Business Plan Approach

When starting your own business, you should avoid the Christopher Columbus approach. When he set out on his journey he didn't know where he was going. He didn't know where he was when he arrived. And when he got back, he didn't know where he had been.

Research has shown that over 50% of businesses that start without a business plan fail within the first two years.

Success in modern business requires planning. It makes good sense at any early stage to seek the advice and assistance of an experienced professional to ensure that your business is set up on a sound footing. That's where TOC Accountants can help you.

ARE YOU UP TO IT?

Before carrying out any detailed work it is essential to analyse your business and appraise your basic commercial strategy. Ask yourself the following questions:

* What exactly is the product or service you are selling?
* Is it, or how will it be, ready for its market?
* How do you go from developed product to first sales?
* Where, precisely, are those first sales coming from?
* What team will achieve this?
* What are you expecting your business to be doing in a few years' time?
* What team will be achieving that?
* Should it be the same?

You, the entrepreneur, will be playing a developing role in this business. How are you going to drive the business forward, get those vital sales at the right margins, meet the production schedules, administer the business so that you know where you are, have reliable and up to date management information and lead the development of the team managers that you will need in order to achieve your expansion? If you don't know, or you are just a brilliant inventor who does not really care, stop now!

Finally, do not underestimate the amount of time required to establish and finance a new business venture. It can take up to six months.

FIRST PROJECT APPRAISAL

The entrepreneur's first appraisal of the business is the most important. You must appraise your own proposals - taking independent advice and critical comment where necessary - in order to get the important elements clearly in your mind before spending time on more detailed business planning. Done well, your self-appraisal will match the bank's or venture capitalist's appraisal of the major elements of your business.

You should begin with fundamental considerations and build up more detailed appraisals afterwards. Start with the three M's:

- Management,
- markets and
- margins.

Without competent management, a properly understood market into which the product will sell, and more than adequate margins from trading, there will be little point in taking it further. You cannot assume that all these elements will be there because of the excellence of the productor service. You need to be able to demonstrate, by independent evidence, that each ofthese elements is present in the business.

The product, the market, the management team and an appropriate commercial strategy go together. It is not always appropriate, for example, to go it alone with a one-product business in a fast moving area oftechnological development. If the technology needs to be eased into a market dominated by big companies and the managementteam does not have the skill to do that, a joint venture - teaming up with a significant company already in the industry - may be the best way forward. You will need to consider how your commercial strategy is going to cope with further products or services and how those will be developed to serve (and be sold into) their respective markets.

THE MANAGEMENT

Management will need to encompass production, marketing, financial, administration and leadership skills. This normally requires a team as these attributes are rarely present inone person. If you are starting a very small business you may need to rely heavily upon external advisors to supplement and support you in the areas where expertise is lacking.

A management team will need to be relevantly experienced, complementary and determined. An applicant's curriculum vitaeshould be scrutinised and all references takenup.

MARKETS AND MARKETING STRATEGY

Who are your customers? The most frequent failing in start-up situations is a lack of a well considered foundation to sales -the top line of trading projections. A little probing will soon expose any marketing plan which is based on assumptions which are thought to look good just because they convert into a convenient arithmetic progression of sales. It is irresponsible to launch a business without researching the market and you can be sure that potential investors and lenders will want to know what independent perspectives you have obtained.

MARGINS

There will be typical margins for your industry and on your range of products and services. The market will be sensitive to different forms of product and to the response of competitors to new entrants. High margins, although offering less danger of collapse following any unfortunate marketing decision, are more vulnerable to competition.

Low margins are totally different to operate successfully and require a much more controlled typeof business. Such businesses need to be highly flexible and should have a strict control over their working capital. It will be crucial to assess your margins with a reasonable degree of accuracy and to understand the impact of changing margins on cash requirements.

BUSINESS PLAN

Any business plan worth its salt should convey the drive,character and determination ofthe management. It should also start with a summary of the business, people, proposal and the financesought.
Thereafter it should give details of:

- The business
- The market
- The management/employees
- The product
- The achievement of sales
- Costs
- Margins
- Projected profits, cash flows and balancesheets
- Finance required and its proposedapplication
- The principal risks and consequent sensitivities
- How the business will be developed andadministered
- The longer term view and the commercial strategy ofthe business

Appendices will deal with the trading terms and assumptions on which the projections have been based, and all the detailed forecasting needs to be relegated there. Details about customers, suppliers and CVs of key personnel can also appear in theappendices.

Beware of projections and models getting out of hand, but do learnto set up a simple model of how your business will behave so that the impact of changes in the market can be demonstrated.

FINANCING THE BUSINESS

The objective for structuring the finance of your business isto obtain a bankable proposition with finance matched toneed.

Most businesses ultimately continue on the strength of theconfidence of their bankers. All the other finance must result in a bankable balance sheet. If you insist on proceeding against the better judgement of the bank manager you will launch a business which is likely to fail.

The funding of the business should enable it to survive anyreasonable period of misfortune. Until that position is reached the business will be fragile and investors and bankers are likely to take a cautious view. For this purpose, and to allow for additional fundsto be raised later for expansion, an adequate equity base will be essential.

