

The Business Plan

A business plan's main purpose when raising finance is to market your business proposal. It should show potential investors that if they invest in your business, you and your team will give them a unique opportunity to participate in making an excellent return.

A business plan should be considered an essential document for owners and management to formally assess market needs and the competition; review the business' strengths and weaknesses; and to identify its critical success factors and what must be done to achieve profitable growth. It can be used to consider and reorganise internal financing and to agree and set targets for you and your management team. It should be reviewed regularly.

The company's management should prepare the business plan. Its production frequently takes far longer than the management expects. The owner or the managing director of the business should be the one who takes responsibility for its production, but it should be "owned" and accepted by the management team as a whole and be seen to set challenging but achievable goals that they are committed to meeting. It should emphasise why you are convinced that the business will be successful and convey what is so unique about it. Private equity and debt investors will want to learn what you and your management are planning to do and not to see how well others can write for you.

Your Corporate Finance Adviser can provide a vital role in critically reviewing the draft plan, advising on content and format and acting as "devil's advocate" and helping to give the plan the appropriate focus. However, it is you who must write the plan as investors prefer management driven plans. Many businesses fail because their plans have not been properly thought out, written down and developed. A business

plan should be prepared to a high standard and be verifiable. A business plan covering the following areas should be prepared before any investors are approached.

Executive Summary

This is the most important section and is often best written last. It summarises your business plan and is placed at the front of the document. It is vital to give this summary significant thought and time, as it may well determine the amount of consideration the investors will give to your proposal. It should be clearly written and powerfully persuasive, yet balance "sales talk" with realism in order to be convincing.

It needs to be convincing in conveying your company's growth and profit potential and management's prior relevant experience. It needs to clearly encapsulate your company's USP (i.e. its unique selling point – why people should buy your product or service as distinct from your competitors).

The summary should be limited to no more than two to three pages (i.e. around 1,000 to 1,500 words) and include the key elements from all the points below:

1. The market
2. The product or service
3. The management team
4. Business operations
5. Financial projections
6. Funding requirement, uses and exit opportunities

Other aspects that should be included in the Executive Summary are a few sentences encapsulating what the business does for what type of clients, the management's aims for the company and what gives it its competitive

edge. This should combine the current situation with your aspirations. You should also explain the current legal status of your business in this section. You should include an overall “SWOT” (strengths, weaknesses, opportunities and threats) analysis that summarises the key strengths of your proposition and its weaknesses and the opportunities for your business in the marketplace and its competitive threats.

The Market

You need to convince the investors that there is a real commercial opportunity for the business and its products and services. This requires a careful analysis of the market potential for your products or services and how you plan to develop and penetrate the market.

Market analysis

This section of the business plan will be scrutinised carefully therefore the market analysis should be as specific as possible, focusing on believable, verifiable data. Include under market research a thorough analysis of your company’s industry and potential customers. Include data on the size of the market, growth rates, recent technical advances, Government regulations and trends – is the market as a whole developing, growing, mature, or declining? Include details on the number of potential customers, the purchase rate per customer, and a profile of the typical decision-maker who will decide whether to purchase your product or service. This information drives the sales forecast and pricing strategy in your plan. Finally, comment on the percentage of the target market your company plans to capture, with justification in the marketing section of the plan.

Marketing plan

The primary purpose of the marketing section of the business plan is for you to convince the investors that the market can be developed and penetrated. The sales projections that you make will drive the rest of the

business plan by estimating the rate of growth of operations and the financing required. Explain your plans for the development of the business and how you are going to achieve those goals. Avoid using generalised extrapolations from overall market statistics. The plan should include an outline of plans for pricing, distribution channels and promotion.

Pricing

How you plan to price a product or service provides an investor with insight for evaluating your overall strategy. Explain the key components of the pricing decision – i.e. image, competitive issues, gross margins, and the discount structure for each distribution channel. Pricing strategy should also involve consideration of future product releases.

Distribution channels

If you are a manufacturer, your business plan should clearly identify the distribution channels that will get the product to the end-user. If you are a service provider, the distribution channels are not as important as are the means of promotion. Distribution options for a manufacturer may include:

- Distributors
- Wholesalers
- Retailers (including on-line)
- Direct sales - such as mail order and ordering over the web, direct contact through salespeople and telemarketing.
- Original Equipment Manufacturers (OEM), integration of the product into other manufacturers’ products.

