The Business Plan

Set out below are the key areas which should be covered when writing a business plan. Remember though that this is an important document. It must be engaging, concise and easy to read but also pleasant on the eye. Keep it to less than 20 pages.

Contents

Front Page

The Front Page should contain the following information:

1. The Registered Company name and address
2. The trading name if different
3. The name and contact details of the main contact (usually the MD)
4. Your logo and a picture or graphic which represents your business.

Overview

Usually, you have a full executive summary at the beginning of the business plan. We prefer to keep this as a separate, standalone document. Instead, you need 2-3 paragraphs which sum up the business and what makes it an attractive offer to investors. It is effectively a summary of the summary. Sometimes it can be easier to leave this till last. Use your manager to help you here, it's often really helpful to have an outsider do this with you as they are reading it from an investors perspective.

Table of Contents

You must have a table of contents in your business plan, some investors like to jump straight to certain sections, like the financials.

Introduction to the Business

This section must cover the following points; be brief you will expand on this later in the document:

1. Introduce the business and what it does / will do.
2. Describe concisely how the project came about and progressed to the present situation.
3. State what stage the business is at now. Highlight briefly the most salient features of the company's products and services – their competitive advantage.
4. Do you have any major alliances with other organizations, if so how do they add value / contribute to the business in outline terms? What is the basic nature of the relationship?
5. Outline where you want to go from here - what you want to achieve. What are the company's main aims and objectives? Quantify these. What are the next key stages and milestones?

Products or Services

1. Describe your products / services in clear and simple terms, describing any unique features
2. What consumer/market need is being satisfied by these products/services that is not being satisfied at present? This is very important.
3. What is your competition (in brief you will address this in greater detail in Route to Market below)? How will you overcome the barriers of entry and obtain market share? Explain any performance advantages / value advantages over rival products.
4. If it is a physical product, are you intending to manufacture the product yourself or sub-contract/licence out the production? If the later do you know who to? Are you expecting the manufacture to be in the UK or abroad? If abroad, where? In either case have you approached a manufacturer and has he expressed a willingness to do it? Have you discussed terms. If you

are using your own production facility, describe what the fixed costs of the facility will be and differentiate these from the variable costs of production (e.g. materials).

5. Explain what policies you have towards stock holding and component reordering – this is important to ensure continuity of supply but also to ensure that stock does not consume too much working capital – and that sufficient capital to fund stock has been planned for. Are the costs of this in your financial plan?

6. State what your production capacity will be: how many products can you make, per month or year.

7. Explain your pricing strategy, how does that compare with the competition? Explain how you are going to achieve the margin you require with the producer if not the company itself and the Distributor needing margins of their own. If you are going to licence the product/service explain the model.

8. Do you have a pipeline of future products or services? If so state what they are, at what stage of development they have reached,

Achievements to Date

This is a really important section as it demonstrates to an investor your ability to deliver.

Explain any “evidence of success” you may have – from customer orders, market testing, working prototypes, expressions of interest, industry recognition, website built, patents filed or granted, money raised already, team members brought in, key contracts won or promised etc. Outline any other factors that have increased the likelihood of success.

The Route to Market

This section should describe the market you will be operating in – generally and specifically in terms of which sectors you will be targeting, what is the size of each sector, and what are the main current products being offered to that sector.

1. Give an overview of the size of the market, by segment, put your company in the relevant segment and state what percentage of that segment you are hoping to capture in each of the next 4/5 years

2. Give an estimate of the growth of the sector for the next five years with reasons.

3. List your competitors in detail, with market share and explain why you will take some of the market from them within 3/5 years. (make sure this section ties in with your financial forecasts)

4. How will you get your product to market? Explain your marketing and sales strategies in detail. Will you employ outside agencies to help you? If so, do you know which ones and have you discussed cost with them? (it is often hugely expensive to wrest market share from competitors, even if your product is superior). Look at all types of marketing identify those you are hoping to use, give costs. When you discuss sales, who will you use? Will you have your own sales force?

5. Explain your preferred method of distribution.

6. Describe any e-commerce that you are intending to use. Discuss how you will get your product noticed in the e-commerce space.

7. Discuss the administrative side of the sales process, what will your terms of business be, how does this compare with the competitors (i.e. debtor days, and other financing wheezes)

8. Your revenue projections will be based on the number of customers you can sell your product too and this figure is driven by your marketing effectiveness. You should at all times justify or prove your marketing effectiveness by drawing in comparisons with similar businesses or by the customer 'conversion' figures you have already achieved.

The Team

This is a crucial section as Investors back *people* not businesses.

1. Explain who is involved, what are their positions, what relevant experience and qualifications do they have. Include a photo and a biography on each of the key members of the team though be brief, you should include full CVs as an appendix or have them ready should they be requested. You should highlight their abilities and track record that relates to their role in this business i.e. give investors confidence that your team can collectively deliver on your plan.

2. What is your organizational structure? (Include an organization chart if appropriate).

3. Outline any skill gaps you still need to fill, and how you intend to do so. If you do not recognize the skills gaps the investors will do and may feel your plans are unrealistic.

