

Writing a Business Plan

Writing a business plan

A really effective plan is a blueprint for your business. Its purpose is to detail what you want to achieve and how you're going to achieve it. You may be starting a new franchise or an existing franchise. Whatever your intentions, a plan that's well thought out will help you map your business' course and help uncover any areas you hadn't considered before. It's worth the time and effort you put into it for that reason alone.

Before you launch into any new venture, you need to assess whether what you are intending is practical and achievable. Determining this is critical, before you decide the more operational issues in relation to your business and commit yourself legally and financially.

Your business plan will also mean you are prepared for what could go wrong and have planned ways of handling these issues rather than trying to deal with them when you are in crisis mode.

Your business idea needs to be clearly documented, with supporting information that shows why and how it will work. If you apply for finance your application will flow from your business plan, so you will be able to approach your bank with confidence.

If you wish to expand or upgrade your business in the future, you will find you have a starting point with your business plan. Review and update your plan regularly to make sure you are still on track to achieve your goals.

You should evaluate your business proposition and look outside your idea to what is happening in the market place. Judge what opportunities exist in your industry, market place/local area and what risks you face if things do not go as planned. Try to identify the external threats and opportunities facing your business and ensure you have a course of action for the different events that might occur.

Topics your business plan should cover

1. Outline your present situation

Outline the background, experience and business goals of yourself and any business partners.

2. Analyse your industry

The more you know about your industry, the better prepared you'll be and the greater your chances of success. So, it's a good idea to spend some time finding out the trends and recent developments in the industry.

Describe the industry your business will operate in and its outlook for the future. Detail any environmental or political influences such as legal changes, government policy changes, or technological advancements that may affect your industry.

Also be aware that different businesses need to obtain licences to operate trades in particular areas. A full list of licences and application forms can be provided by industry or occupation to ensure you have all the relevant ones covered.

There are many regulations that affect different types of business. For example, health regulations, industrial relations issues, environmental issues and safety requirements. You will need to check which regulations affect your business and make sure you comply with the requirements.

Further information

- Consult your legal adviser and the relevant industry association for information or regulations affecting your business and about your industry in general.
- Obtain information from the Australian Bureau of Statistics, business or trade magazines, and newspapers on your industry.
- Contact the Business Licensing Information Service in your state or a State Government Small Business Agency to work out which licences your business requires.

3. Define your market and customers

Knowing your customers is one of the single most important factors to succeeding in business.

Gather information on your market size and location.

Within your industry, define the particular section of the market you are interested in. For instance, if you are in the hospitality industry, what particular part of this market do you wish to capture eg 'the top of the range dinner restaurant' or a 'sidewalk café, casual style, gourmet food'.

Make realistic estimates about what portion of your market you will capture, particularly during your early establishment period.

Sales are a result of marketing suitable services to your target market. Define who your potential customers are by developing a customer 'profile' and then get to know as much about them as you can, for example:

- Where they are located
- What their lifestyle is like and what their expectations and preferences are
- What they are prepared to pay for your service/product
- When and where they will buy your product

You can ascertain customer preferences by conducting market research. This will help you set your sales estimates and decide on the price for your service/product. Don't forget to include trends and seasonal influences.

Further information

- Contact the Australian Bureau of Statistics, Local Government and State Government Small Business Agency or BECs for help with obtaining market information.

4. Understand your competition

In this section of the plan work out who your competition is and whether there is a gap in the market that you can fill. This may simply be a matter of looking around the suburb and surrounding areas of where you will be operating, checking the Yellow Pages, or using information from your local council or the Australian Bureau of Statistics.

Then identify your competitor's strengths and weaknesses. Work out what your key competitive advantage is so you can highlight this in your promotional material and develop your market image. Incorporate questions in your market research to see if your approach will work.

You should also give some thought to protecting your product through trademarks, patents and copyrights or you may find the competition imitating your idea.

Further information

- Contact Australian Bureau of Statistics and Local Government for market information.
- Contact the Copyright Council or the Australian Industrial Property Organisation who handle trade marks for further information on how to protect your product.

5. Develop a marketing strategy

Outline your products/services, pricing strategy, promotion and advertising plans, distribution plans, and what differentiates your product/service.

