

## **Booklet 2**

### **2. THE BUSINESS PLAN**

#### **2.1 About this Booklet**

This booklet demonstrates the importance of planning when starting up a business. It illustrates how and when to use your business plan and also provides you with two business plan outlines.

The first outline will guide you through a basic business plan format, ideal for the potential business owner who must present a business plan to the bank manager to obtain finance.

The second outline is an extension of the basic business plan. A more established business can combine these two plans. The second outline, which is more detailed, indicates the type of information that you will need to incorporate into your business plan as your business grows.

#### **Booklets to read with this one:**

- Considering your own business
- Key issues in small business management
- Your business and your bank
- Principles of finance and your business
- International trade
- Legal issues
- Tax and the small business

#### **2.2 Why is it necessary to have a business plan?**

Experienced business owners and managers will tell you that the business plan is a very important management tool. The business plan is a written road map of where the business is going, what it has to do to get there, and what it will look like on arrival. A business plan can take many forms, from a glossy, professionally produced document to a handwritten manuscript in a file outlining the goals, objectives, strategies and tactics of the business.

#### **2.3 Uses of a business plan**

A business plan is a valuable management tool. It has very many uses, which include the following:

##### **Setting goals and objectives**

A business owner should use the business plan as a tool for setting the direction of a business over the next few years. The plan should also include the action steps and processes to guide the business through this period.

Of course, a business plan is not a guarantee that problems will not arise, but with a well thought out plan, you can better anticipate a crisis situation and deal with it before it becomes too serious. Furthermore, a well-constructed plan could help the business avoid certain problems altogether. Business planning is probably more important to the survival of a small and growing business than it is to a larger, more mature one.

### **Testing the feasibility of an idea**

A business plan may be used to help determine whether or not a business is likely to be successful. Few test pilots would attempt to fly a plane without the knowledge that an engineer had already calculated its theoretical capacity for flight and, based on known laws of physics and the plane's construction, found it capable of flight. Prospective business owners should demand similar analysis from their business plans.

### **Establishing and evaluating performance benchmarks**

In the heat of daily operations, you may find that taking an objective look at the performance of your business is difficult. Often, the trees encountered daily obscure your view of the forest in which your business operates. A business plan can provide you with an objective tool for determining whether the business is on track to meet the goals and objectives you have set.

### **Communicating messages to internal and external parties**

The story of your business must be told and retold many times, communicating your business's competence to prospective investors, potential and new staff, outside advisers and potential customers. Focus on the future as the most important part of the story.

Ideally, the same business plan, with slight modification, can serve all four purposes.

## **2.4 Six steps in preparing your business plan**

### **Identify your objectives**

Before you can write a successful business plan, you must determine the following:

- Who will read the plan?
- What do they already know about your business?
- What do they want to know about your business?
- How do they intend to use the information they will find in the plan?

Find a balance between what the members of your target audience want to know and what you want them to know. You are now ready to begin preparing a useful business plan.

### **Outline your business plan**

Once you have identified the objectives for your business plan, and you know the areas that you want to emphasise, you should prepare an outline based on these requirements. It can be as general or as detailed as you wish.

### **Review your outline**

Review your outline to identify the areas that, bearing in mind your readers and objectives, should be presented in detail or in summary form in your business plan.

### **Writing your plan**

Assuming that the bank manager is the target audience for your business plan, ask yourself if he or she will be able to answer the following questions based on the information you are providing:

- Who are you?
- Why is the business viable?
- Exactly how much money do you need and why?
- Where will this money go?
- What will you contribute to the business?
- When and how will the loan be repaid?
- What if the business fails?
- Can this business afford its owner(s)?

### **Have your plan reviewed**

Ask someone familiar with business management and the planning process to review your business plan for completeness. This person should check it for objectivity, logic, presentation and effectiveness. Next, incorporate the feedback and comments you receive.

### **Update you plan**

Business plans are 'living' documents and must be periodically updated or they become useless. As your environment and objectives change, update the plan to reflect these changes. Refer to this booklet each time you update your plan to ensure that all areas are properly covered.

## **2.5 Final checklist**

Consult this final checklist before presenting the business plan to your bank manager or anybody else in your target audience:

- Ensure that your plan starts off with a table of contents. At a glance, the reader will know what information is contained in the business plan as well as where to find the various sections.
- Base your business plan on well-researched facts. Remember that the reader will not just accept the information you present, but will check it to ensure accuracy.

