

Business Plans

What is a business plan?

A business plan is a document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realized.

It communicates a viable business idea. We communicate with employees, suppliers, investors, financial institutions and other stakeholders. The main reason for this communication is to convince stakeholders that the new venture will be successful and it is worthwhile to invest in the enterprise.

How do I compile a business plan?

Are you asking the right question?

Before you read this sheet:

You should either be a business owner or be sure you want to be a business owner and that this is the right time for you to venture into business

- You should have a clear business idea and area of business
- You should have done some basic viability studies
- You should have read "What is a business plan?"

Remember: If you can't compile a business plan, you can't run anything more than a struggling little business. To compile a good business plan, you need to be able to think strategically, investigate and read the market, convince lots of people to give you information, understand financial statements, crystalise your ideas clearly, and communicate them to others. To run a business successfully, you need all those skills, and more. When you learn how to write a business plan, you gain a lot of skills needed to run a business.

Introduction:

This sheet describes good business planning as a three-step cyclical process

- It highlights the main areas of your business plan, the questions you should answer and suggestions for research methods in each area.
- It briefly describes the structure of the written business plan.
- It warns against the danger of 'over-planning'

The five main areas of a business plan

Your business plan should consist of five main areas:

1. Your strategic focus (your niche, or core business)
2. The marketing plan
3. The operations plan
4. The staffing plan.
5. The financial plan

The planning cycle

Tackle your business planning in stages, starting with your marketing plan.

For each of these stages, use a three-step cyclical planning process.

Step 1: Think and Strategise

- Clarify your objectives - what do you want to achieve in your business and each area of your business?
- Be concrete, using figures and targets, workflow diagrams, financial statements with rand values, etc.

Step 2: Test your ideas through research

- Use more than one type of research method. Speak to a wide variety of people, read, research your industry, and use your eyes and ears.
- Do not try to only find facts that confirm your optimism. Find out which parts will not work and which parts will need extra investment. As you get feedback, you 'subtract' from your initial idea until only a kernel of possibility remains. If that kernel is viable, you can proceed with your business.
- When speaking to people, stay neutral and do not ask leading questions. People might tell you what they think you want to hear. On the other hand, you build valuable contacts and potential custom through research, so portray a professional image.

- Be sensitive when doing research. Ask permission from heads of institutions, and owners of shops. Do not pressure people into giving confidential information about others

Step 3: Analyse and draw conclusions

- Always err on the side of caution. For example, if someone in a similar industry has a turnover of R100 000 a month, assume that this is the maximum you can expect, not the minimum.
- The planning cycle is a continuous process. As you do more research you will change your thinking and strategy, which will in turn inform further research. The cycle continues after you've started a business. Your research then consists of your sales figures, your expenses, feedback from your customers, feedback from your staff, and information about what your competitors are doing. A business plan is a dynamic, ever-changing constantly updated tool that all successful business owners use.

The four main areas of the business plan

Apply the planning cycle to each of the four areas of the business plan. Once you have answered all the questions below through a process of thinking, research and analysis, you should have a fairly good idea of what you want to achieve with your business and how you will achieve it.

Your strategic focus

Questions to ask:

- What exactly is it that my business will do?
- Will it optimise quality, speed, affordability, flexibility (the ability to custom-make as opposed to mass-produce, or provide variety as opposed to a single, affordable product) or dependability? No business can optimise all five. Small businesses are seldom good at mass production.
- What will my business NOT do?

The strategic focus is a thinking process, informed by the total research done for the following four areas (marketing, operations, staffing and financial plan). It may seem logical to do it last, but in fact you need to get some focus before you start on the other areas, otherwise it becomes an impossibly large task. Your strategic focus needs to be constantly revisited throughout the process.

The marketing plan

Questions to ask:

- A sales forecast - How much will I sell?
- A client profile - Who will buy my product?

- A competitor profile-Who are my direct competitors, what substitutes are there in the market?
- A product profile - What is the core product and what are the extra features?
- A distribution strategy - Is location important, will I deliver?
- A pricing strategy - what will people be prepared to pay? How much can I expect to sell at that price? Will this cover my direct costs plus overheads?
- A promotional strategy - how will I create awareness of and demand for my product?

