

Business Plan Model

1. Summary of Contents

- Briefly describe the business and highlight its purpose.
- How the purpose will be achieved?
- Why the proprietor is the person to make it happen?
- Briefly describe its history and details of turnover and profitability.
- Highlight the strengths of the business and why it should be supported?
- Indicate the expected turnover and profitability for the following year.
- How does its performance compare with its competitors?
- What have been the major achievements to date?
- Indicate the amount of money that need to be raised and the proposed sources.

2. Business

- Briefly describe the purpose and goals of the business.
- Explain the legal structure of the business- (e.g company, sole trade, partnership).
- Explain who owns it.
- What was the trigger to launch the business?
- Describe its history and performance to date.

- How high is the sales turnover and profitability?
- How does its performance compare with its competitors?
- What have been the major achievements to date?
- State if there are any distinguishing features or unique feature of the product or service - (e.g approval to quality standards).

3. Product or Service

- Describe what you are selling.
- Explain why customers will want to buy the product or service.
- Describe its features and benefits - (e.g ease of use, comfort, safety, economy, flexibility, taste etc.)

4. Market

- Define who you perceive to be your customer groups or niche markets.
- Estimate the likely demand for your product or service in the short and long term.

5. Marketing Plan

- Outline the marketing objectives - (e.g profitability, sales growth, diversification and improvement in the market share).

5.1 Product

- Will you phase in additional products or services?
- Will you pilot an initial product to test the market?

5.2 Place

- Describe the location of the business.
- Explain why you have chosen the site from which you intend to operate.
- Can it be reached conveniently and does it give the right image?
- How will the product be transported to its point of sale?

5.3 Price

- Explain how you reached your decision on price – e.g differentiation strategy (quality and service) or cost leadership strategy (price).

5.4 Promotion

- How to break into the market and let the customer know you exist?
- Explain how you will promote what you have to offer – (e.g advertising, direct mail, door-to-door, leaflets etc)

6. Management and Organisation

- Describe the people involved.
- Highlight the strengths and skills required – e.g technical skills (sales experience), personal attitudes (enthusiasm, ability to work under pressure), education, specialist training.
- How to overcome the weaknesses? – (e.g by subcontracting a particular aspect of the production process) –learning from others as in case of “La Friandise” and “Megasun”.

Brief mention of the financial aspects, including notions of profit & loss and cash flow.

7. Finance

The objective of this section of the business plan is to demonstrate that the business will achieve two key financial requirements:

- To generate a profit.
- To generate sufficient cash to be able to make payments to suppliers, staff and others.

Businessmen will ask questions like “how much profit have I made over the past year” and what is my business worth today compared to last year?”. The answer to these questions cannot be obtained from the books. He has to prepare annual accounting statements:

- Income Statement (Profit & Loss) – which seeks to answer the first question.
- Balance Sheet - which seeks to answer the second one.

These statements cannot be prepared unless the bookkeeping has been performed throughout the year. The books are therefore the “raw material” for the final accounts.

Businesses are organised either as sole traders, partnerships or limited companies. The principles and procedures of preparing the final accounts are equally applicable to all forms of business organisations. The difference lies in the appropriation of profit, sources of finance (capital structure) and presentation of the accounts.

Income Statement (Profit & Loss)

The purpose is to determine the profit or loss for the year. It is divided into two parts:

- Trading Account – which measures profit on trading before taking overhead expenses into account.

- Profit & Loss Account – which reveals the profit of the business after charging the overheads.

Balance Sheet

It is a statement of financial position of the business at the year-end. It shows details of the accounting equation that holds for all businesses, namely that:

- $\text{Assets} = \text{Capital} + \text{Liabilities}$ and
- $\text{Capital} = \text{Assets} - \text{Liabilities}$.

- $\text{Assets} - \text{Current Liabilities} = \text{Net Assets}$
- $\text{Capital} + \text{Long Term Liabilities} = \text{Total Employed}$.

- $\text{Net Assets} = \text{Capital Employed}$

Profit & Loss Account:

	Rs	Rs
Sales	10,000	
Less Direct Costs	(4,000)	
Gross Profit		6,000
<i>Overheads:</i>		
Bank Charges	500	
Light and Heat	900	
Rent & Rates	1,000	
Wages	1,500	
Depreciation	600	
		(4,500)
Total Operating Profit		1,500
Interest		(300)
Drawings		(500)
Tax		(300)
Retained in Business		400

Balance Sheet

	Rs	Rs	Rs
Fixed Assets:			
Equipment		10,000	
Less Depreciation		(3,000)	
			7,000
Current Assets:			
Stock		2,000	
Debtors		1,000	
Cash in Hand		2,000	
Cash at Bank		1,000	
		6,000	
Less Current Liabilities:			
Creditors	2,800		
Loans	200		
		3,000	
Working Capital			3,000
Net Assets			10,000
Financed by:			
Capital	15,000		
Add Profit Carried Forward	2,000		
	17,000		
Less Drawings	(6,000)		
Less Tax	(1,000)		

**Capital
Employed**

10,000

Note:

- $\text{Current Assets} - \text{Current Liabilities} = \text{Working Capital}$
- $\text{Fixed Assets} + \text{Working Capital} = \text{Net Assets}$
- $\text{Total Assets} - \text{Current Liabilities} = \text{Net Assets}$

- $\text{Net Assets} = \text{Capital Employed}$.

Cash Flow / Budget

Month	Jan	Feb	Mar
Sales:	1,700	3,000	
Volume	1,400	2,800	
Value			
Receipts:			
Debtors		1,000	
Loans	7,000		
VAT		200	
Total Receipts	7,000	1,200	
Payments:			
Wages	200	200	
Rent	800	800	
Light and Heat	2,000	1,000	
Loan repayments & Interest	1,000	500	
Total Payments	(4,000)	(2,500)	
Balance			
Cash Increase/Decrease	3,000	(1,300)	
Opening Balance	0	3,000	1,700
Closing Balance	3,000	1,700	

Cash Flow: a detailed plan of action for a future period.

- **Functions of Cash Flow:**

1. Planning – it encourages managers to anticipate problems before they arise.
2. Coordination among the departments.
3. Control and performance evaluation.
4. Participation.

- Liquidity is just as important. The cash flow is an attempt by management to ensure that the company does not run into liquidity problems in the future. It involves estimating receipts and payments implied to find the balance in hand or overdrawn at the end of each month.
- Bank managers are far more willing to entertain requests for a loan or overdraft from a business, which has taken the trouble to plan future cash flows in advance. In addition, months of cash surpluses are revealed such that plans can be made in advance for their investment in the short-term money market – idle cash balances represent an opportunity cost in terms of lost interest.

- **Break Even Analysis**

Break Even Point: the level of sales at which you start to exceed your costs – beyond this point, you start to go into profit.

- Entrepreneurs do not set up a business to break even. Indeed, they set up to make a profit. Output levels in excess of the Break Even Point is known as the **Margin of Safety**. The greater the Margin of Safety, the greater are the profits and the safer is the firm's position.

- **Financial Requirements**

- Indicate the amount of money or other assets invested by yourself and other partners.
- Indicate the amount required from other sources like overdraft facilities, term loans, equity or a combination of these.

- **Security**

Most banks look for at least some security to provide for the bulk of the finance. The offer of security is a demonstration of your commitment to, and confidence in the business. It is also a demonstration of your willingness to take risks especially if you have little cash of your own to invest.