

### **INTRODUCTION**

This leaflet contains advice for anyone seeking:

- \* Finance for a new business venture
- \* Additional finance to help an existing business grow; or
- \* Funds to support a management buyout

The type of finance you are seeking may range from a bank overdraft or medium term loan to new equity capital.

The leaflet is divided into two parts:

- \* The executive summary, indicating how management should summarise the nature of their business, its recent sales and profit levels, its sales and profit projections for the next three years and the investment proposal;
- \* The business plan format, summarising the kind of information which should be included in a good business plan and explaining how it can best be presented; and

Each part explains how to provide essential information to prospective financiers. Most financiers - and advisers too - prefer to see an executive summary before they look more closely at the detailed plan. From this summary they can quickly determine whether it is the type of business they generally support and whether the management has a clear understanding of the essential facts about the enterprise.

The business plan *is* usually the first opportunity a company or individual has to impress prospective financiers with the viability of a business and its prospects. It should always be written by the management team. A prospective financier will be assessing an investment in the management team rather than the professional adviser, so it is the management's words, plans and aspirations which he wishes to read. The role of the professional adviser is to give guidance on preparation and to review the plan.

## THE EXECUTIVE SUMMARY

- \* Objective
- \* Length
- \* Main Points

### OBJECTIVE

The objective of the executive summary is to convey the main points of the investment proposal to the potential financier, attract his attention and encourage him to read on.

Different organisations are interested in different stages of investment, different types of business and different sizes of investment. The executive summary should therefore aim to answer the potential financier's basic questions.

### LENGTH

The executive summary should be contained at the front of the business plan and typically should not exceed two pages in length.

### MAIN POINTS

The following questions should be answered:

- \* What does the company do?
- \* How long has it been established?
- \* Who owns the company and who manages the business?
- \* What are the sales and profit levels for the last three years and those forecast for the next three years?
- \* How much money does the company want to raise and why?

## **THE BUSINESS PLAN**

### FOREWARD

- \* Objective
- \* Length
- \* Verification
- \* Essential Points

### MAIN TEXT

- \* Summary
- \* Business
- \* Markets and Marketing
- \* Competition
- \* Customers
- \* Products and Product Development
- \* Production
- \* Suppliers
- \* Management
- \* Location
- \* Ownership and Structure
- \* Financial Analysis
- \* Exit Routes

### SCHEDULES

### APPENDICES

## **FOREWARD**

### **OBJECTIVE**

The objective of the business plan is usually, but not always, to raise money. It therefore has to convince a potential financier that the business is a worthwhile investment. To do this, the plan should:

- \* Attract the financier's interest and attention;
- \* Emphasise the strengths of the business and its position in the market, especially compared with its competition;
- \* Recognise the risks; and
- \* Project the development of the business.

The financial forecasts are a critical part of the plan. Consideration should be given as to how each piece of information in the plan affects the plausibility of the forecasts.

The financier needs to be convinced that management has the expertise and commitment to realise the potential of the business.

Preparing a business plan is a useful discipline for all businesses because it clarifies management's view of how it sees the business developing. A good management team will already have prepared a corporate strategy written for their own purposes, which may form the basis of a business plan to raise finance.

### **LENGTH**

The plans should be brief: most are ten to fifteen pages. A balance needs to be struck between ensuring the document is concise and well presented and providing sufficient information. The financier will often conduct his own investigation and therefore will not always need detailed explanations. Any detailed information should be provided in the appendices.

## **VERIFICATION**

Where possible, reference should be made to external data or publications to support the information given. Unsupported opinions and assertions show a lack of preparation and professionalism.

The business plan should indicate where financial support(including government assistance) has already been given or offered.

## **ESSENTIAL POINTS**

A considerable amount of information is required in a business plan. Bear in mind the following points:

- \* Pay particular attention to presentation: first impressions are important. Approximately 95% of business plans are rejected, often because their presentation lets them down.
- \* Be frank. If you misrepresent something, the astute reader will see through it and will not be impressed.
- \* Make every effort to sustain the reader's attention from start to finish.
- \* Ensure the logic, proposals and assumptions are consistent throughout the business plan.

