

## **BUSINESS PLAN FOR A START-UP BUSINESS**

A business plan is a detailed description of your proposed business with financial projections and goals for at least one year. The value of preparing a business plan lies in all the research you will need to do to reach the final product. During the research process, you will be forced to think about your business systematically and thoroughly, thereby reviewing your ideas critically and possibly avoiding costly mistakes in the future.

### **GUIDELINE FOR LAYOUT OF YOUR BUSINESS PLAN**

#### **1. Cover Page**

The cover page should contain the following information: your business name, the owner's / owners' name/s, telephone number, fax number, physical address, postal address and e-mail address.

#### **2. Executive Summary**

This should be written last, after all your research work has been completed. It should be a summary of your business highlighting the most important aspects.

Include:

- The type of business e.g. retail, manufacturing, service, etc.
- Your product / service and what is unique about it.
- Who the managers of your business are.
- The funds you require and how you will make your business profitable.

Make sure your executive summary does not exceed two pages and is professional, clear and concise. It must sell your business idea to potential investors.

#### **3. Table of Contents**

A table of contents is essential for making your business plan easy to follow and navigate, allowing prospective investors or bankers to access particular sections as required.

#### **4. Business Overview / General Description**

- Mission – what is your business's reason for being and what are your core principles?
- Goals and objectives – clearly define your business's goals and objectives.
- Business philosophy – what is important to you and your business?
- Market – briefly state your target market as this will be covered in detail in the marketing plan section of the business plan.
- Industry – note any growth and long-term / short-term changes you may need to face and how you will deal with these challenges.
- Strengths – what strengths do you have that will lead your business to success and what are your competitive advantages?
- Form of enterprise – state why you choose to be a sole proprietorship, partnership, close corporation or company.
- Broad Based Black Economic Empowerment – BEE will need to be addressed and a strategy formed so that BEE status can be achieved and maintained.

#### **5. Products or Services**

- Describe your product / service in depth.
- Describe your competitive advantages / innovative features.
- Briefly state your pricing, fee or leasing structures.

## 6. Marketing Plan

A large part of the success of your business is dependent on effective marketing. A marketing plan is a written statement of your marketing strategy and how long you estimate it will take to implement it. The marketing plan can be extremely useful to ensure that you are pitching your product correctly and that you remain focused. Extensive market research is necessary in order to compile a precise and concise marketing plan. Both primary and secondary research should be done, paying particular attention to areas such as statistics, numbers and your sources. Your marketing plan can also be a useful tool for preparing sales projections.

A marketing plan can be a stand-alone document, as well as part of a business plan. Refer to Form 9.12 for a guideline to writing a detailed marketing plan and Form 9.13 for an easy-to-use competitor analysis.

The full marketing plan and competitor analysis as indicated in Form 9.13 is highly recommended as a useful addition to your business plan.

It may be advisable to utilise the services of a marketing analyst or specialist to develop your marketing plan and strategy and to help you plan and budget just what you will be spending.

## 7. Operational Plan

The operational plan covers details concerning the daily running of your business and the operating processes.

- **Production & Technology:**
  - Production techniques and costs
  - Quality control
  - Customer service
  - Inventory control
  - Product development
- **Location – Describe the type of location you will have. Comment on:**
  - Space
  - Building type
  - Zoning
  - Power / Utilities
  - Access - Is it convenient for transport, suppliers and customers? Will you attract walk-in clientele?
  - Costs including rent / maintenance / utilities
  - Business hours
  - Include a drawing / layout plan if it is important
  - Construction costs. It is advisable not to waste start-up capital on building new premises.
- **Legalities:**
  - Licensing and bond
  - Permits
  - Health and environmental regulations
  - Regulations that apply specifically to your industry
  - Zoning / building code
  - Insurance coverage
  - Trademarks and patents - existing, purchasing or pending

- **Personnel:**

- Employees – how many?
- Labour – skilled / unskilled / professional?
- Where will you find staff?
- Payment structure
- Training and requirements
- Written procedures and schedules
- Job descriptions for all positions – these facilitate internal communication
- Contract workers – will you need contract workers for any of your work?

- **Inventory**

- Type – raw materials, supplies, finished product
- Value of available stock
- Turnover rate in comparison to the industry average
- Seasonal build-up
- Ordering lead-time

- **Suppliers:**

- List your main suppliers – names and contact details, their reliability, what they supply and how much they charge
- Credit and delivery policies
- Should you have a back-up supplier for emergencies?
- Do you expect any problems with shortages or deliveries?
- Are supply costs steady? If not, how do you plan to deal with fluctuations?

- **Credit:**

- Policies on credit – how much will you allocate per customer, bearing in mind the impact this will have on your cash flow? How will you determine creditworthiness of customers? Do you anticipate handling this internally or using the services of professional credit bureaux? What will your payment terms be? Will you offer prompt payment discounts, and what will these be?
- Extending credit will affect your pricing. The cost of borrowing money needs to be offset against the price you will charge. Calculate how much this will affect your costs.
- List your plans to keep strict control of money tied up in credit given to customers and in dealing with slow payers by using a monthly age analysis, e.g.

