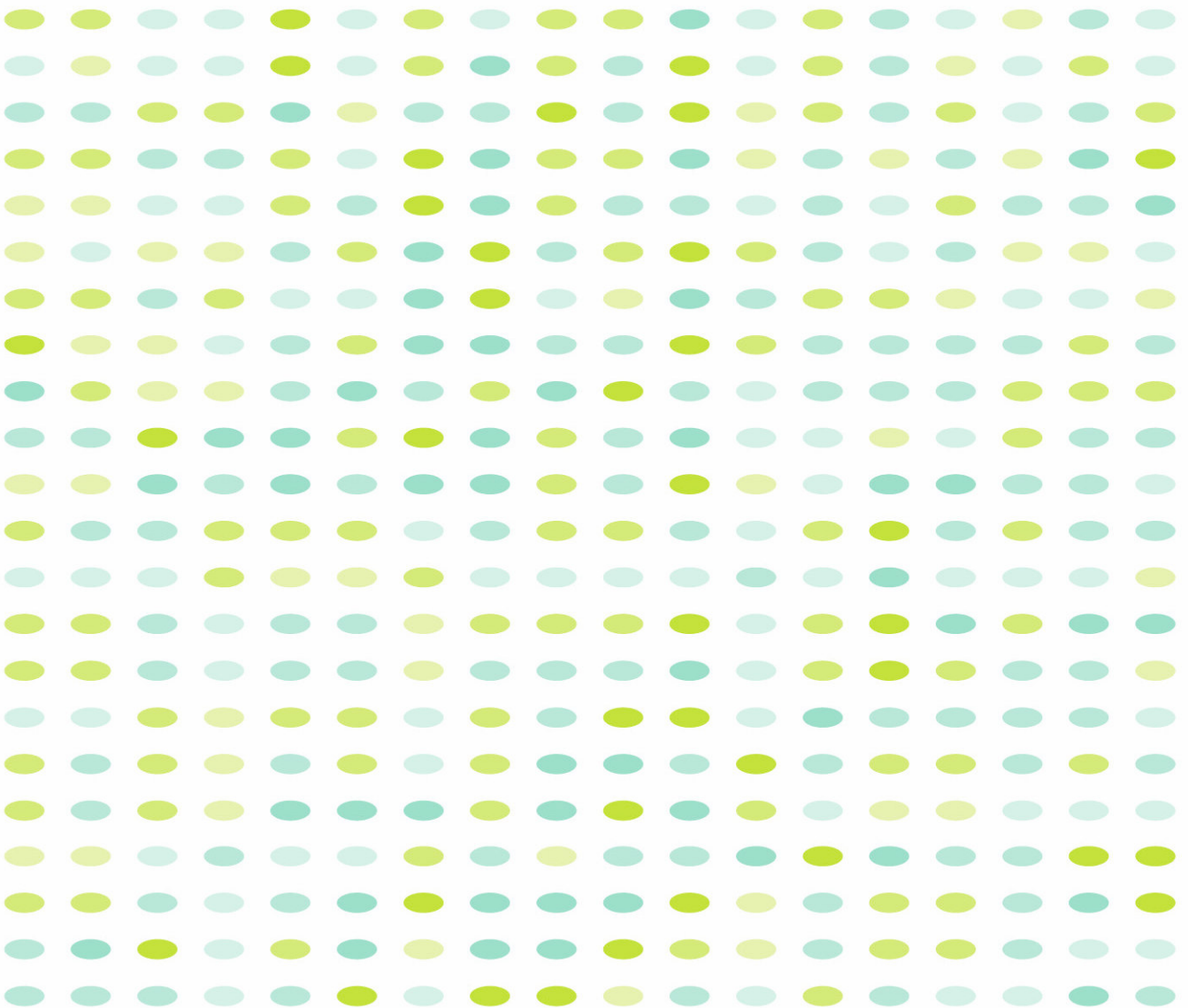


The SWAIN guide to Preparing a Business Plan



In conjunction with:

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The South West Angel and Investor Network (SWAIN) connects private investors or “Business Angels” with companies looking for investments. SWAIN specializes in helping small and medium sized companies to find equity finance, and assists private investors in the South West to search for investment opportunities in businesses with growth potential.

The following guide has been produced to help you prepare a business plan. It is not intended to be a definitive guide as there are 1000’s of books dedicated to the task. It is rather intended to help you think about the key components. It is strongly advised that you seek professional advice to ensure that the plan is not only well drafted, but also makes sound commercial sense.