Do not underestimate the time taken between presenting the business plan and receiving the required finance. Depending on the type of finance required, the delay could be anything from a few weeks to several months.

As a general rule the business plan should be structured in three parts:

- \* The main text;
- \* The schedules containing financial information;and
- \* Detailed appendices to support information and opinions expressed in the main text.

## MAIN TEXT

The main text of the business plan must deal with certain specific matters:

- \* Summary
- \* Business
- \* Markets and Marketing
- \* Competition
- \* Customers
- \* Products and Product Development
- \* Production
- \* Suppliers
- \* Management
- \* Location
- \* Ownership and Structure
- \* Financial Analysis
- \* Exit Routes

## SUMMARY

The summary should outline the purpose and aims of the business. It must address the specific issues upon which the decision to invest will be made (these points should be considered in greater detail in the rest of the business plan). The summary should include:

- \* A brief description of the business;
- \* The finance required;
- \* The critical points of the Financial Projections, such as maximum funding requirements or break-even points;
- \* The particular strengths of the business, whether in its management, products or market sector;
- \* Any events, such as the completion of product development or the granting of planning permission, upon which the success of the venture depends; and
- \* The major *risk* factors of the proposed venture.

## **BUSINESS**

This section should describe in simple terminology exactly what the company does and briefly explain the background and history of the company.

Features which distinguish the company from its competitors should be highlighted such as any patents, brand names or proprietary technology. The section should also consider why people buy from the company rather than its competitors, whether they will continue to do so and whether the products are in danger of becoming obsolete or superseded.

## **MARKETS AND MARKETING**

This section should enable the potential financier to estimate the possible growth of the business. It should include:

- \* A description of the market including location, current size, potential growth and particular characteristics;
- \* A description of the company's own market share and detailed reasoning for any projected changes in that market share;
- \* The segment of the market to be targeted and the specific opportunities the business is seeking to exploit, including the potential threats and how these might be overcome.
- \* Consideration of whether the market is subject to changes in fashion or any other outside influences and how it may be affected by recession;
- \* Comment on any barriers to entry which may exist to prevent new competitors entering the market in the near future;
- \* Marketing plans including marketing positioning and promotional strategy; and
- \* Plans for selling and distribution, and an outline pricing policy.

If the business has a separate marketing plan it may be included as an appendix.

It is easy to fall into a number of traps when considering the potential market. Some of the more common errors are:

- \* Using misleading or inappropriate statistics;
- \* Not recognising the mix or distribution of customers in a particular market;
- \* Claiming your product is 'unique';
- \* Not recognising special characteristics of the market such as seasonability or dependence on complementary products;
- \* Failing to consider the likelihood of market acceptance of a new product;
- \* Failing to consider the response of competitors; and
- \* Assuming orders from existing customers will be repeated.

## **COMPETITION**

Good management will know a great deal about their competitors and this information should be summarised here, including:

- \* A description of main competitors setting out their perceived strengths and weaknesses;
- \* The size of major competitors and their market share compared to the company;
- \* Any information available on the financial position of main competitors rather than the company – it could be price, quality, service, speed of delivery, brand name or reputation.

## **CUSTOMERS**

This section should:

- \* Describe the major customers of the business and their percentage share of turnover;
- \* Assess the financial and corporate position of major customers; and
- \* Detail the current order book and describe any seasonal variations which may occur.

It is necessary to balance the available opportunities and the risks arising from over dependence on a limited number of customers.



## **PRODUCTS AND PRODUCT DEVELOPMENT**

This section should:

- \* Define the products in layman's terms;
- \* Describe any additional research and development required to produce marketable products;
- \* Identify the principal features of the products, including costs, ease of production and adaptability to market changes;
- \* Consider possible future developments to maintain competitive advantages; and
- \* Refer to any endorsements received from trade journals, customers or potential customers, and market surveys or opinion polls (details of these should be included as appendices).

## **PRODUCTION**

This section should outline the production process, including:

- \* Actual and potential capacity;
- \* Sources of supply;
- \* Appropriate significant ratios, for example output per employee, machine efficiency;
- \* Current and future availability and location of production facilities;
- \* Dependence on specific factors such as the availability of materials or skilled labour, their price volatility and the frequency of plant replacement; and
- \* Advantages of your production process over that of the competition.

