Essential Guide for Business Plan Creation
Basic 12 step guide for executing a successful Business Plan

EBP Business Plan Designer

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The Essential Guide for Business Plan Creation was written by EBP, the leader in providing small and medium sized business software solutions in Europe.

EBP Business Plan Designer is software available in 5 languages.

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Introduction

This book is intended to be a quick guide to help you design a business plan for you company.

The sections in this guide are the essential aspects of any business plan and are also the main points that a potential investor or bank will look for when considering investing in your project.

It is best not to make the document more than 25 pages long, but anywhere between 20 and 50 pages is acceptable, so long as the content is relevant.

As well as the basic information we have also included a number of tips in each chapter that should help you to complete each section appropriately.

Finally, do not forget that the business plan is the most important document you will create for your company.

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1. OBJECTIVES

This section explains why you are creating this business plan and what it is, in brief, that you intend to do.

It could be for different reasons: To look for investors for a new project, to launch a new line of products, to market the company, or to create a new business unit.

TIPS

- Do not elaborate at all, get to the point and be brief, each sentence is important. If a sentence does not hold important information, delete it.

2. EXEUCTIVE SUMMARY

Here you will give a review of the whole plan, you will define the market, the product or service, your competitive advantage over the competition, the investment required and the predicted results over a given period of time.

This section is very important if you require investment to execute the plan. It allows both your executives and any potential external investors to understand the entire plan in a few paragraphs; more importantly it also permits the executive or investor to quickly see if the project demands more attention without having to read the entire plan.

The summary should be simple and well written with only the essential information included. It should be clear to the reader in the proposal what the possibilities of success are.

TIPS

- Write with a positive and authoritative tone, do not use if's, do not write 'we could', write 'we will'.
- The reader should have a clear idea of your business plan just by reading this page.

3. MARKET ANALYSIS

In this chapter you will define:

3.1 The market
3.2 Geographical area
3.3 Consumer behavior
3.4 Market segmentation

3.1 The market is the people or organizations that will participate in the buying and selling processes of the products or services or use these products or services.

3.2 The geographical area refers to a type or range of products in a defined geographical zone, for example, the automobile market in the USA or the cosmetic market in the UK.

3.3 Once you have defined the market and the geographical area you need to summarize the needs and behaviors of the consumers. Who are they? Why do they need the product or service?

3.4 Different groups of customers will have different requirements. The market for any product can be split into individual segments, where each segment describes customers with similar

requirements, tastes, characteristics, interests, or lifestyles. Segmentation indicates gaps in the market and highlights requirements of different types of users, enabling products to be positioned to meet those needs.

TIPS

- If you do not know your market, you can not create a viable plan, so do your homework.
- Think about the behaviors and habits of each of the segments.
- Identify consumer needs that the competition does not cater for, and make sure that these are highlighted clearly in the customer requirements.

4. DEMAND ANALYSIS

In this section you are going to make a numerical evaluation of the market and the segments of the market that you have defined in the following areas:

- 4.1 Potential demand
- 4.2 Actual demand
- 4.3 Future demand
- 4.4 Evolution of demand

4.1 The potential demand is the maximum the consumers could buy in a determined period of time.

4.2 Actual demand is the demand for the product or service this year or the previous year if the data is not available. It is possible to obtain sales data on a national or regional level from many different sources. If there is no data available you need to make estimates using other methods.

4.3 To establish future demand, estimate the increase in demand for the next year as a percentage of actual demand. For example the market for video games will go up by 10% in the next year. You can also make estimate for the medium and long term, 3-5 years would give you

information to provide for and create future strategies.

4.4 To see the potential evolution of demand make a graph of historical sales in your sector, using this you can see the market trends and define the phases of the product life cycle.

Using the actual, potential and future demand figures and applying them to the market segments previously identified by geographical region, objectives can be created as detailed later.

TIPS

- Do not commit the error of being over optimistic with demand forecasts.
- Define the life cycle of your product or service, apply this to future demand.
- The launch phase of many products is slow; sometimes it is better to enter a market after others when the demand has already been created.

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5. ENVIRONMENTAL ANALYSIS

There are a number of environmental factors that can influence the behaviors of the market place affecting the consumers or the competition just as much as you.

To introduce the variables you consider important you can see how they will influence the decisions you have to make or the decisions the consumers make.

Environmental conditions to consider:

- Economic
- Social
- Legal
- Political
- Cultural
- Technical
- Demographic
- Religious

TIPS

- Think about unemployment, average income, interest rate changes and technological advances in your field.
- Analyze the socio-cultural changes in society.
- Compile relevant information using newspapers, magazines, TV and the internet.