What is a business plan and why do I need it?

A business plan is a key tool in business, in particular when the raising of finance is required. Your business plan should tell an investor everything he needs to know about your business to allow him to make an informed and confident decision.

A business plan is most commonly used to support the raising of finance and is a key document to be presented to potential investors. Although business plans can have other purposes, this guide will assume that the aim is to secure finance.

If you have ever seen the popular BBC TV show ‘Dragon’s Den’ you will no doubt have seen many entrepreneurs having their idea ripped apart. Common failings include:

- a fundamental lack of understanding of the finances
- failure to sell the product or idea to the potential investors
- a clash of personalities
- unrealistic expectations of the risks the potential investor is willing to take
- unrealistic valuation of the business

These are all common traps that can also befall your business plan. A poorly prepared business plan can undermine the true potential of the business and put off potential investors. In this guide, we will help you to understand the

elements of a good business plan and hopefully avoid the wrath of your potential ‘Dragons’!

The form of the business plan

A business plan can take many forms, but there is an increasing convergence towards a standard model that supplies potential investors with a comprehensive yet concise description of the business and its aims.

A good business plan will generally contain the following sections:

- Executive Summary
- Background, history and overview of the business
- Description of management and other key employees
- Market analysis and research
- Description of operations
- Financial projections
- SWOT analysis
- Potential exit routes
- Historical financial information

You may decide to combine or even omit certain sections. Remember it is your document and can be presented however you see fit. However, the above information would generally be expected by a potential investor.

The business plan should be well laid out, well presented and not contain grammatical or spelling errors. You should generally adopt the same rules as you would for preparing a CV – make sure the basics are covered or it might end up in the bin before the second page has been turned.

We will now go into more detail on what each section should contain.

Executive Summary

This is probably the most important part of the business plan. Many potential investors will only read the Executive Summary – if it does not catch their attention and generate interest, the rest of the business plan may be a wasted effort.

Make sure the executive summary summarises all of the key points of the business plan, but remains concise. In all sections of the business plan, you should put yourself in the mind of the reader, in the executive summary is particularly important.

Make sure the executive summary gives an overview of the reasons for needing finance and the amount of finance being sought – this ensures that the reader can go through the rest of the document in context.

Background, history and overview of the business

The business plan should contain a clear description of the business's activities and a background to recent events that may have led to the seeking of finance. This should dovetail with the finance requirements that are described in detail later on.

There is no need to give a detailed history that will take the reader hours to digest, just give the key facts and whet the appetite for the detail to come.

Management

This section of the business plan can be more important than you think. Potential investors want to make sure that, not only are they going to be dealing with the right individuals, but that the business – and therefore their investment – will be in safe hands.

This section should describe the management and, if relevant, key employees of the business who will go about turning the plans to fruition. Remember that you may well be trying to 'sell' the key individuals as much as the business itself. If it is the intention to recruit certain key individuals, describe how and when this will be undertaken.

Details should be given of both the current and expected future roles of the individuals identified, together with a summary of the key skills they bring to the business. It may also be wise to specify the expected remuneration of each individual, as potential investors will not want to see their future returns reduced by over-inflated management salaries!

A CV should be included for each key individual included in this section. Depending on the length of these CVs, it may be more appropriate to include them in an Appendix to the business plan.

Market analysis and research

This section should describe the market in which the business operates (or intends to operate), how the business fits into the market and, most importantly, how the business intends to succeed in that market. This will normally need to include a description of the business's products or services.

It is always recommended that some market research is undertaken before putting forward a business plan, and this section should therefore include an analysis of the results of that research.

It is always safest to assume that the reader knows little or nothing about the business's market or products. The plan should clearly state :

- the size of the market in which the business will operate
- key competitors and how they influence the market
- whether the market is growing or declining
- the expected market share of the business
- how that market share will be achieved
- seasonality and how this may affect cash flows
- key customers in the market
- any other characteristics of the market that may affect the business's ability to achieve its targets.

Where external sources have been used e.g. to identify market size, provide a reference to the source. This will leave the reader in no doubt – if he checks the reference – that you have done your homework. Also, if there are future sales that have already been confirmed, make this clear and, more importantly, provide supporting evidence.

Whilst it would be foolish to be over-optimistic, remember that any potential investor will be looking for growth potential, and this section should be a reasoned analysis of how that growth will be achieved.