## **SUPPLIERS**

This section should:

- \* Describe the principal suppliers, their location and financial position;
- \* Detail whether essential suppliers are multi-sourced and consider protections which exist against delays or inadequate quality; and
- \* Detail reliance on imports or commodities which may be subject to exchange rate fluctuations or changes in world markets, and the steps taken to minimise these exposures.

## **MANAGEMENT**

It is most important to demonstrate the qualities and suitability of management. The experience and achievements of a company's managers carry a lot of weight in influencing an investment decision.

Brief details about the directors and senior managers of the business should be included, indicating for each their:

- \* Age;
- \* Qualifications;
- \* Track Record;
- \* Relevant Experience;
- \* Role in the Business;
- \* Other Business Interests; and
- \* Shareholding (Present and Proposed).

The motivation of the management team should be outlined highlighting their personal aims and incentives.

The management structure should also be set out in the appendices, identifying key individuals. This section should also include an outline of management and staffing requirements, succession arrangements, staff turnover levels, particularly for senior management, the availability of employees and any special skills or qualifications required. If particular skills are missing from the management team, for example a finance director, this section must comment on the situation.

## **LOCATION**

If the location of the business is a significant factor due to markets and supplies then details should be given in this section.

Briefly outline the size and ownership of premises and explain whether there is sufficient space for current and forecast requirements.

## **OWNERSHIP AND STRUCTURE**

This section should provide details of current shareholders and their holdings and any expected changes along with details of any existing or planned share option schemes.

If the business comprises more than one company, a summary diagram of the group structure should be included together with a brief description of how the businesses interrelate.

## **FINANCIAL ANALYSIS**

The financial analysis should include summary profit and loss figures and comment on the history and projections with salient features highlighted. Key assumptions underpinning the forecasts should be outlined. Management's plans to monitor and report on performance should also be included.

Detailed financial analysis should appear as schedules.

## **EXIT ROUTES**

This section should explain the method and timescale envisaged for shareholders to make a profit on their shares. Potential financiers would typically expect to realise their investment within say five years.

## SCHEDULES

The schedules should indicate:

- \* Detailed financial history covering three to five years;
- \* Detailed financial projections for the next three years, phased monthly for at least the first year and including integrated projected profit and loss accounts, cashflows and balance sheets;
- \* The principal economic and commercial assumptions upon which the projections are based, for example market share, capital expenditure, utilisation of capacity, interest rates, exchange rates, collection of debtors and payment of suppliers; and
- \* Significant accounting policies used by the business, for example the recognition of profit, write-off of both tangible and intangible fixed assets, valuation of stock and treatment of research and development costs and transactions denominated in foreign currencies.

The profit and loss accounts, cashflows and balance sheets must be integrated. The models that TOC use automatically adjust from Profit and Loss, through the Cashflow to the monthly Balance Sheets so that the results of adjustments can be seen in a matter of seconds. Financial modelling can be used to carry out sensitivity analysis to answer "what if" questions. It may be useful to show high and low forecasts in the plan.

A common mistake is to underestimate funding requirements. The business plan will not be more attractive to the financier merely because the amount of finance requested is modest. Funding requirements should take into account the development of the business over at least three years and should allow for contingencies. It is very important that prudence be exercised. There is nothing more transparent than an unrealistic forecast.

## APPENDICES

The appendices should include any information which is not suitable for the text of the business plan, but which explains or supports the information and opinions the plan contains. They might include:

- \* Illustrative tables;
- \* Full details of the directors' and senior managers' backgrounds;
- \* Technical information;
- \* Sales literature;
- \* Market studies and third party endorsements;
- \* Cost estimates and quotations provided by third parties;
- \* Audited financial statements; and
- \* Latest management accounts and existing budgets.

Research indicates that the main identifiable deficiencies in business plans are:

- \* Failure to address the key marketing issues.
- \* Not properly researched.
- \* Over optimistic.
- \* Lack of contingency planning.
- \* Poor competition knowledge & analysis.

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.**

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