

Business Plans

What is a business plan?

A business plan presents management's plans for a business in one concise and coherent document. Business plans are most often prepared for the object of raising or maintaining finance and, as such, need to convince potential investors that:

- the business has commercial merit;
- a market exists;
- the business has a capable management team; and
- the potential returns are worth the risk of investing.

In summary, a business plan provides a potential lender / investor with the critical information they need to know about a business and its objectives.

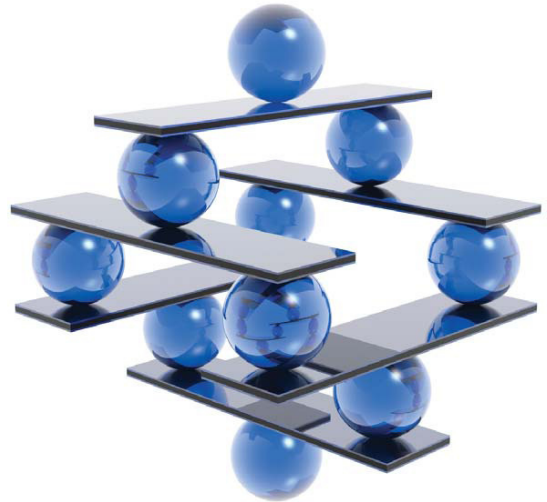
The form of the business plan

A business plan can take many forms, but there is an increasing convergence towards a standard model that supplies potential investors with a comprehensive yet concise description of the business and its aims.

A good business plan will generally contain the following sections:

- Executive summary
- Background, history and overview of the business
- Description of management and other key employees
- Market analysis and research
- Description of operations
- Financial projections
- SWOT analysis
- Potential exit routes
- Historical financial information

You may decide to combine or even omit certain sections. Remember it is your document and it can be presented as you see fit.



The business plan should be well laid out, well presented and not contain grammatical or spelling errors. You should generally adopt the same rules as you would for preparing a CV – make sure the basics are covered or it might end up in the bin before the second page has been turned.

Executive Summary

This is probably the most important part of the business plan. Many potential investors will only read the Executive Summary – if it does not catch their attention and generate interest, the rest of the business plan may be a wasted effort.

Make sure the executive summary reviews all of the key points of the business plan, but remains concise. In all sections of the business plan, you should put yourself in the mind of the reader; with the executive summary this is particularly important.

Make sure the executive summary gives an overview of the reasons for requiring finance and the amount of finance being sought – this ensures that the reader can go through the rest of the document in context.

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Background, history and overview of the business

The business plan should contain a clear description of the business's activities and a background to recent events that may have led to the seeking of finance.

There is no need to give a detailed history which will take the reader hours to digest. Just give the key facts.

Management and employees

This section of the business plan can be more important than you think. Potential investors want to make sure that, not only are they going to be dealing with the right individuals, but that the business, and therefore their investment, will be in safe hands.

This section should describe the management and, if relevant, key employees of the business who will implement turning the plans to fruition. Remember that you may well be trying to 'sell' the key individuals as much as the business itself.

If it is the intention to recruit certain key individuals, describe how and when this will be undertaken.

Details should be given of both the current and expected future roles of the individuals identified, together with a summary of the key skills they bring to the business. It may also be wise to specify the expected remuneration of each individual, as potential investors will not want to see their future returns reduced by over-inflated management salaries!

A CV for each key individual should be included in this section. Depending on the length of these CVs, it may be more appropriate to include them in an Appendix.

Market analysis and research

This section describes the market in which the business operates (or intends to operate), how the business fits into the market and, most importantly, how the business intends to succeed in that market.

The plan should clearly state:

- present and proposed market (market size, market share, geographical areas);
- key competitors and how they influence the market;
- how growth / an increase in market share will be achieved;
- marketing techniques;
- seasonality and how this may affect cash flows;
- key customers in the market (terms of trade, prospective major customers);
- gross margins / pricing policy;
- sales force (distribution, commission structure); and
- any other characteristics of the market that may affect the business's ability to achieve its targets.