Each of these methods has its own advantages, disadvantages and financial impact, and these should be clarified in the business plan. If more than one distribution channel is used, they should all be compatible. Fully explain the reasons for selecting these distribution approaches and the financial benefits they will provide. The explanation should include a

schedule of projected prices, with appropriate discounts and commissions as part of the projected sales estimates. These estimates of profit margin and pricing policy will provide support for the investment decision.

Promotion

The marketing promotion section of the business plan should include plans for product sheets, potential advertising plans, internet strategy, trade show schedules, and any other promotional materials. The investors must be convinced that the company has the expertise to move the product to market. A well thought-out promotional approach will help to set your business plan apart from your competitors. It is important to explain the thought process behind the selected sources of promotion and the reasons for those not selected.

Competition

A discussion of the competition is an essential part of the business plan. Every product or service has competition; even if your company is first-to-market, you must explain how the market's need is currently being met and how the new product will compete against the existing solution. The investor will be looking to see how and why your company can beat the competition. The business plan should analyse the competition, who are they, how many are there, what proportion of the market do they account for? Give their strengths and weaknesses relative to your products or services.

Attempt to anticipate likely competitive responses to your product. Include, if possible, a direct product comparison based on price, quality, warranties, product updates, features, distribution strategies, and other means of comparison. Document the sources used in this analysis. All the aspects included in the market section of your business plan must be rigorously supported by as much verifiable evidence as possible. In addition to

carrying out market research and discussions with your management team, customers and potential customers, you may need input from outside marketing consultants.

The Product(s) or Service

Explain the company's products or service in plain English. If the product or service is technically orientated this is essential, as it has to be readily understood by non-specialists.

Emphasise the product or service's competitive edge or USP. For example, is it:

- A new product?
- Available at a lower price?
- Of higher quality?
- Of greater durability?
- Faster to operate?
- Smaller in size?
- Easier to maintain?
- Offering additional support products or services?

With technology companies where the product or service is new, there has to be a clear "world class" opportunity to balance the higher risks involved. Address whether it is vulnerable to technological advances made elsewhere.

- If relevant, explain what legal protection you have on the product, such as patents attained, pending or required. Assess the impact of legal protection on the marketability of the product.
- You also need to cover of course the price and cost of the product or service.
- If the product is still under development the plan should list all the major achievements to date as well as remaining milestones to demonstrate how you have tackled various hurdles and that you are

aware of remaining hurdles and how to surmount them. Specific mention should be made of the results of alpha (internal) and beta (external) product testing.

- Single product companies can be a concern for investors. It is beneficial to include ideas and plans for a “second generation” product or even other viable products or services to demonstrate the opportunities for business growth.

The Management Team

Investors always invest in people – people who have run or who are likely to run successful operations. Potential investors will look closely at you and the members of your management team. This section of the plan should introduce the management team and what you all bring to the business. Include your experience, and success, in running businesses before and how you have learned from not so successful businesses. You need to demonstrate that the company has the quality of management to be able to turn the business plan into reality.

The senior management team ideally should be experienced in complementary areas, such as management strategy, finance and marketing and their roles should be specified. The special abilities each member brings to the venture should be explained. This is particularly the case with technology companies where it will be the combination of technological and business skills that will be important to the backers. If some members have particular flair and dynamism, this needs to be balanced by those who can ensure this occurs in a controlled environment. A brief curriculum vitae should be included for each team member, highlighting their previous track records in running, or being involved with successful businesses.

- Identify the current and potential skills’ gaps and explain how you aim to fill them. Private equity firms will sometimes assist in locating experienced managers where an important post is unfilled – provided they are convinced about the other aspects of your plan.
- Explain what controls and performance measures exist for management, employees and others.
- List your auditors and other advisers.
- The appointment of a non-executive director (NED) should be seriously considered.

Many surveys have shown that good NEDs add significant value to the companies with which they are involved. Many private equity firms at the time of their investment will wish to appoint one of their own executives or an independent expert to your board as an NED. Most investors will have previously worked in industry or in finance and all will have a wide experience of companies going through a rapid period of growth and development.

Business Operations

This section of the business plan should explain how your business operates, including how you make the products or provide the service. It should also outline your company’s approach to research and development. Include details on the location and size of your facilities. Factors such as the availability of labour, accessibility of materials, proximity to distribution channels, and the availability of Government grants and tax incentives should be mentioned. Describe the equipment used or planned. If more equipment is required in response to production demands, include plans for financing. If your company needs international distribution, mention whether the operations facility will provide adequate support. If work will be outsourced to subcontractors – eliminating the need to expand facilities – state that too. The investor will be looking to

see if there are inconsistencies in your business plan. If a prototype has not been developed or there is other uncertainty concerning production, include a budget and timetable for product development. The investors will be looking to see how flexible and efficient the facility plans are.