- Substantiate the claims made in the plan. When you claim to have orders for your products or services, back up your claim with letters from customers and attach them to your business plan.
- Double-check everything. Make sure that there are no mistakes that will inconvenience the reader. Check names, addresses, telephone numbers and other contact information for accuracy.
- Presentation is important. Before studying the content of your business plan, the reader will form an opinion of the business and its owner, based on the appearance of the document and how it is presented. Should you decide to present your plan in a folder or binder, remember that dark colours will create a more professional image than bright colours.

## **2.6 The basic business plan outline**

### **2.6.1 Executive summary and table of contents**

The executive summary is a very important part of your business plan, as the reader will consult it first to get a 'feel' for the document. It should be less than three pages in length and provide the reader with a brief but complete overview of the entire business plan. Do not merely list the topics contained in the business plan. Emphasise the key issues presented and focus on the factors that will make the business successful in a competitive market. The executive summary should be the last section of the business plan that you write.

The table of contents follows on the executive summary and should help your reader to locate specific sections of information in the plan. Do not give detailed descriptions of the contents, merely list the headings and corresponding page numbers.

### **2.6.2 Personal information**

#### **Personal details**

This section should be completed individually by each of the owners of the business.

- First name(s) and surname
- Date of birth
- Identity number
- Business and home telephone numbers
- Full residential address
- Nationality
- If not a South African, whether you are a permanent or temporary resident
- How long have you been resident at your present address?
- Whether your residential property is owned or rented

- If resident at the present address for less than three years, state your previous address
- Whether your previous residence was owned or rented

**Marital status**

- Married, single or divorced
- Married by ANC or COP
- Whether your status has changed since 1984 (If so, attach a copy of the contract.)
- If married by ANC, attach a copy of the contract
- If divorced, the date on which it was final (Attach a copy of the final decree of divorce.)
- Number of dependants, including spouse
- Number of children and their ages

**Spouse's details**

- First name(s) and surname
- Date of birth
- Identity number
- Employer, current position at work and work address
- Business and home telephone numbers
- Annual income

**Personal references**

- Names, addresses and contact telephone numbers of at least three people to whom reference can be made

**Employment history**

- Highest educational qualification obtained and when achieved
- Formal apprenticeships or pupillage and when completed
- Career history details: employer, employment period, type of work, last position held, annual income
- Capacity you will be employed in in this business

### **Financial Affairs**

- Do you have or have you had an interest in another business? Give details.
- The monthly income you will earn from the business
- The rand value of other financial benefits that you will receive from the business
- If you have been sequestered, when were you rehabilitated?
- Give details if you were found guilty of criminal offences.
- Give details of judgements for debt against you.

### **Details of personal assets**

#### **Fixed property**

- Stand number, street address, name in which registered, market value, municipal value
- Details of these properties sold under Deed of Sale

#### **Machinery, vehicles and equipment, etc**

- Registered owner, description, year model, date purchased, registration number, leased or owned

#### **Furniture and fittings**

- Estimated market value
- Ownership vested in yourself and/or your spouse?

#### **Jewellery, cameras, etc**

- Estimated market value
- Ownership vested in yourself and/or your spouse?

#### **Life insurance**

- Life insured, insurance company, policy number, annual premiums, death value, date taken out, type of policy, surrender value, beneficiary

#### **Banking accounts**

- Account in the name of, name of bank, branch name, type of account, account number, current balance

#### **Investments, fixed deposits, etc**

- Investment in the name of, where invested, type of investment, amount invested, interest rate, expiry date

**Share investments in listed companies**

- Investment in the name of, name of company, number of shares, present market value

**Share investments in private companies**

- Investment in the name of, name of company, number of shares, present market value, copy of the latest financial accounts

**Membership of close corporation**

- Name of member, name of close corporation, percentage membership, amount contributed, copy of the latest financial accounts

**Details of personal liabilities****Fixed properties (listed above)**

- Stand number, bonded to, rand value of bond registered, outstanding balance, monthly repayments

**Machinery, vehicles and equipment (listed above)**

- Registered owner, registration number, financed by, outstanding balance, monthly repayments

**Furniture and fittings (listed above)**

- Items not yet fully paid for, outstanding balance(s), monthly repayments

**Jewellery, cameras, etc (listed above)**

- Items not yet fully paid for, outstanding balance(s), monthly repayments

**Life insurance policies ceded to a third party (as listed above)**

- Policy number, ceded to, why ceded

**Credit cards**

- Name of cardholder, name of bank, present balance, expiry date, ordinary limit, budget limit

**Banking accounts (listed above)**

- On which account number(s) do you or your spouse use overdraft facilities? What are the limits? What are the expiry dates? What are the present balances? Provide details of security held by the bank.

