

'THE BUSINESS PLAN MUST BE CAPABLE OF BEING FLEXED TO ACCOUNT FOR MARKET TRENDS AND FLUCTUATIONS, AND THE DOCUMENT SHOULD BE UPDATED ON AN ANNUAL BASIS AT LEAST'

BUSINESS PLANS ARE NECESSARY NOT ONLY FOR THE START-UP STAGE OF A BUSINESS BUT AS A VITAL FINANCIAL PLANNING TOOL, SAYS NICK LINNANE

Planning for success

We can all picture the entrepreneur on *Dragons' Den* as Peter Jones asks, in his calm and reassuring manner: 'And what was your turnover and profit for last year?' With confidence our entrepreneur trots out the figures and then Jones asks: 'What are your projected figures for the next three years and the basis for same?' The confidence that was there drains and our friend leaves with no investment.

A similar story is repeated in every bank throughout the length and breadth of the country (even more so in a credit crunch), as bank-relationship managers ask the exact same question.

And very often it's the same result. But why? Because so many businesses of all shapes and sizes do not have a business plan. Too many people believe it is only necessary when starting a company, seeking bank finance or obtaining grant assistance. In fact, it is a vital tool in running a business, whether this involves financing, optimising growth or consolidating or assisting development according to priorities.

WHAT IS A BUSINESS PLAN?

A business plan could be likened to a resumé for your business. It does all or most of the following:

- Provides a description of your company
- Identifies goals
- Identifies problems, trends and fluctuations
- Provides a roadmap for the future
- Can be used to seek loans or investment
- Can inform personnel, suppliers and others about the business.

Business plans may be internally or externally focused, but for any business to succeed a business plan must be used as a vital management-control mechanism. It is also imperative that all levels and disciplines within the management structure have an input in preparing it.

It also must be capable of being flexed to account for market trends and fluctuations, and the document should be updated on an annual basis at least.

Is there such a thing as a standard business plan? The short answer to this question is no, but any solid business plan should include the following elements:

- **Company description:** Shareholders and history
- **Product or service:** What does the business do? What are the customer benefits? What does the business sell?
- **Market analysis:** This identifies markets, customer needs and communication channels
- **Strategy:** How to implement plans detailing specific management teams and responsibilities
- **Financial plans:** This includes cash-flow statements, profit-and-loss (P&L) accounts, a balance sheet and job-cost or break-even analysis.

There should also be an executive summary, with a page of relevant highlighted items.

Being from a financial background, I propose to concentrate specifically on that area of business planning.

FINANCIAL DATA

This part of the business plan is the section to which we refer on a more regular basis, but it cannot perform without being linked to all the prior sections of our business plan.

This is the section that proves the business is viable. The most common documents in this area are:

- Cash-flow statements
- P&L accounts
- Balance sheets.

A business plan should include year one in detail, ie month by month, and then years two and three in summary. Any business plan beyond this will be very aspirational and difficult to justify.

Other documents that may be included, depending upon the size of the entity, are:

- Break-even analysis
- Industry ratios
- Source of funds, ie venture capital or loans equity
- Capital-investment schedule
- An exit strategy for investors.

FOUR KEY ELEMENTS

The four key elements necessary in this part of the plan are:

1) Capital requirements

All businesses require funds to run and function. The financial-planning section will provide investors and lenders with the information necessary to formulate a decision on providing current or long-term capital.

2) Measuring progress

When there are no goalposts, everybody can score. Your business needs goalposts and the plan provides them. It identifies whether you have met the targets? If not, why?

3) Keeping your business on the right track

At the business start-up stage your first plan sets very specific goals on fundraising and communication that can be specifically measured. As you flex and update your plan, new targets

are set. The business plan can be used to monitor progress and keep your business on track.

4) Providing information

A clear, concise, jargon-free business plan, completed from an objective point of view, can be used as a very effective communication tool, which you can use not only with bankers and investors but with key staff members and suppliers.

PROJECTED P&L ACCOUNT

This document obviously identifies the profitability or otherwise of the business and, as referenced above, should be prepared in detail for year one, with summaries for years two and three. The P&L will be cross-referenced to other parts of the plan and its detail will vary from business type.

It is clear that different firms have different requirements, with varying emphasis on some expense categories. The strength of specific business plans is to adapt to the individual business.

What is the most important element of the plan? It depends on the case, but usually it's the cash-flow statement and specifically the implementation details.

■ Cash flow is vital to a business and hard to follow. Cash is usually misunderstood as profit, but it's actually completely different. Profits don't guarantee cash in the bank as many businesses must give credit to their customers, fund working assets, engage in long-term contracts and pay off capital elements of loans. Many profitable businesses go under because of cash-flow problems

■ Implementation details are the things that are going to happen within the business. Brilliant strategies and delightful documents are just theory unless you assign responsibilities in terms of dates and budgets, follow up on problems and track results.

Business plans are really about setting targets, getting results and improving your company. A company's annual business plan should be its flexible business bible.

Nick Linnane is a chartered accountant and managing partner at Linnane McGlennan. This article does not constitute financial advice and should not be taken as such. Owner Manager urges you to obtain professional advice when dealing with business-planning issues.



■ Nick Linnane