You need to decide how to promote your product/service by the most effective means. To do this you need to know how to get to reach your target market (see section 3 'Your market and customers'). To communicate effectively your message should be simple and clear about the benefits to the customer. Give customers a reason to call you, rather than your competitor.

Some tips for promoting your products and services are:

Relationship marketing

- Develop a database of all your customers so you can communicate with them regularly.
- Develop an incentive scheme to encourage your customers to refer people to you.
- Give people an incentive to come back to you, such as a loyalty program that saves them money if they keep purchasing from you on a regular basis.

Direct marketing

- Produce a brochure or leaflet for local distribution (letter box drops/direct mail).
- Buy a targeted list or create a list of potential customers to direct mail to.
- Undertake telephone marketing to some of your potential customers.
- Offer a special introductory deal for first time callers.

Advertising

- Advertise in the local paper.
- Advertise in the Yellow Pages.
- Advertise in trade or other suitable publications for your market.
- In your advertisement offer a special deal for a limited period (tip: rather than offer price discounts, try offering additional bonus services).

Other promotion opportunities

- Produce a business card with details of your services printed on the back.
- Sponsor a local event and promote your business at it.
- Professionally decorate shop windows and signs on your premises.
- Mix with other business people and people from your local community or business groups so lots of people get to know you and what your business has to offer.
- Establish alliances with related business areas and refer customers to each other.

Note: Depending on your business and the industry and market you operate in, some of the above will work better than others.

There are two ways you can increase your sales:

- you can get more customers, or
- you can sell more to each customer.

After-sales follow up can give you feedback on how you could improve your product or service. It may also give you another order or a referral to someone else.

Estimate how many contacts you will make through your promotional activity against its cost (cost per person reached); then evaluate how effective the promotional activity has been. When customers approach you for the first time, find out where they heard about you. From this you will be able to work out your success rate for the form of advertising used. For instance, direct mail is a cheap form of advertising that usually has around a 2-4% success rate. By experimenting you will find out what method works best for your business.

Remember, your results will be influenced not only by the method you use but how you present your message. Getting professional help with your promotions could make a significant difference to the number of calls you get.

Further information

- TAFE and adult education colleges offer course on marketing for small business.
- Contact the Australian Industrial Property Organisation to find out whether the logo you are planning to use is already being used.

6. Determine your costs and financial requirements

An important part of your business plan is deciding how best to manage your finances. This includes doing profitability projections, projected asset and liability statements and balance sheets. If you are not strong in financial issues then it may be worthwhile consulting an accountant, however, don't just leave the figures to your accountant, work them out together and make sure you can explain how you came to them. Remember the assumptions you make when making financial projections will need to be realistic so that you have a good idea of your business' financial position.

As a preliminary exercise, do a quick total of all the costs that will be incurred in the first three months of operation. Keep in mind that during this time, you are unlikely to be earning at full capacity, so you should plan to cover these expenses out of your own pocket.

Use this to help prompt you on some of the cost you may have to start with:

Owner/Manager living expenses/salaries (3 months)	\$
Premises (if renting include bond and rent in advance)	\$
Equipment	\$
Decorating/remodelling	\$
Fixtures	\$
Stock	\$
Advertising for your launch/opening	\$
Telephone (connection & rental)	\$
Supplies	\$
Electricity (bond, connection)	\$
Insurance	\$
Vehicles	\$
Legal, accountant & other professional fees	\$
Licences/registration	\$
Others	\$
3 months operating costs (fill this in after you have completed your cashflow forecast)	\$
TOTAL COST TO ESTABLISH BUSINESS	\$

Your start-up costs indicate to you how much money you need to get your business off the ground. You will notice we have included your first three months operating expenses in these estimates. This is because during the early establishment period of your business little income may be coming in, so it is important to be able to cover these costs until you begin earning at full capacity.

Establish your cashflow requirements

It is important to understand when your business will receive income and when expenses will be paid, so that you have enough cash or access to finance to manage the gaps.

A cashflow projection will show you what your cash position will be at the end of each month. It will also show whether you are likely to need finance in the future so you can organise it well in advance.

When you are doing your cashflow projections you should consider the following:

Best and worst scenarios – think about the different events that may occur that are outside your control and what their effect is likely to be on your business.

For instance, what would the effect be if:

- Due to a competitor offering a special, your sales are only half of what you expected.
- Supplies increase prices by 20%.
- You forgot to budget for a cost which causes you to exceed your expense budget by 25%.
- Machinery breaks down and you need to replace it.
- Customers delay paying you for long periods.