Ideas for research methods for the marketing plan:

- Buying information from market research companies is very expensive.
- Doing your own market research it is much cheaper, you will learn more, make new contacts and even promote your business.
- Collect demographic statistics (from municipalities, Statistics South Africa, academic research institutes).
- Other businesses might pass on their research findings to you, especially if your business will benefit theirs.
- Speak to people in similar business in a different area, who are not direct competition.
- Do door-to-door surveys or distribute questionnaires
- Count how many people and cars go past the location you have in mind for your business if you are going to rely on passing trade
- Investigate direct competitors - their produce, their turnover, and their customers.
- Speak to the suppliers of your competitors.
- Test your ideas when speaking to people you meet.
- If you already have a business and want to expand or change in any way, speak to your customers, as well as to people who are not yet your customers, but who you want to attract.

The Operational plan

For manufacturers:

- What are the important features of the product? How is each product made?
- What equipment, accessories, material and labour do I need?
- What is total number of factory hours needed to meet sales forecasts? How many delays can I expect and what might cause them?
- Will there be any variation in demand and how will this affect production?
- Who are my suppliers?
- What kind of facility do I need and where should it be located?
- What should my factory floor layout look like?
- How can I ensure quality and cost control?
- What will my workflow processes and schedules look like?
- What will my stock control system look like?

- How is the manufacturing process administered, from receiving an order to sending out an invoice?

For retailers:

- How will I keep records of my stock, in other words, how will my stock control system work?

For service businesses:

If you sell services, you will need a more basic form of operations planning, including workflow planning and time sheets. Don't neglect to link these to administrative functions such as quoting and invoicing clients.

Research methods for operations and stock control:

- Use the sales forecast from your marketing plan as starting point to plan your operations.
- Become familiar with the technical aspects of your business. Even if you have a technical expert as partner, make sure you understand the answers to the above questions.
- Speak to suppliers, other business owners.
- Read up on workflow processes in your industry.
- Get the help of industry specialists.

Staffing plan

Questions to ask:

- How many people do I need? How many should be full-time, part-time or contractors?
- What should their skills, experience and personal qualities be?
- Who should report to whom?
- How will responsibilities and tasks be divided into job descriptions?
- How much will salaries amount to?
- What other costs are involved (e.g. pension, UIF, sick funds)
- Are there minimum wages or a collective bargaining council agreement that govern my industry?
- What kind of training will I carry out and how much will this cost?
- Can I outsource certain functions rather than employ staff of my own - how much will this cost?
- How do I hand over more and more of the tasks in my business to staff members so that it frees me up to do what a business owner is supposed to do: strategic planning.

Research methods for the staffing plan:

- Look at your operations plan and work out how many people you need.

- Think very carefully about how much of the work you will be able to take on yourself and plan to delegate as much as possible as soon as possible. Many business owners take on too much for too long and have problems delegating.
- Study similar businesses for job descriptions and management structures (who reports to whom).
- Approach personnel agents and industry experts.

Financial planning

You must try to forecast:

- Sales for the first year (or for the next year if you are already in business)
- Cost of sales
- Gross profit
- Overheads
- Net profit
- Start-up costs
- Debtor and creditor period
- Cash flow
- How much you will need to borrow
- Whether you will make enough to pay it back

Research methods

- If you don't know basic financial management concepts and functions, learn them. Read, study, or ask. It is the basis of business. If you need to, you can use your accountant as a financial teacher, as long as you don't lean on him as business strategist
- If at all possible, learn how to use spreadsheets for your financial planning. Your competition is, and it gives them an edge over anyone who doesn't.
- Your marketing, operations and staffing plans should give you the answers to the first six forecasts above (sales, cost of sales, etc).
- Look at the industry standard for average debtor and creditor periods
- Speak to other business owners.
- Approach support organisations and business consultants.
- Put together:
 - A forecasted income statement
 - A cash flow forecast
 - A forecasted balance sheet

The structure of a written plan

- Your written document can follow the same structure as the process described above.
- Turn the questions into logical headings, for example, 'Client profile'; 'Job descriptions'; 'Training plan.

- Change the level of detail and the order, depending on who has to read it.
- Add appendices with graphs, organograms and charts if necessary.
- Start your business plan with a description of your strategic focus, and a summary of the main points in your business plan

A final word of caution

- Planning is important, but don't become stuck in planning mode.
- Thinking and research attempts to minimise nasty surprises, but you can never be absolutely certain that everything will go according to plan.
- Going over to action will always involve some risk.
- Most people spend between 1 and 6 months on their initial planning
- A written business plan seldom needs to be more than 20 pages, financial statements included.

SOURCE: <http://www.seda.org.za/ServicesOfferings/Factsheets/Pages/CompileBusinessPlan.aspx>