**Short- and long-term personal liabilities, excluding normal trade creditors**

- Owing by, owing to, outstanding balance(s), how or when payable, monthly repayments

**Suretyships**

- In favour of whom have you signed sureties? State amount of the sureties, purpose of suretyships.

#### **Notarial bonds**

- Over which of your assets have notarial bonds been registered? In favour of whom? For what amount? For what purpose?

#### **Income**

- The gross monthly income of your spouse

### **2.6.3 Business description**

- Is the application in respect of
- a new business?
- an existing business?
- a franchise? (If a franchise, enclose the franchise agreement.)
- a newly acquired business?
- Name of the business
- Telephone and facsimile numbers
- Trading name of business

**If a company or close corporation, state the full registered name and enclose Form CK1 or CK2 where applicable.**

- Street address from which business will be/is operating
- Postal address of business

**If a company or close corporation, state the address of the registered office.**

- Registration number
- Date registered

#### **Owners of the business:**

- Name(s)
- Director, partner, member or shareholder
- Percentage holding
- Financial contribution
- If buying an existing business: Why the current owner wishes to sell the business, details of the current owner and selling price of the business



- Describe the present or proposed activities of the business.
- If the business is part of a group of companies, provide details in the form of an organogram.

#### **For a company**

- Authorised share capital (number of shares)
- Issued share capital (number of shares)
- Give details of owners listed above who have an interest/interests in other businesses.
- How long has the business been in operation?
- For how long has the business been owned by the owners listed above?
- Provide details if the business or any of the listed owners have ever entered into a compromise with their creditors.

#### **2.6.4 Market analysis**

This section is of critical importance. It must clearly identify your understanding of the market, its characteristics, and your position within it.

You should identify customers and potential customers, and explain factors such as customer needs and decision factors. The absolute size of your market should be outlined, or estimated by reference to competitor information. Include your current and forecast market share.

#### **2.6.5 Market and sales activities**

- What percentage market share are you aiming to capture and how will you achieve this?
- Why is the market for the products/services of the business growing or declining?
- State the main competitors of your business - name of each business, location, distance from your business, how these businesses will react to your business.

#### **2.6.6 Products and services**

This section should explain your principal products and services, their applications, and distinguishing features. The main purpose of explaining the product is for the reader to understand the market, any unique selling points and, consequently, the business opportunity.

## 2.6.7 Operations

### Premises

- The location of the business (e.g. central business district, near freeway etc), the size of premises. Are the premises adequate for the short to medium term?
- If the premises are leased - attach a copy of the lease agreement, state the term of the lease, the date that the lease expires, whether the lease is subject to annual increases, percentage increase per annum, the monthly rental
- If the premises are owned - the present market value, when purchased, the purchase price, amount for which the premises are insured, date that the insurance expires
- If the property is bonded - to whom, value of the bond, outstanding balance of the bond

### Machinery, vehicles, equipment furniture, fixtures, and fittings

- Provide a list of items presently owned by the business - type, serial/reg. no., market value, present condition, contributed by, paid for or not
- Provide a list of items that the business must still purchase - type, cost excluding VAT, new or second-hand, supplier(s)
- How will budget output be achieved?
- What maximum budget output will be achieved?
- At what stage will the additional items be required?
- How will assets be depreciated (vehicles, machinery, furniture, fixed property, other) - straight line, reducing line, per annum?

### Personnel

- How many people are currently employed by the business?
- How many additional people will be required?
- Provide an organogram of the present/proposed staff structure.

### Accounting

- Name of accountant/bookkeeper, plus address and contact telephone number(s)
- Name of auditor(s) - plus address and contact telephone number(s)
- Will monthly accounts be made available?
- How often will a full stock-take be done - monthly, quarterly, annually?
- How will stock be valued?

## **Sales**

### **For an existing business**

- The total outstanding debtors
- Normal debtor terms
- Present debtor book maturities:
  - **30 days %**
  - **60 days %**
  - **90 days %**
  - **over 90 days %**
  - **For a new business**
- Debtor terms that will be allowed
  - **Cash sales %**
  - **30 days %**
  - **60 days %**
  - **90 days %**
  - **over 90 days %**
- What is the industry norm?
- When will outstanding debtors be regarded as bad debt?