Financial projections

Developing a detailed set of financial projections will help to demonstrate to the investor that you have properly thought out the financial implications of your company's growth plans. Investors will use these projections to determine if:

- Your company offers enough growth potential to deliver the type of return on investment that the investor is seeking.
- The projections are realistic enough to give the company a reasonable chance of attaining them.

Investors will expect to see a full set of cohesive financial statements – including a balance sheet, income statement and cash-flow statement, for a period of three to five years. It is usual to show monthly income and cash flow statements until the breakeven point is reached followed by yearly data for the remaining time frame. Ensure that these are easy to update and adjust. You must include notes that explain the major assumptions used to develop the revenue and expense items and explain the research you have undertaken to support these assumptions.

Preparation of the projections

- Realistically assess sales, costs (both fixed and variable), cash flow and working capital. Assess your present and prospective future margins in detail, bearing in mind the potential impact of competition.
- Assess the value attributed to the company's net tangible assets.

- State the level of gearing (i.e. debt to shareholders' funds ratio). State how much debt is secured and on what assets and the current value of those assets.
- Include all costs associated with the business. Remember to split sales costs (e.g. communications to potential and current customers) and marketing costs (e.g. research into potential sales areas). What are the sale prices or fee charging structures?
- Provide budgets for each area of your company's activities. What are you doing to ensure that you and your management keep within these or improve on these budgets?
- Present different scenarios for the financial projections of sales, costs and cash flow for both the short and long term. Ask "what if?" questions to ensure that key factors and their impact on the financings required are carefully and realistically assessed. For example, what if sales decline by 20%, or supplier costs increase by 30%, or both? How does this impact on the profit and cash flow projections?
- If it is envisioned that more than one round of financing will be required (often the case with technology based businesses in particular), identify the likely timing and any associated progress "milestones" which need to be achieved.
- Keep the plan feasible. Avoid being over optimistic. Highlight challenges and show how they will be met.

Your Corporate Finance Advisor will be able to help prepare and review the financial projections and act as "devil's advocate" to ensure they are robust.

Funding Requirement, Uses and Exit Opportunity

You need to determine how much finance is required by your venture as detailed in your cash flow projections. This needs to be the total financing requirement, including fixed asset and working capital requirements and

the costs of doing the deal. Ascertain how much of this can be taken as debt as this is a cheaper form of finance than equity. This will depend on the assets in the business that can be used to secure the debt, the cash flow being generated to pay interest and repay amounts borrowed and the level of interest cover, i.e. the safety margin that the business has in terms of being able to meet its banking interest obligations from its profits.

Then determine how much management can invest in the venture from your own resources and those of family and friends. Include any government sources of finance available to you also. The balance is then the amount you are seeking from the venture capitalist. In this section of the business plan you need to:

- State how much finance is required by your business and from what sources (i.e. management, private equity firm, banks and others) and explain for what it will be used.
- Include an implementation schedule, including, for example, capital expenditure, orders and production timetables.
- Consider how the private equity investors will realise their investment.

The presentation of your business plan

Bear the following points in mind when you are writing your business plan;

Readability

Make the plan readable. Avoid jargon and general position statements. Use plain English – especially if you are explaining technical details. Aim it at non-specialists, emphasising its financial viability. Avoid including unnecessary detail and prevent the plan from becoming too lengthy. Put detail into appendices. Your Corporate Finance Advisor should check it for clarity and “readability”. Remember that the readers targeted will be potential investors. They will need to be convinced of the company’s

commercial viability and competitive edge and will be particularly looking to see the potential for making a good return.

Length

The length of your business plan depends on individual circumstances. It should be long enough to cover the subject adequately and short enough to maintain interest.

Appearance

Use graphs and charts to illustrate and simplify complicated information. Use titles and sub-titles to divide different subject matters. Ensure it is neatly typed or printed without spelling, typing or grammar mistakes – these have a disproportionately negative impact.

Further Information

For further information or a confidential discussion on the options available to you please contact Park Capital.

Park Capital Limited | 33 St James’s Square | London | SW1Y 4JS

Tel: +44 20 3159 5493
Email: info@parkcapital.co.uk
Web: www.parkcapital.co.uk