Description of operations

The previous section dealt with the business's products and services, and how growth will be achieved. However, the business will need to ensure that it has the ability and infrastructure to actually allow the sales to occur!

For example, in a manufacturing company, there is little to be gained in claiming that 100 widgets can be sold every week if the factory only has capacity to make 80. Similarly, a consultancy business cannot achieve sales of £1 million if it only has 4 employees working 2,080 hours per annum at an hourly charge out rate of £100 (work it out!!).

The aim of this section is therefore to describe the operations of the business and how these will develop to meet the needs of a growing business. Some ideas of what to include in the description are:

- analysis of key suppliers and what reliance the business places on them
- the ability of the company to deal with breakdowns or the loss of key employees
- current capacity and how this will be expanded if necessary to meet the growth targets
- sensitivity of the business to changes in material prices

Financial projections

This section will provide a summary of the financial projections (see the 'SWAIN Guide to getting the best from financial projections' for detailed guidance on preparing these). The detailed projections themselves should be included in an Appendix to the business plan.

The key figures and ratios (on a quarterly or annual basis) from the detailed projections

should be drawn out and analysed in this section. The exact figures to include will depend on the nature of the business, but the following will generally be of particular interest :

- turnover
- gross profit margin
- net profit
- net assets
- debt/gearing

If these terms mean nothing to you, then it might be time to speak to your accountant!

Potential investors normally look at 'sensitivities' when analysing the projections. They will often ask for certain scenarios to be projected (e.g. what happens to profit if expected growth in turnover is not achieved?). It may therefore be wise to pre-empt these queries by running a few sensitivities of your own and including an analysis. This will also provide some comfort that you have not just assumed the best-case scenario.

Ensure also that this section - or the detailed projections in the Appendix – lists the key assumptions and parameters used in preparing the forecasts. Bear in mind that potential investors may well hire their own accountant to analyse the projections so expect some detailed questions.

SWOT analysis

A SWOT analysis is a key tool in summarising the potential of the business. For those unfamiliar with the term, 'SWOT' stands for 'Strengths, Weaknesses, Opportunities, Threats', and a SWOT analysis is simply a list of these. Strengths and Weaknesses generally refer to internal factors, whereas Opportunities generally refer to external factors. Many of these factors may have already been alluded to in previous sections.

Some examples of the type of items to list under each heading are as follows:

Strengths

- experienced and skilled employees
- strong brand
- modern equipment
- unique product
- established business

Weaknesses

- ageing computer systems
- lack of experience in new markets
- difficulty in collecting cash from debtors
- high gearing

Opportunities

- launch of existing products into new markets
- competitor withdrawing from market
- new laws increasing demand in the business's products
- trends and fashions increasing interest in the business

Threats

- new competitor entering the market
- loss of key employee
- potential of product to become obsolete
- changes in exchange rates affecting material prices

Generally, a summary of the last 3 sets of audited accounts should be included, with copies of the full documents included in an Appendix.

These are just some examples of items to be included, and are by no means comprehensive.

It is very tempting to write at length about Strengths and Opportunities and only briefly describe Weaknesses and Threats. Try to strike a balance between an honest, warts-and-all analysis and an optimistic appraisal.

Potential exit routes

Remember that your potential investor may not want to be around forever. Generally, an investor will have an exit strategy in mind. This may be immediately apparent from the projections (e.g. the repayment of a loan) but, if not, include a section describing the expected exit route. Do not forget to include the investor's expected return!

Historical financial information

It is important to provide some historical financial information as well as projections. This will allow the potential investor to compare the two – if the projections show a far better position than the historical information, clearly some explanation will be required.

Conclusion

The content of a business plan can vary considerably depending on the nature of the business, the funding requirements and various other factors. However, following the above structure should help to ensure that your business plan is concise yet comprehensive, and tells your potential investor everything he needs to know.

Whilst there is no requirement to involve a professional in preparing your business plan, the experience of a business advisor can be very useful in ensuring that the potential for raising finance is maximised. Business advisors and accountants often have existing relationships with banks and investors that can help smooth the process and aid communication. Details of firms who are associate members of SWAIN can be found at

www.swain.org.uk

SWAIN also have strong relationships with business advisors from both the publicly funded organisations and the private sector.

This guide has been put together by Hazlewoods LLP, who have extensive experience in assisting with business plans and helping growing businesses to raise finance. For further information please contact David Pierce on 01242 680000 or e-mail drp@hazlewoods.co.uk

Disclaimer

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