## **Purchases**

### **If an existing business**

- The present amount outstanding to creditors
- How it is spread:
  - **30 days %**
  - **60 days %**
  - **90 days %**
  - **over 90 days %**

**If a new business**

- The terms arranged with suppliers
  - **Cash %**
  - **30 days %**
  - **60 days %**
  - **90 days %**
  - **over 90 days %**
- What is the industry norm?

**Suppliers**

- Main supplier(s) and their details - names, telephone numbers, terms, goods to be supplied
- Alternative suppliers - how their prices compare, terms, quality, etc
- The mark-up that you will place on products
- Average gross profit you will aim for
- Will the business be registered for VAT?
- If sales are subject to seasonal fluctuations, provide details.

**2.6.8 Source and application of funding****Source**

- Cash contributed by owner(s)
- Cash in bank (existing businesses)
- Assets contributed by owner(s) and their value - machinery (R value), vehicles (R value), equipment (R value), furniture, etc (R value)
- Fixed property (R value)
- Amount owing to creditors - existing businesses - (R value), age analysis
- Other finance granted (R value)
- Bank overdraft facilities (R value)

**Application****Buildings (R value)**

- Alterations to buildings (R value)
- Amounts owing on machinery (R value), vehicles (R value), equipment (R value), furniture, etc (R value)
- Work in progress (existing businesses) (R value)
- Debtors (R value) - age analysis

**Banking details**

- Has a bank account been opened? At which bank? Which branch and account number? If an overdraft was granted, the limit? What security does the bank hold?

**Outside (other) finance**

- Approved facilities - what other finance is the business making use of?
- Borrowed from, balance outstanding, terms, interest rate, monthly repayments, security given
- Facilities not yet approved - If application was made for additional finance, provide details.
- Funding requirements (from bank):
  - Overdraft
  - Medium-term loan
  - Letter of credit
  - Guarantee
  - Lease (quotation of equipment to be financed)
  - Other

**Own contribution**

- Cash
- Assets
- Monthly expenses (R value)
- Advertising
- Bank charges
- Carriage and packaging

- Entertainment and travel
- Electricity and water
- Franchise royalties
- Hire and leasing charges
- Insurance
- Loan repayments
- Manufacturing cost
- Management fee
- Overdraft/Loan interest
- Owners'/Directors' salaries
- Printing and stationery
- Rates
- Rent
- Repairs and maintenance
- RSC levies
- Salaries
- Telephone and fax
- Vehicle running costs
- Wages
- Other expenses

#### **2.6.9 Financial data**

##### **Historical financial data (past three to five years, if applicable)**

- Annual financial statements
  - Income statement
  - Balance sheet
  - Cashflow statement
- Have the above results been audited?

**Prospective financial data (next two years)**

- Cashflow
- Projected income statement and balance sheet

**Notes**

Summary of significant assumptions. This section is especially important. These assumptions should reflect industry performance. If not, specific justification should be given. Key considerations are whether the numbers presented are 'best-case' numbers, 'worse-case' or something in the middle, whichever you prefer.

- Base your data on several different assumptions to determine the reasonableness of the information.
- State type of prospective financial data
- Furnish forecast (management's best estimate)
- Furnish projection ('what-if' scenarios)
- State involvement of a financial adviser
- Assemble information
- Furnish agreed-upon procedures
- Furnish review
- Examine your summary

**The following initial cashflow items must be considered when compiling a cashflow statement**

- Registration fees of company or close corporation
- Attorney's fees, e.g. partnership agreement, lease agreements, etc
- Trading and other licences
- Rental in advance
- Telephone installation and deposit
- Water and lights deposit
- Post Office box deposit
- Deposits for capital goods or double lease payments
- Cost of initial stationery

- Cost of initial or start-up stock
- Other deposits
- Advertising or opening promotion

**The following monthly expenses must be considered:**

- Wages
- Other manufacturing costs
- Salaries
- Owners' and/or directors' salaries
- Other salary-related expenses (pension fund contributions, UIF, etc)
- Rent
- Rates
- Insurance
- Repairs and maintenance
- Electricity and water
- Hire and leasing charges
- Printing and stationery
- Vehicle running expenses
- Entertainment and travel
- Advertising
- Interest
- Carriage and packaging
- Bank charges
- Telephone and facsimile charges
- Commissions
- The effect of value-added tax
- Auditors' fees
- Franchise royalties



## **2.6.10 Appendices or exhibits**

Detailed or confidential information that is not appropriate for distribution to everyone receiving the body of the plan can be represented here.