Total	Current	30 days	60 days	90 days	Over 90 days

- Draw up your policies to deal with slow payers, e.g. When will you call them? When will you send a letter of demand? When do you hand over to an attorney?
- Outline how you will keep strict control of money you owe suppliers and when it is due to be paid. It is a good idea to use a table, listing each supplier. This helps plan your finances better.
- Find out if your suppliers offer prompt payment discounts or payment terms. The savings can be considerable.

## 8. Management and Organisation

- Who will be running the business? What is his/her qualification / experience? How will you cope if that person is lost or incapacitated?

- Create an organisational chart if you will have more than 10 employees, giving detailed position descriptions. This will clarify the management hierarchy and everyone's specific functions in your organisation.
- Include CVs of key personnel and the owners if you are looking for loans.
- Business support – list any other support you will have in the organisation, e.g. board of directors, management advisory board, attorney, accountant, insurance agent, banker, consultants, mentors and key advisors.

## 9. Personal Financial Statement

A personal financial statement should be included for each owner and major stockholder in your organisation. Assets and liabilities outside of the business and personal net worth must be shown as personal assets. Personal assets are often used to finance a business and bankers will therefore require this information when approving loans. The owners are generally required to personally guarantee their business loans. Include one spreadsheet per principal member detailing notes, securities, contracts, etc.

## 10. Start-up Expenses and Capitalisation

- You will need to estimate your needs as accurately as possible and have a plan as to where the money will come from.
- Make allowances for surprise expenses. This can be done in two ways:
  1. Add a little extra on each item in your budget (this option is not very accurate).
  2. Include a separate item in your budget called 'contingencies' and budget 20% of your total capital for unforeseeable expenses.
- Explain all your research: sources, amounts, terms of proposed loans, percentages of contributions from investors, etc.

## 11. Financial Plan

The financial plan consists of a 12-month profit and loss projection, a 4/5-year profit and loss projection (optional, but highly recommended), a cash flow projection, a projected balance sheet and a breakeven calculation. Together these documents make up an estimate of your business's financial future. It is strongly recommended that you enlist the help of your accountant or auditor to assist you with this section.

- **12 Month profit and loss projection** – this is the core of your financial plan and gives an idea of what it will take to make a profit and to be successful. A sales forecast will give you projections for sales, cost of goods sold, expenses and profits month-by-month for a year. You should write a paragraph explaining how you arrived at the estimated figures of your income and expenses.
- **4/5-Year profit and loss projection** – this is optional (but is highly recommended) if you would like to extend your forecast beyond your first year of business.
- **Cash flow projection** – this is a plan of your preliminary expenses, operating budget and reserves. You will need to work out when you can expect to receive cash and when you will need to pay accounts, and track this information carefully. If your projected cash flow goes into negative amounts, then more start-up capital is required. Note any irregular payments or expenses that may affect cash flow, e.g. tax, maintenance, repairs, etc. Also, it is a good idea to factor in items that don't usually show on cash flow statements, such as loan payments, equipment, owners' draws and depreciation.
- **Projected balance sheet** – this lists your assets and liabilities. When liabilities are subtracted from assets, what is left over is known as owner's equity. This is a rough estimate of where you think your company will be financially in the first year of business and is often useful information when you are looking for investors.

- **Breakeven calculation** – your breakeven calculation predicts the sales volume (at a given price) that you will need to recover your total costs. The breakeven point occurs when total revenue equals total costs.

## 12. Appendices

All necessary and accompanying documents, references and sources should be included. These should be kept as brief as possible. They include:

- SWOT analysis (strengths, weaknesses, opportunities, threats)
- Brochures / advertising materials
- Industry studies
- Blueprints / plans
- Maps / photos of your location
- Magazine / newspaper articles
- Lists of equipment you intend to purchase or already own
- Leases, contracts, licences, patents, trademarks
- Letters of support from your customers
- Market research studies
- List of assets available for collateral when applying for a loan

## 13. Perfecting your plan

Your business plan needs to be customised to suit your unique business needs and to appeal to the people whose attention you are trying to attract. The following are some areas that should be considered when perfecting and finalising your business plan:

### • Raising Capital

Generally you will be appealing to either bankers or investors. Bankers look for information that will assure them of regular repayment, whereas investors look for information that predicts growth and therefore profits and a share in the rewards. For the bankers, you need to state the amount of the loan you are looking for, how the money will be used and how it will help your business, as well as your proposed repayment terms and what collateral you are able to offer. Investors will be interested in how you intend to use your funds, both in the short term and long term, and how this will promote growth and a return on their investment. Cover exit strategies, ownership percentages, financial reports and the extent of investor involvement.

### • Business Type: Manufacturing / Service / High Technology / Retail

Different points can be covered in each type of business to highlight specific needs.

Manufacturing: List your planned production levels, costs, pricing, profit margins, production / plant limitations, equipment, purchase and inventory management, new products, etc.

Service: Competitive factors, pricing and pricing strategies, product management, quality control, labour productivity, subcontracting and profits, credit and payment policies.

High Technology: Economics, information systems for price, costing, market, research and development, protecting intellectual property, retaining personnel, retaining the cutting edge and being competitive within your market.

Retail: Image, pricing, inventory, customer service policies, location (convenience and exposure), promotion and credit policies.

When your research is completed and all the figures have been compiled, you are in a position to compose your business plan and finalise it into a detailed, precise and professional document that is easily navigated and can be easily understood by prospective bankers and investors.