4. Include details of board advisors, mentors and lead investors too.

Key Milestones

Managing investor expectations is an important part of running your business post-investment.

In this section you should set out what you expect to achieve in the first year of operation following investment and thereafter. This gives you and your team a clear target to work towards and also helps investors track how the business is progressing.

It's important to lay out these key milestones in a simple way that is easy to understand and to link them to the other activities that drive the growth. Layouts could include Gantt charts, matrixes, or line graphs.

Key milestones to think about including in the plan are:

1. Revenues. When you expect to be in revenue and how it increases over time.
2. User numbers. The growth of user/customer numbers compared against marketing activity
3. Technology. Key leaps forward in technical functionality.

It's ideal to link them all together showing how advances in technology or marketing activities drive up the customer numbers and in turn the revenues.

A key part of fundraising is the post-investment management. This comprises regular updates to shareholders on the development of the business, in line with your plan and also management accounts for the last period. Basing your updates on the milestones set out in your original plan is an effective way of keeping you focussed on delivering results whilst maintaining an open and honest relationship with your investors.

Financing Requirements and Deal for the Investor

This section should explain to investors:

1. How much money you need to execute the plan and the status of any tax benefits that come with an investing.
2. Whether funding is coming in from any other sources (grants or debt for instance)
3. Any money that has been secured both in the past and as part of his round.
4. Specifically, how will that money be used
5. What is on offer, in terms of ownership (shares) in the company, for the money?
6. What do you expect investors to receive in return for them risking their money?
7. How do you expect investors to get their return and when? Will this be through a trade sale, a flotation, Share buy-back or a management buy-out?

Identifying clear paths to exit is crucial to securing investment from investors. You must remember that they are looking for a return on investment and need to be convinced that it is achievable. To do this you should research historic exits in your sector along with potential acquirers and use this research to justify the valuation multiples and the reasons you're likely to be bought.

Key Financial Data and Financial Projections

All potential investors will expect to see a set of financial statements and illustrative projections for the project. You should include the following tables with only headline information:

1. Cash Flow projection – This is a statement of your cash position and the sources and uses of cash going forward. Cash management is probably the most important aspect of financial management as the company becomes established and grows. Certain growth policies consume more cash than they generate, so detailed cash projections are vital.
2. Profit & Loss projection – this is a statement of the company's trading activities.

   The projections should cover the next three years.

   If you have a trading history, it's worthwhile having a year or two of actuals even if the turnover is low, it shows that people are paying for the product and you are getting it to them.

The statements should be accompanied by the assumptions under which the statements have been constructed, including:

- The assumptions behind the sales forecasts, perhaps related to market share or sales per store, etc. What logic has been used to arrive at this figure, as it was clearly not pulled out of the air?
- Assumptions behind costs, including the costs of production, offices, staffing, etc., and how these are constructed.
- Any policies adopted, such as on the depreciation of assets, the number of days credit given to customers, the period of time taken to pay your creditors, etc.
- The detail behind any loan or other overdraft facilities and expected interest rates.
- Other major budgets, including marketing, legal fees, accounting fees, etc.

The figures should demonstrate to the investor that you understand the major financial implications of your business plan, that the assumptions are reasonable, and that you have not been over optimistic.

It is important to highlight what contingency plans you have in the event of things not happening exactly as planned. Will the business fail if there is a month's delay in the timetable, or can it tolerate a year's delay through careful adjustment and control?

3. Balance sheets for each period, these are very important as they show accurately where a company is at that date.

Full excel spreadsheets should be kept in a secure Data Room (details available separately).

Risk Analysis

It's important to be open with investors over what the biggest risk factors are in your venture.

You should set out each of the major risks and hurdles your company will face following investment. Be open and candid and use this is an opportunity to explain the steps you're taking to reduce those risks and, crucially, build trust with your investors.

Investors will be fully aware of the risks, so do not shy away from them.

Appendices

To keep things light, any supporting material should be contained in, and referenced to, a Data Room and would most likely include:

1. Profit projections detailing projected profits for the first year on a monthly basis and for the next two on a quarterly basis. Any projections beyond the first three years would be so purely speculative as to be unbelievable, so there's no need to include these. For the sake of comparison you should also include actual historic profit and loss for the previous two years, supported, wherever possible, by audited accounts.

2. Cash flow projections detailing projected profits for the first year on a monthly basis and for the next two on a quarterly basis. Extra care should be taken with the important issue of immediate cash flow. Given that such matters will inevitably provide the starting point for any investor negotiations, your projections should also detail the absolute minimum of new cash that will be required over the next six months in order for the business to survive.
3. Balance sheets for each period
4. Latest audited accounts should be included in full when available.
5. CVs that highlight all the relevant achievements and experience of key personnel, especially directors, should be included.
6. Marketing material and other visual material is a very useful way of illustrating exactly what the company does.
7. Press coverage sheet, showing any market exposure the company has already achieved.
8. Contact details of all advisors (accountants, solicitors, bankers, insurance brokers, etc) should be included.
9. Any glowing reviews, details of future orders or, indeed, anything to suggest that the forecast sales are credible.