Consider not only what you would do to combat these situations, but how you would cope in the meantime. Later on, when you are able to compare your budget to actuals, ensure you understand why variations occurred and take corrective measures, where possible. Learning from these experiences will help you forecast better in the future.

Try doing three possible outcomes: an 'optimistic estimate', a 'most likely' and a 'lowest possible estimate'. This will help you test the potential effects on your cashflow position at the end of each month. Computer packages are available to assist you with this, or alternatively your accountant should be able to assist you with the preparation of 'what if...' tests or sensitivity analyses.

There are some important rules and considerations when you are estimating your cashflow requirements.

Firstly, cashflow control is necessary to ensure that;

1. when you incur an expense you can afford to pay for it, and
2. your business will be profitable in the longer term.

Secondly, be aware that it is possible for your business to be profitable, but not have the cash (the lifeblood of your business) to keep going from day-to-day and meeting expenses. For example, while the books may show a profit, there may be times when you experience shortfalls because customer payments are running late or unexpected expenses arise.

Balance Sheets and Profit & Loss Statements

When you apply for finance you should also be able to provide Balance Sheets and Profit & Loss Statements.

If you are buying an existing franchise, you should obtain the previous three years' records. If you intend to start a franchise, you will need to provide projected figures. At this stage you should consult an accountant to help you. Your accountant will also be able to show you how to work out your gross and net profit and breakeven point (the point at which your income will cover the costs you incur to produce the products/service) to ensure your business is profitable. You will need to take your completed cashflow projection with you when you visit an accountant.

Further information

- Visit www.ato.gov.au for more information about your tax obligations.
- Speak to your accountant.

7. Understand how your business will operate

In this section of the business plan you should include everything about how your business will operate. Areas to consider are:

Staffing – you may not be intending to employ staff in the early days but it is worth considering that if your business really takes off you may need people to help you – even if it is on a part time basis. The sort of issues for you to think about are the type of people you will hire, what salaries you will pay, and how you will hire them (for example if you intend to use a recruitment agency you will need to be prepared to pay a fee equivalent to 10-15% of the employee's annual salary).

If you employ staff there are a host of other responsibilities, including awards which stipulate conditions of work, occupational health and safety, anti-discrimination legislation, workers' compensation insurance, PAYE tax, and superannuation.

Stock levels – it is a balancing act to minimise stock on hand and still meet customer requests on time. If you keep good records on your stock levels you can monitor stock levels closely to get the balance right, as well as guard against theft. By minimising the amount of cash tied up in stock, you can finance other aspects of running your business and avoid stock wastage. If your suppliers are unreliable, you will need to carefully monitor the stock levels you keep on hand.

Equipment – include details of any equipment your business will require and how you propose to acquire it. In the early days you will probably want to maximise your cash flow and not have it tied up in expensive equipment. Talk to your bank manager about the different equipment finance options available.

Monitoring your performance – it is critical to monitor the performance of your business regularly to see if you are on target to meet your forecasts. If you find the results are vastly different from your predictions, you need to take action. This is an early warning sign that your business plan needs to be reviewed. Apart from taking corrective action, forecasts should be redone if they are found to be incorrect, and more meaningful yardsticks put in place to measure performance. Doing interim profit and loss reports, say on a monthly basis, to see how you are tracking against your projections is a reasonable approach. Many successful businesses know how they are performing on a daily or weekly basis, while others find quarterly reports are the most frequent they can produce.

Record keeping – an important part of your record keeping and performance is your management of money owed to you and money you owe. In an ideal world you would receive cash all the time and purchase everything on long periods of credit with no additional charge! Unfortunately, it doesn't work this way in reality. A payment policy that requires customers to pay within seven days may help your cash position as long as you have adequate collection or follow up procedures to make sure you get the money on time.

For your own payments, find out what terms your creditors and suppliers offer, including whether they offer discounts for short payment periods or cash. Then you can decide whether it is better to pay early and get the discount, or pay later and use the cash to finance other aspects of your business.

Your business information must be timely and accurate so you can have confidence in the performance of your business. Speak to your accountant about ways to keep your records, whether it be manual recording or a software package that does all the calculations for you.

Further information

- Speak to your accountant.