training policies;
- give details of present management information systems together with anticipated changes; and
- appendices should be included setting out detailed CVs of the key managers and a detailed organisation chart, with an additional chart for say three years' time if significantly different.

Markets and competition

This section shows the investor that the management understand and have given thought to the potential of the product, whilst giving management the opportunity of justifying the predicted market share of the product and thus justifying the sales forecast. The following points should be considered for inclusion in this section:

- an overall summary of your market setting out its size, growth and future prospects;
- state clearly your positions within all aspects of that market (e.g. product, territories, customers etc);
- give statistical information substantiating your views on the market and your place within it. In certain circumstances it may be appropriate to commission a market research study to obtain relevant information;
- state clearly why you are in that market and how your prospects compare with the market generally;
- define your customers, stating who they are, where they are, why they buy and when they buy your product;
- give details of the typical order size, station who makes the decision to buy and whether tenders or contracts are entered into;
- state whether there are influences on the buying habits of your customers beyond your control;
- identify the position of key customers within their own marketplace and the effect of this on your business;
- identify the competition, stating who they are and where they are. Give details of how the competitors compare with your company in size and potential and the market share of each major competitor; and
- state the strengths and weaknesses of the competition and give a realistic assessment of their response to the

proposals and how the proposals have taken account of this.

Products

This section should clarify in the mind of the investor the nature of the products being sold. The following points should be considered for inclusion in this section:

- describe in basic terms the main products or services, stating what is to be sold and how the product is used;
- identify the distinctive features of your major products, stating whether these problems can be overcome;
- state how long each major product will last before the customer needs to replace it;
- state whether any major products are being introduced by competitors, both now and in the future;
- set out the profitability of each major product;
- set out the current stage of development of each major product (i.e. are they still at the research stage or established on the market?);
- indicate future product plans and anticipated dates of introduction;
- set out research and development plans, particularly in relation to competing technologies;
- give details of products protected by patents etc;
- give details as to whether products require Government approval and whether this has been obtained, plus details of any industry standards to be met; and
- ensure that product details give credibility to your sales forecast.

Marketing and selling methods

This section gives further credibility to any predicted increase in market share of the product whilst demonstrating that

management understand the nature of selling the product in a competitive marketplace. The following points should be considered for inclusion in this section:

- a brief introduction to the overall marketing strategy, setting out your thoughts on market share, objectives, image, territorial objectives, specialisation etc;
- details of the pricing policy and whether it is cost or demand based;
- the anticipated effect of this pricing policy on demand for the product and how market share can be increased whilst still making a profit;
- expectations of price movements within the market generally;
- details of product promotions e.g. trade shows, public relations, promotional literature etc;
- state the predicted level of expenditure on advertising and promotions and the expected benefits to be derived;
- set out how the product will be distributed, e.g. own sales force, distributors, retail, export, delivery of goods etc;
- set out the support and after sales services and any warranty arrangements that will be required;
- give details of current order book, typical order size, credit terms offered, enquiries on hand and how they relate to future sales expectations;
- if endorsements from existing or potential customers can be obtained, these should be quoted;
- ensure that plans are practical, recognising any limitations as to human resources that the new venture may entail;
- give details of your sales force, e.g. number of salesman, location, coverage, remuneration policy order per call, average order size etc; and

- show that you have identified the decision makers who can spend money on your products and indicate who makes the decisions within your company on who to contact and in what order.

Manufacturing processes

In this section it must be shown that the production resources for the proposals are either in place, or details of future requirements must be given. The following points should be considered for inclusion in this section:

- a brief layman's description of the production process;
- details of your present and future facilities, e.g. property, plant, available work force etc;
- details of the present and future production capacity and expansion plans;
- state the key factors affecting production, particularly percentage yield and waste and how these are controlled and monitored;
- consider key raw materials e.g. dependence on one supplier, alternative sources lead times, makes or buy alternatives etc;
- state any production or operating advantages which you have;
- set out the varying costs at different volumes of production; and
- for products still in the prototype stage, careful consideration needs to be given to the transition to volume production, identifying likely areas of delay.