Where external sources have been used, e.g. to identify market size, provide a reference to the source. This will leave the reader in no doubt that you have done your homework. Also, if there are future sales that have already been confirmed, make this clear and, more importantly, provide supporting evidence.

Whilst it would be foolish to be over-optimistic, remember that any potential investor will be looking for growth potential. This section should therefore include a reasoned analysis of how growth will be achieved.

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Description of operations

The aim of this section is to describe the operations of the business and how these will develop as the business grows.

The following details should be considered:

- similarities or differences of operations with competitors;
- suppliers - sources of supply, supply agreements, significant dependence (key materials and skilled labour), production costs;
- details of any manufacturing capabilities;
- the use of sub-contractors;
- the nature of the productive process and critical points in that process,
- the importance of any plant and machinery to include details of any capital requirements;
- locations; and
- compliance with legislation.

Financial projections

This section will provide a summary of the financial projections and related assumptions. Detailed projections should be included in an Appendix to the business plan. An accountant will normally be involved in either preparing or reviewing and reporting on these figures.

The key figures and ratios (on a quarterly or annual basis) from the detailed projections should be drawn out and analysed. The following figures will generally be of particular interest:

- turnover;
- gross profit margin;
- net profit;
- net assets; and
- debt/gearing – funding requirement.

Potential investors normally look at 'sensitivities' when analysing the projections. They will often ask for certain scenarios to be projected (e.g. what happens to profit if expected growth in turnover is not achieved? Or, what is the break even position?). It may therefore be wise to pre-empt queries by running a series of sensitivities, thereby providing investor comfort that you have not just assumed the best-case scenario.

SWOT analysis

A 'Strengths, Weaknesses, Opportunities, Threats' (SWOT) analysis is a key tool in summarising the potential of the business. Strengths and Weaknesses generally refer to internal factors. Opportunities and Threats generally refer to external factors.

Some examples of items to be included (which is by no means comprehensive) are set out below:

Strengths

- experienced and skilled employees
- strong brand
- modern equipment
- unique product
- established business

Weaknesses

- ageing computer systems
- lack of experience in new markets
- difficulty in collecting cash from debtors
- high gearing

Opportunities

- launch of existing products into new markets
- competitor withdrawing from market
- new laws increasing demand in the business's products
- trends and fashions increasing interest in the business

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Threats

- new competitor entering the market
- loss of key employee
- potential of product becoming obsolete
- changes in exchange rates affecting material prices

Try to strike a balance between an honest, warts and-all analysis and an optimistic appraisal.

Potential exit routes

Remember that your potential investor may not want to be around forever. Generally, an investor will have an exit strategy in mind, which may be a trade sale, buy-back of shares or flotation. A potential exit may be immediately apparent from the projections (e.g. the repayment of a loan) but, if not, include a section describing the expected exit route and exit timeframe. Do not forget to include the investor's expected return!

Historical financial information

It is important to provide some historical financial information as well as projections. This will allow the potential investor to compare the two. If the projections show a far better position than the historical information, clearly some explanation will be required.

Generally, a summary of the last three sets of audited accounts should be included, with copies of the full documents included in an Appendix.

A business plan is often the first, and possibly the only opportunity an entrepreneur has to communicate the merits of a business to a potential investor.

In summary, a business plan should therefore:

- highlight the key value drivers;
- provide information to enable an indicative offer;
- be capable of withstanding the due diligence process;
- ask the question - what will this business look like in 3 years' time?; and
- demonstrate growth and future.

The plan must impress potential investors sufficiently to generate further enquiries.

Hazlewoods LLP have extensive experience in preparing business plans and forecast models and are able to provide advice throughout the fundraising process, be it debt, equity or other more complex instruments.

For further information, or to arrange a free initial meeting, please contact **Paul Fussell** on **01452 634800** or email paul.fussell@hazlewoods.co.uk

This release has been prepared as a guide to topics of current financial business interests. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of this material can be accepted by us.

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