You must budget forward, usually for more than one year, and project cash flows and balance sheets and demonstrate the sensitivity ofthose projections to trading assumptions. Then you will begin to develop the dynamics of the business.

Some early questions must be:

* Do I really appreciate how much I need?
* What proprietor's equity is available?
* What is comfortably, conventionallybankable?
* Must someone subordinate their claim to the bank andbridge the gap between need and equityavailable?
* What period of finance does the cash flow suggest?
* To what purpose will the finance beput?
* What range of working capital requirement is likely?
* What reward (capital gain) does the proposal offer to the takers of risk?

BANKS

Start with the bank's view. Banks want their money back so yield can rarely compensate for risk. Term loans need to be adequately covered by break up values of longer term assets. Overdrafts should be covered by stock and debtors, and should be self-liquidating during the year. If they are not, more long term finance is required and that may have to be equity.

Bankers will look for security and gearing. Gearing is the proportion of borrowed money to proprietors' own money in the business, ie: the debt/equity ratio. Bankers will often say that they prefer that proportion to be about 1:1. Gearing higher than 2:1 often becomes the outward visible sign of bankers' anguish. It is usually unreasonable to expect banks to put more of their depositors' money into a business than the money put in by the proprietors or by others who subordinate their claims to the bank.

PROPRIETORS' EQUITY

It is rarely impossible for a proprietor to raise a modest stake himself. You should be aware of the increasing possibilities of raising proprietors' equity, including loan-backs, endowment policies and the tax attraction of investment by relatives and friends using the Employment Incentive Scheme (formerly Business Expansion Scheme).

The Business Expansion Scheme was originally introduced to encourage investment in the equity capital of unquoted companies, the new Employment Incentive Schemes focuses on job creation; these investments carry risks, but also the chance of rewards. The scheme provides a generous tax incentive to the investor which can substantially reduce the cost of the investment and thereby increase the potential return on investment.

INSTITUTIONS

For many small businesses, the thought of allowing someone else to own shares in what is considered to be a family business prevents them from looking at BES or institutional equity investment. However, there are a number of organisations that are prepared to take a minority holding in a small start-up business such as venture capital or angel investors. You may need to accept that you will not be able to retain 100% ownership of your prospective business.

GOVERNMENT SOURCES

Consider all available sources of finance. These could include Government grants and schemes relating to the purchase of fixed assets and training programmes.

LEASING, HIRE PURCHASE AND THE EIB

Leasing and hire purchase can be an integral part of medium term finance as can various types of loans from a range of sources including specialist finance companies and the European Union via the European Investment Bank.

LEGAL ENTITY

You will need to consider the type of commercial enterprise under which your business will operate. The most common are:

Sole Trader

A sole trader is a person in business on his own account. There are no statutory requirements governing the format of a sole trader's accounting records nor is there any necessity to have them audited. A sole trader is required to register (if appropriate) for VAT and PAYE purposes and maintain records sufficient to make the necessary returns. A sole trader is personally liable for all liabilities of the business.

Partership

A partnership is where two or more (generally up to a maximum of 20) individuals enter into a business which is governed by the Partnership Act 1890 and/or a partnership agreement. The requirements in relation to accounting records and audit are similar to those of a sole trader. In general, each partner's liability is unlimited.

Limited Company

Such companies are incorporate under the Companies Acts 1963-1990 which impose accounting, audit and public disclosure requirements. An individual shareholder's liability is limited to the amount of his share capital (both called and uncalled) in the company.

If this entity is selected the choice of the shareholders, both at, and after, formation, requires consideration to avoid possible income tax and and inheritance tax problems in the future.

You should seek the advice of your accountant or solicitor in determining the legal entity most appropriate to your particular circumstances.

The attached checklist provides some details of those matters which should be considered by a potential entrepreneur before taking any further steps.

CONCLUSION

As we have shown, there are three crucial elements to a successful business - Management, Markets and Margins. It is necessary to assess your market and the product or service you are selling into that market, the profit margin which that market will provide, contingencies and the financing of the business. Above all you have to ensure that management is responsible, disciplined and has the necessary skills to run a business. Most small business failures are the result of inexperienced management.

We would be delighted to meet with you at any time to discuss the above or any other matters that require expert and professional advice. **Feel free to call us today**.

	Tick When Completed
Key Personnel and areas of management completely covered	______
Product/services adequately defined and adequately established	______
Market for these products/services defined	______
Workforce identified	______
Premises identified	______
Facilities (production/office) identified	______

PROJECTED PERFORMANCE:

* budget realistic with enough marginto providefor contingencies and tougher market

* cash flows incorporate contingencies

* balance sheets projected ahead

Finance required and its proposed application shown

Customers researched

Suppliers contacted and terms established

Competition assessed

Principal risks listed

Accounting, monitoring and performance criteria decided

FORM OF BUSINESS DETERMINED:

* Sole Trader

* Partnership

* Limited liability company