Historical trading performance

This section gives additional credence to the financial forecasts and thus gives the investor comfort that the forecasts are achievable. It also gives management the opportunity to comment on their past performance and highlight problem areas

that will be improved upon under new proposals. Grant Thornton can provide the financial expertise to give management significant assistance in this section. The following points should be considered for inclusion in this section:

- identify the key factors affecting the historical profit and loss account and balance sheets;
- set out any abnormal factors affecting the results;
- discuss the reasons behind fluctuations in sales, gross profit percentage, net profit percentage, retained earnings etc;
- discuss significant aspects of the balance sheets (e.g. stock holding period, number of weeks sales in debtors, number of weeks purchasers in creditors, major fixed assets, depreciation policy etc); and
- comment on the return on capital achieved.

Financial analysis and underlying assumptions

Grant Thornton has significant expertise in this area and can assist management in preparation of forecasts that are in line with the investor's requirements. The assumptions used in the preparation of the projections must however always be supplied by the management team. It is normal for the first year's forecast to be prepared on a monthly basis, with year two onwards being monthly, quarterly or annually depending on the nature of the proposal. All financial forecasts should show integrated profits and loss, balance sheet and cashflow statements. This provides a self check to avoid errors and provides for the needs of users of the information. The following points should be considered for inclusion in this section:

- explain how the sales forecast has been arrived at (e.g. how many products will

be sold, when, what will be the price etc);

- set out the levels of production required to achieve the sales forecast and maintain a practical level of finished goods stock;
- explain how these production levels have been used to calculate direct costs of production, including direct labour;
- set out the major variable and fixed overheads and explain how these have been accounted for in the projections;
- explain the assumptions used in the cashflow projections in particular credit taken by customers, stock and work in progress levels, credit taken from suppliers, discounts given and taken etc;
- detailed taxation assumptions, in particular corporation tax, VAT, PAYE, PRSI;
- cover any other significant items within the profit and loss account or cash flow projections (e.g. distribution costs, research and development, repairs etc);
- give details of assumptions made regarding inflation, movement in interest rates, foreign exchange rates etc;
- explain the funding assumptions (e.g. type, availability and timing, grants used, interest rate, dividends etc);
- state fixed asset requirements, costs, methods of financing the purchase, depreciation method and rates;
- include commentary on the forecast explaining in layman's terms what the numbers mean;
- ensure the figures are clearly justifiable by reference to other sections of the plan; and
- set out sensitivity analysis on key assumptions (e.g. the effect of 10% movement in sales profit and cashflow or the effect of a 10% movement in labour efficiency etc).

Risks and rewards

This section shows the investor that management recognise the risks inherent in the proposals and how the risks are going to be minimised. However, this should be countered by pointing out the strengths of the proposals and the likely rewards. This section should cover;

- the inherent risks in each part of your business plan and your opinion on the likelihood of these occurring;
- details of the steps taken and to be taken to minimise the effect of these risks on the performance of the business;
- an analysis of the likely effect of such risks on both profit and cashflow;
- the rewards to the investor if the plan is achieved, e.g. indicate the worth of the business in three/five/seven years time and the return on his investment this would represent; and
- recognition of any potential investor's needs and demonstrate how your plans meet them.

Appendices

The following are typical items which may be found as appendices to a business plan:

- CVs of key managers;
- organisation charts;
- market studies, articles from trade journals etc;
- product literature and technical specifications;
- details of patents, Government approvals, industry standards etc
- professional references;
- historical record (three years +) or if not practical the latest audited accounts
- latest management accounts;
- financial forecast (e.g. profit and loss account, cashflow statement, balance sheet, assumptions etc) for three to five years; and
- glossary of terms.

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