6. COMPANY ANALYSIS

This section is like a brief presentation of your company and its capabilities. The history, philosophy, installations, personnel and the financial situation and resources.

The main points to be highlighted are:

- Management team
- Technical capability
- Strengths and weaknesses
- Infrastructure, offices, transport
- Company history
- Products
- Strategic objectives

Include some information on the capabilities of the company, how it is expected to work and the volumes it can handle.

TIPS

- Be optimistic but realistic.
- Emphasize the major strengths.
- Highlight the management team remembering that the potential investors are trusting them just as much as you with their investment.

7. ANALYSIS OF THE COMPETITION

Describe your competitors, their history, their resources, their products and services and how they operate in the competitive market place.

In the same way as you have analyzed your company do the same for the competition, what are their capabilities, how do they operate and what volumes can they handle.

TIPS

- It is very important that you understand your competitors in order to attack their market place, to defend against their moves to increase their share of the market or even to avoid them all together if appropriate.
- Do not be worried about including information on the competition; there is room in the market place for everyone.
- Include the differences between your business and the competition.
- Be thorough.

8. MARKETING STRATEGY

Once you have established the market, the competition and the factors that affect it you need to detail the strategy of how you will enter the market place.

The four principle strategies are:

- Penetrate in new markets
- To increase your share of the existing market
- To entrench yourself in the market
- To withdraw from the market place

Possible strategic objectives:

- Sales objectives
- Number of clients won
- Profit or margin objectives
- Share of the market
- Penetrate into new areas
- Penetrate into new market segments
- Positioning objectives
- Launching new products
- Withdrawing products from the market place

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Now the objectives of the business are identified you need to look at the marketing mix, these are the four elements that are at the heart of marketing: product, price, distribution, and promotion.

1. Product

There are three types of product decisions that can be made:

- Create a new product
- Modify a current product
- Withdraw a product

These decisions need to based on gaps in the current market, gaps in other markets and short fallings of the competition.

2. Price

The most common pricing objectives are as follows:

- To obtain profit on the capital invested
- To obtain profit on sales
- To gain a share of the market

There are basically three price strategies:

- Pricing low for penetration
- Price to match the competition
- High pricing

These pricing strategies can be applied:

- Generically across all products
- With each line of products having a different pricing structure
- With each product priced independently
- By geographical area

3. Distribution

Distribution is the movement of merchandise from the place of production to the end consumer and all the processes in between.

All products that you sell can be sold in the same way or can be split by product or line of products, different market segments may be better served in different ways or different geographical regions may be better covered through different channels.

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The distribution channel allows the business access to a market, to transport and sell products to the consumer; there are two routs to reach the customer:

- Direct sales. From manufacturer direct to the end consumer.
- Via resellers. Through agents, wholesale or retail.

Direct sales

Direct sales can be executed via the telephone, through your web page, via sales people visiting customers, by mail or through your high-street outlet or office.

Agents

Agents organize distribution to the end consumer through wholesale and retail. They will normally offer further services to aid this process including:

- Transport
- Sales promotion
- A sales team
- Accounts facilities

- Giving credit to clients
- Giving advise on the sector

Distributors

Distributors are companies that are authorized to distribute products in a determined graphical area. They will then sell direct to large clients or use wholesale or retail as appropriate.

Wholesale

They buy the product and sell it onto other wholesalers or direct to retailers.

Retail

Retail sell the product direct to the end consumer. They can acquire the product via any or through all of the above channels depending on their activity, their location or product type. Retail takes two forms, independent stores that have one or a few outlets and retail multiples which may have many outlets over a large geographical area.

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Franchises

Franchising is the process of a set formula being applied by the franchisee that has been set up, tried, tested and proven by the franchisor. The franchisee is responsible for following the set plan and the franchisor is responsible for supporting the franchisee, providing operational advice and often advertising or promotional material. The franchisee has to pay the franchisor regular royalties or a management fee from the operation and there is often an initial buy in fee.

4. Promotion

There are four basic forms of promotion

- Personal sales
- Sales promotion
- Advertising
- Public relations

TIPS

- Be direct. Define the essential characteristics of your products and how they satisfy the needs of the market.
- Do not be excessively technical.

- It is very important to define the distribution strategy. Many products have failed because they have not organized distribution correctly or not supplied the necessary resources.
- Be realistic with the promotional budget, remembering that the products or services are as yet unknown in the market place.
- Be very careful when deciding on pricing strategy and all its variants.
- This section is right at the heart of the business plan along with the figures, so be thorough.

