

Lecture 2-The need for, and use of, a business plan.

How can you formulate an idea, create an entity in the form of a business and then run it if you haven't any specific plans to work from?

Such rudimentary questions should already provide some clarity as to what is the purpose of a business plan. Worryingly, a number of small businesses don't have anything documented in this manner.

It's absolutely vital you do this prior to launch (or at latest in the very early days) because if you don't then your start-up will:

- Lack clear objectives
- Struggle to monitor and communicate progress
- Be rudderless with activities reactive in nature and lacking any clarity of purpose

Creating a business plan is no easy task. It can be made simpler and more effective by working through it with an advisor. Ultimately getting your thoughts down on paper will prove invaluable for obtaining start-up funding and thus the potential future success of your enterprise.

In this lecture we cover the following:

1-What is the purpose of a business plan?

A business plan is used to help manage an organisation by stating ambitions, how they will be achieved, and exactly when. The plan will also help summarise what the business is about, why it exists, and where it will get to. Your business plan will serve as a key point of reference for investors, partners, employees and management to gauge progress against objectives.

2-Provide a road map

A detailed plan will help you as the owner and founder to manage your business effectively. Writing down and illustrating both your ideas and tactics will establish a path and course of action, akin to a road map. This will give you something concrete by which to monitor and assess the progress you make. It may seem like an odd suggestion but you should look to work with your accountant on this task even at an early stage. Why? Well, a quality professional advisor will have helped many early stage businesses. Given how close a good accountant is to the operations and strategic direction of a company, they'll be able to draw upon their experience of what's worked and what hasn't with other clients.

This means they'll be well placed to help you test your assumptions. Remember you want your business concept to be as well thought through as possible.

Having a fresh set of eyes reviewing your ideas from a different perspective could make all the difference as to the viability of your business model. An accountant will know what success looks like along with what's required and when to achieve it.

In charting a potential course of action you may find your business is faced with multiple different potential paths. It would therefore be wise to plot the most likely scenarios and strategies for these different circumstances. If, for example, your business is heavily reliant upon exporting then you may need to consider potential global and political events. How would that impact on currencies in your chosen markets in the near future?

What does a 10% currency appreciation or depreciation mean for sales, revenues, profits and cashflow? Working through this with your accountant will ensure you can ascertain the impact of such events from a financial perspective. You'll then be able to craft solutions accordingly to deal with such events.

Developing a clear plan and strategy will focus your mind. What resources will you need and when to achieve each of your goals? This provides you with clarity as to how much needs to be invested at each stage of the business lifecycle. You'll then know when you're going to need cash injections based on likely cashflow

3-Understand what to focus on

As an entrepreneur, where should your efforts and concentrations be centred on? It's a common issue. The early days of starting out can be very chaotic. There's so much to set up, think about, implement and develop. It's an emotional roller coaster of mass excitement and sharp shots of anxiety. Amid all this and with an ever mounting in-tray of to do's, you can fast lose track of what's important. When writing a business plan you're defining exactly what your organisation is today and then intends to become tomorrow. This coherence concerning the purpose of your business and direction in which you're heading is invaluable. Doing this means you'll understand what needs to be implemented to move forward.

As an example, your plan should describe your ideal customer and include their needs and wants. Then you'd expand on this as to how your products or services address their requirements. How are you going to market to these potential customers? How will you get your name out there? What approach will you adopt to make sales and generate revenue?

These are vital matters to address early on. Growth primarily comes through new customers and achieving repeat custom. This then determines your progress towards profitability. By mapping this all out on paper you're giving yourself

yardsticks to work towards. This means all tasks that you as the entrepreneur should focus on should be geared towards achieving your next goal. In a nutshell that's where your focus should be.

Projections and the need for an accountant

Raise finance

The likelihood is to support your growth will require an injection of funding. That's unless you have an extremely cash generative business model. More often than not you probably won't have enough customers and thus free cash flow to finance the next opportunity. You'll have a working capital requirement and thus need investment beyond the reach of your business.

You'll likely have to approach potential sources of finance and they'll want to assess your income statements/profit and loss statements, and business plan. If you're still at concept stage, or haven't begun making sales, then their decision will rest solely on the strength of you and your business plan.

The statements help prospective lenders and investors understand the history of the organisation to date. The business plan provides them with a view of your future direction. They'll look for many things in your plan. Ultimately their interest will focus on whether the expansion or development of your business will generate sufficient cash to both operate effectively while also fulfilling debt obligations.

This means you're going to need to detail both profit and cashflow projections. Good forecasting and planning is seen as a way of understanding income and expenditure. This is particularly useful as a means to prevent payment issues over things like suppliers and staff wages. Many businesses close when such issues arise.

The likelihood is unless you've done this before, and know what you're doing, then you're going to need the help of an accountant. They'll work with you to model the probable amount of cash in the business over time. This will then act as evidence.

potential investors and financiers. They'll see if sufficient money will be generated by the activities of the business, to both fund future growth, while meeting financial commitments.

Manage your business effectively

The usefulness of a cashflow forecast doesn't end there though. Managing your cash position, as you may have already gathered, is fundamental to the long term

future of your business. There's a common quote that "most businesses fail because they run out of money". This means they're no longer able to pay their debts when they're due.

You should reference your cashflow projections in your business plan regularly. When you invest in your business, there will be significant outflows of money before any cash comes in. The timing of your investments thus needs to be considered against your projections and statements. Consider trading patterns, seasonal variations and the likely impact on cash flows.

If, for example, you sell through a credit extension then you're going to receive payment in the future. That means after the goods or services have changed hands. The likelihood then is you'll have to make payments in relation to the usual operations of your business before that income comes in from your customer.

So you can then see how poor cash management creates real issues. Make sure you work with your accountant, in the creation of your business plan and monitoring performance in relation to it. The documentation of well thought through ideas, combined with a shrewd strategy, and carefully planned projections will markedly improve your chances of long term survival and growth.