

Standard Bank's guide to creating a business plan

General information

A business plan is a detailed overview of the current position of a business, where it wants to go, and how it plans to achieve its goals. It is a summary of a business's past, present and future.

We often ask business owners to include a business plan when they apply for bank finance. Consider that, in the same way as you would test-drive a vehicle before purchasing it, we need information about your company before we partner with you. Potential business partners need to know how their investment will be used, and ultimately, what it will achieve for the business. In this sense, your business plan is like your ambassador – showing how the various elements of your business are integrated into a vibrant whole.

The added benefit of writing a business plan is that it requires you to actually sit down and think, brainstorm and discuss business matters or strategy with all the key players in your business.

We have created a template that will guide you in providing the essential information that we will require when assessing your application for a loan. This template is merely a guide. You do not have to use the template and may write your business plan in your own format. You are also welcome to include additional information that you feel may be relevant or important. However, the following components are vital for loan applications:

Business details

- This section contains critical business information, such as contact details and the business address.

Business description and overview

- This section requires a high-level overview of your business. *Franchise* information is particularly important to the bank, so that we can assess the actual franchise and its success in other areas.
- We understand that every company's business plan will be different, because every company is different. It is important for us to understand the *industry* that your business operates in.
- The purpose of this section is to ascertain the *ownership structure* and financial contribution towards the business.
- We would like to know the *age and stage of your business life cycle*. This will enable us to understand the growth prospects or possibilities of your business, as well as the problems or opportunities that your business may be presented with in its particular life stage. The life-cycle stages can generally be grouped under four main categories being: start-up, growth, maturity and decline.
- The purpose of this section is to understand the different levels of expertise within the team that runs the business. It is advisable to attach the CVs of all *key management* team members, explaining their business experience, qualifications, knowledge and skills.
- A *succession or continuity* plan illustrates that the business owner is thinking beyond the current situation and is prepared for up and down swings in the economy or business environment. This plan could also expand on future ownership of the business.
- The purpose of the next section is to provide the details of *insurance* policies related to your business, which will enable us to assess whether your business is protected and sustainable.

Business operations

- Briefly explain the *business concept* or what your business is about, perhaps the need that your business will satisfy, or the gap in the market that it will fill.

- It is important to clearly position or describe the *products and services* you currently manufacture or sell. The variety of the range should also be included, as well as how you expect to grow or expand this range in the future.
- The purpose of this section is to indicate the geographical area that your business impacts. It is important to indicate the various *points of sale* that your business offers.
- The *annual turnover* from the previous year's business can be taken from the cash flow statement, while the *projected annual turnover* for the current year can be retrieved from the cash flow projection.

Business environment – sales and customers

- Write a list of your current and prospective customers. Also mention individuals or groups that purchase significant portions of your product or service.
- Specify *future sectors*, customer groups or contracts that your business plans to target. Briefly explain how this will be done.
- If your business has been awarded a *tender* or a large order that may affect or strengthen your business, then these tender details should be attached.
- Creating a *budget or forecast* should not be a time-consuming or complicated process. If your business is already established, it is useful to use past records to guide you in creating a budget for the current year.
- If you are a new entrepreneur, you may need to do some preparation when creating a budget. Remember to be realistic in forecasting sales, as if you do not achieve these, this may impact negatively against your business plan.
- Finally, ensure that your sales, purchases and production budget are all aligned to each other.

Business environment – Debtors

- The purpose of this section is to ascertain the amount and details of the *credit terms* that are offered to your customers.
- The credit terms means the number of days that a customer has to pay for their goods or service.
- It is very important that you understand how the above credit terms will affect the business's cash flow.
- Some industry research may be needed to establish what the industry norm is for *debtor terms*.
- Detail what percentage of the business's total debtor book is maturing at 30, 60 and 90 days.

Business environment – Suppliers and creditors

- This section shows the business's *key suppliers* and explains the relationship that you have with them.
- Your suppliers' *credit terms* should be detailed.
- The purchases budget should align with sales and production budgets.

Business environment – Production

Only businesses that specifically produce or manufacture goods should complete the first three questions of this section.

- Briefly explain the production or manufacturing process in your business.
- Specify the amount, at optimum capacity, that your operation could *produce* in a day, month and year.
- Give a short description of the major *equipment* that your business uses to manufacture goods.
- *Mark up* is the amount that is added to the *cost* price of the item, to cover expenses and provide a gross profit.
- *Gross profit* is what is left after deducting the costs of the item from the selling price. This figure divided by your sales or revenue figure and then multiplied by 100% will give a gross profit percentage.

$$\text{Gross profit percentage} = \frac{\text{Gross profit}}{\text{Sales}} \times 100\%$$

- Briefly explain what *inventory* or stock is held, its value and quantity.
- The production budget should align with your sales and purchases budget.

Business environment – Competitors

- Briefly explain who your *key competitors* are. Include details such as their name, location and distance from your business. Relative market share shows a firm's market share against that of its leading competitor.
- Briefly explain the *threats* that potential competitors pose for your business. Detail what measures have been taken to minimise the effect of these competitor movements.
- Explain what your business's *competitive advantage* is. This is an important part of the business plan as you can use it to describe why your business idea is a great one, what gap in the market it fills and how you plan to differentiate yourself from your competitors. Explain why your business has the potential to be a success.

Financial review

- For businesses that have not started operating, it is important to be realistic when compiling *pro forma financial statements*.
- If your business is registered as a company, that is a Pty (Ltd), then your financial statements should be *audited* once a year. Close corporations, partnerships and sole proprietors do not need to have audited financial statements.
- A simple document stating the *personal assets and liabilities* of the key people who own the business should be attached.
- *Assumptions* may include growth due to specific events, tenders or contracts awarded. New machinery that provides increased production capacity or perhaps new employees/management that may affect the business may also be assumed and therefore stated.

Source and application of funding

- The purpose of this section is for us to understand the *reason for your application*. Banks have a responsibility to protect depositors' funds. Any entrepreneur applying for a loan opens a bank to risk. That is why we may request some form of asset to serve as protection for the loan. Remember that your personal contribution (or capital injection) into the business says a lot about your confidence and commitment towards your business.