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9. SUCCESS FACTORS

This section is very important as it provides a summary explaining why the plan will succeed. You could have a good marketing plan, an excellent management team, sufficient capital and a strong product, but what makes all the things you have to offer different. You need a unique selling point or points for your plan. What do you have that will make it succeed?

These factors could be very different, for example:

- Strong initial advertising
- The ability to offer low prices
- Quality of service
- A product or products with their own unique selling points
- Pre-agreed channels and volumes
- Capacity to innovate or modify products quickly
- Exclusive distribution channels

All businesses, from fruit shops to car manufacturers, cafes to banks have their own success factors and in many cases there is only one factor that creates this success.

For a hairdresser it could be the quality and price, or just the quality; for easyJet it is the price; for Rolls Royce the quality and status; for a builder a specialist area of expertise. The secret is to identify these points and then to highlight them.

TIPS

- Write only the important points.
- Get to the point and be brief, each sentence is important. If a sentence does not hold important information, delete it.

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10. FINANCIAL ANALYSIS

This should include the following information:

- 10.1 Profit and Loss statement for previous X years
- 10.2 Balance Sheet for previous X years
- 10.3 Fixed and variable cost projections
- 10.4 Sales projections for the next 3-5 years
- 10.5 Projected Cash Flow analysis for the next 3-5 years
- 10.6 Projected Profit and Loss statements for the next 3-5 years
- 10.7 Projected Balance Sheets for the next 3-5 years

10.1 If you have been trading previously, company history is imperative when projecting future success. The Profit and Loss accounts give a picture of a company's trading performance over a period of time in terms of income, sales and expenditure.

10.2 As with the Balance Sheet a historical perspective will provide a sound basis for future projections. A Balance Sheet is a snapshot of a company's assets (what is owned) and liabilities (what is owed).

Total assets should always equal total liabilities, hence the 'balance'. For example the money value of what you invest in the business (an asset) is owed to you by the business (a liability).

10.3 Establishing the fixed cost and the variable costs, when put together with the sales figures will establish the break even point of the business, the point at which the business start to make a profit.

10.4 Using historical information, your knowledge of the market place and your product or service, you will be able to project future sales.

10.5 A Cash Flow statement, usually constructed over the course of a year, compares your cash position at the end of the year to the position at the start, and the constant flow of money into and out of the business over the course of that year.

A Cash Flow statement deals only with the money circulating in the business. Projecting Cash Flow for a 3-5 year period will provide a useful tool in establishing whether your business is eating up cash or generating cash.

10.6 Using the projected sales and expenditures you will be able to put together a projected Profit and Loss statement.

10.7 Projecting a Balance Sheet allows you to see the funds that will be required as the business matures.

TIPS

- Make sure all graphs and charts are clear and well laid out.
- Prepare all information by year for a period of 3 to 5 years.
- Display at least the first year of Cash Flow information by month.
- Use accounting terms where appropriate, and always be clear when expressing a point.

PROFIT AND LOSS STATEMENT

Turnover		**£600,000**
Less Costs of goods sold		
Opening stock/work in progress	£60,000	
Raw materials	£100,000	
Employee wages	£200,000	
Totals	**£360,000**	
Less closing stock	£40,000	
		£320,000
Gross Profit		£280,000
Less indirect costs		
eg Rent	£10,000	
eg Rates	£8,000	
eg Depreciation	£5,000	
Totals	**£23,000**	
Operating Profit		**£257,000**

BALANCE SHEET

Assets	
Fixed assets	
Property, plant and equipment	£1,430,000.00
Available-for-sales investments	£43,000.00
Long-term loans receivable	£75,000.00
	£1,548,000.00
Current assets	
Inventories	£40,000.00
Prepaid expenses and accrued income	£7,500.00
Short-term loans receivable	£8,900.00
Available for sales investments, cash equivalents	£15,400.00
Bank and cash	£64,500.00
	£136,300.00
Total assets	**£1,684,300.00**

11. FINANCE

Here you need to lay out the capital you require to start the business. Don't just think about what you need in the start up phase, but also think about any further investment needed at a later date, which if requested at the time when required will be seen as a failure to plan properly or a failure to execute your plan effectively.

These are the basic ways of obtaining the finance you will require:

- Business associates
- External investors
- Finance companies
- Public grants

TIPS

- Be brief and to the point, the financial information already supplied will support this section.
- Do not elaborate at all, get to the point and be brief, each sentence is important. If a sentence does not hold important information, delete it.

12. CONCLUSION

Congratulations, you have completed your business plan.

Conclude by highlighting the main items that point to success of your plan and why your organization is in a position to execute it.

Finally add any appendices that are relevant and will support the plan.

TIPS

- Be brief.
- This is the best section to transmit your optimism without exaggerating.

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