

Developing a business plan

The business plan makes clear the objectives of the business and how the business intends to achieve these objectives. A business plan is often likened to a map. This road map analogy is important – business plans are not to be written and forgotten, they are ongoing. The objectives that are set – whether financial, sales, marketing or production – are there for future guidance and not to be ignored. Start-up businesses that develop and follow a business plan are more likely to survive than those who do not.

The overview or executive summary

When preparing a business plan the entrepreneur should first of all **clearly describe the business idea**. This overview of the business will briefly describe the business opportunity that is to be exploited. It should summarise the strategies that will be employed and how finance will be obtained. This overview is very important in setting out the overall aims and objectives of the business. There is no set pattern for a business plan but there are key elements that need to be included – the plan needs to be flexible and able to adapt to changing market circumstances.

The marketing plan

This is an important part of any business plan and it should be based on both field and desk research. The market **research** carried out needs to establish if possible the size of the market, the needs of the customers and the level of competition. Once market research findings have been examined then the marketing plan (strategy) can be prepared. If market research has identified weaknesses with the initial idea, this may be the time to adapt the product to more closely meet the needs of the customer or clearly differentiate it from the competition.

The operations plan

This will include details of where the business will be located, production methods and any equipment needed. In addition, information on the costs of production and where the business will buy supplies may also be included.

The human resources plan

The number of employees and the skills, experience and qualifications they require will be outlined. Any management team will also be identified.

The financial plan

A variety of forecasting will be necessary:

- a sales forecast indicating potential revenues;
- a cash flow forecast for the first 12 months;
- a profit and loss and balance forecast for the end of the first year;
- a break even analysis.

In addition, information should be provided on where the finance for starting and running the business will come from. This will indicate the available start-up capital as well as any potential borrowing.

What are the potential benefits of a business plan?

When complete the business plan presents the business owners with a clear set of instructions on how to run the business. A comprehensive business plan will allow business owners to check progress against objectives, monitor cash flow and take action when objectives are not being achieved. Business owners can clearly see when things are going wrong.

A business plan is also needed for potential investors or when seeking finance from banks. Without a business plan it is highly unlikely that capital could be attracted from people or institutions outside of the business.

What are the potential drawbacks of a business plan?

Even with all these positive factors for having a business plan, there are downsides. Market research costs time and money, resources which might be better spent elsewhere in the business. For many start-up businesses this will be the hardest part of preparing a business plan. How do you predict what your income will be? Market research should provide an idea, but how reliable is the data? The estimate of sales revenue, money flowing into the business, should be based on accurate market research, but the truth is that most new businesses will at best be making an educated guess on how much money will be generated. The need for this guesswork is a potential weakness of any business plan.

An inaccurate business plan with unachievable objectives can give entrepreneurs false hope, leading to failed investments. Some experienced entrepreneurs have enough market and business knowledge to move from year to year without reference to marketing plans, or financial forecasts, and they do happily survive. However, for such businesses growth is unlikely without forward planning. Identifying and adapting to change in the market may then result in crisis management.

| Activities | |
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| Business Wales Guide to Business Plans http://business.wales.gov.uk/starting-business/starting-business-0/preparing-business-plan | Why is it important to consider 'the audience' when preparing a business plan? What financial aspects of the business should always be contained in a business plan? |

Discussion themes

Discuss the following statement: 'Most business plans are not worth the time spent in preparation.'

To be effective business plans need to be flexible. Explain why.