Appendices and exhibits should be bound separately from the other sections of the plan and provided to readers only if required.

- Curriculum vitae of each key manager
- Pictures of products
- Professional references
- Marketing studies
- Pertinent published information
- Magazines
- References to books
- Patents
- Significant contracts
- Leases
- Sales contracts
- Purchase contracts
- Partnership/Ownership agreements
- Share-option agreements
- Employment/Compensation agreements
- Insurance
- Franchise agreement
- Copy of first page of ID document
- Marriage certificate, final decree of divorce order or antenuptial contracts
- Quotation for equipment to be financed
- Audited financial statements
- Monthly management accounts
- Offer to Purchase or Agreement of Sale
- Founding statement and amendments if a close corporation

- Memorandum and articles of association, shareholders' agreement, company resolutions if a company
- Life assurance policy or policies
- Any other relevant information
- Other expenses

#### **2.6.11 Administrative considerations**

Copies of the business plan should be controlled, and a distribution record kept. This will allow you to update your distributed plans as needed and help to ensure that your plan is not more widely distributed than you intend it to be. Remember too that an appropriate private placement disclaimer should be included if the plan is being used to raise capital.

### **2.7 Information to add to your basic business plan**

#### **Competition**

- Identification (by product line or service and market segment)
- Existing competitors
- Market share
- Potential (How long will your 'window of opportunity' be open before your initial success breeds new competition? Who are your new competitors likely to be?)
- Direct and indirect competition
- Strengths (competitive advantages)
- Weaknesses (competitive disadvantages)
- Importance of your target market to your competition
- Barriers to entry into the market, eg brand loyalty, existing relationships

#### **Market analysis**

- Description of your primary industry
- Size of the industry – historically, currently, in five years and in ten years
- Industry characteristics and trends (where is it in its life cycle?)
- Major customer groups - businesses, governments and consumers

#### **Market test results**

#### **Potential customers contacted**

- Information/Demonstrations given to potential customers
- Reaction of potential customers

- Importance of satisfaction of targeted needs
- Test group's willingness to purchase products/services at various price levels

#### **Product or service research and development**

- Major milestones, ongoing efforts
- Lead times (time between placing of order by customer and execution of the order)
- Initial orders
- Reorders

#### **Regulatory restrictions**

- Customer or government regulatory requirements and their impact
- Anticipated changes in regulatory requirements and their impact

#### **The information on marketing and sales activities can be expanded upon by adding the following details:**

- Overall marketing strategy
- Marketing penetration strategy
- Growth strategy
- Internal campaigns
- Retention
- Expansion
- Acquisition
- Franchise
- Horizontal (providing similar products to different users)
- Vertical (providing the products at different levels of the distribution chain)
- Distribution channels (include discount/profitability levels at each stage) - internal sales force, distributors and retailers
- Communication - promotion, advertising, public relations, personal selling, printed materials (catalogues, brochures, etc)

#### **Sales strategies**

- Sales force - size, recruitment and training, compensation and sales activities
- Internal vs. independent representatives (advantages and disadvantages of your strategy)

**The information on products and services can be expanded upon by adding the following details:**

**Detailed product/service description (from the user's perspective)**

- Specific benefits of product/service
- Ability to meet needs
- Competitive advantages
- Present stage (idea, prototype, small production runs, etc)

**Product life cycle**

- Description of the product/service
- Factors that might change the anticipated life cycle (i.e. lengthen or shorten)

**Copyrights, patents and trade secrets**

- Existing or pending copyrights or patents
- Anticipated copyright and patent filings
- Key aspects of your products or services that cannot be patented or copyrighted
- Key aspects of your products or services that qualify as trade secrets

**Research and development activities**

- Active in process
- Future activities (include milestones)
- Anticipated results of future research and development activities
- Research and development activities of others in your industry

**Production and service delivery procedures**

**Internal**

- External inputs (subcontractors)
- Production and service delivery capacity

**Internal and external**

- Anticipated increases in capacity
- Investment
- New cost factors (direct and indirect)
- Timing

**Operating competitive advantage**

- Techniques, experience, economies of scale and lower direct costs

**2.8 Disclaimer**

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