

Writing a business plan



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Writing a business plan

A business plan will help you turn your idea into a reality. It gives an outline of your business, the market in which it will operate and how it aims to make money. It will help you plan your start-up and communicate your idea to the outside world to attract finance and your first customers.

The aim of a business plan is to show that your business has the potential to succeed. It should include:

- **business description** – describing the products or services your business will provide and where the business will operate
- **personal details** – including relevant experience and training
- **market description** – with details of your market, customers and competitors
- **marketing plan** – setting out how you will promote your business and stand out from the competition
- **pricing and sales analysis** – deciding your pricing policy and setting sales targets
- **finances** – including the equipment you'll need to buy, the personal income you'll need to draw from the business and forecasts of your cashflow for the first year

Business description

What will your business actually do? Write a paragraph or two that outlines your big idea and summarises the types of products or services you will provide. Describe how you will sell to your customers, for example, will you distribute your product or service:

- direct to consumers and businesses through a shop, market stall or fair?
- to a wholesaler or distributor who will then sell your product to shops and stores?
- by mail order, telephone or the Internet?

Remember to include where your business will operate and the type of premises you intend to use. Will you operate from home or rent premises? If you're going to rent premises give details of the main terms of the lease (such as lease length, rent reviews or break clauses).

Personal details

Now it's time to think about all the experience and knowledge you bring to your business. Attach a full CV or detail your previous training, qualifications, work experience and interests or hobbies related to your business idea.

Starting a business needs a range of skills. If you have been on, or plan to go on, any business training courses (such as bookkeeping or sales and marketing) make sure you add this information too.

Market description

As exciting as your business idea is, it's vital to understand how it will make money. Market research is the best way to check whether your business idea will work. It will help you understand the market's size and trends, your customers and the competition. Your business plan should include details of the market research you have done, describing your market, target customers and competitors.

Market overview

Describe the market for your product or service, including:

- the size of your market
- the trends and growth areas in your market
- market opportunities and gaps – for example, sections of the market that are currently ignored by other businesses

Customers

Understanding your market will help you build up a picture of your customers. Give an outline of:

- the location and **demographics**, or profile, of your target customers
- the buying trends of your customers
- the price your customers are prepared to pay for your product or service
- how you will reach your customers

Demographics: characteristics of a group (age, gender, income and occupation) that make up a target market

Competitors

Describe your competitors – the businesses that offer products or services which are similar to yours. Remember your competitors may include different types of businesses which offer a similar product or service. For example, if you wanted to become a childminder you would be competing with day nurseries, nannies and crèches. Try to include:

- the number, location and types of competitors including any future competitors that could enter the market
- what products or services your competitors offer and how they sell them
- how well your competitors are doing– their strengths and weaknesses (think about their growth, performance and market share)
- how you can make your business different from your competitors and why your customers will choose you over them

Market research

There are lots of places to find information on your market. Start with desk research using the Internet, local libraries and other resources:

- Neighbourhood Statistics (www.neighbourhood.statistics.gov.uk or 0845 601 3034), Data Depot (www.datadepot.co.uk or 0800 181 851) and UpMyStreet (www.upmystreet.co.uk) allow you to search for demographic and market information for geographical areas in the UK.
- Business associations and agencies provide information on businesses in your area. Try your local council (search www.direct.gov.uk to find your local council website), enterprise agency (www.nfea.com or 01234 831623) or Chamber of Commerce (www.chamberonline.co.uk or 020 7654 5800).
- Look at adverts in local newsagents, newspapers or trade magazines.
- Check out the membership list of a relevant trade association. See www.taforum.org or call 020 7395 8283 for details of associations in your industry.
- Search business directories like www.yelldirect.com or www.thomweb.co.uk.
- Type your business idea into Internet search engines.

Once you've got the basic market information, do your own field research to add to your market knowledge:

- Conduct questionnaires and interviews with potential customers and suppliers in your area. For example, you could ask people:
 - how often they would purchase the type of product or service you are thinking of selling.
 - what price they would pay for such a product or service.
 - how they would usually choose such a product or service (for example, looking in a local newspaper, responding to a leaflet or from a personal recommendation).
- Observe your competitors and how they do business.
- Exchange ideas with people in your sector.
- Attend trade shows and exhibitions. See www.exhibitions.co.uk for listings of UK consumer, public, industrial and trade exhibitions.

Trade association: organisation of people and businesses associated with a specific industry

Marketing plan

Now that you have described your target market and customers, you need to create a marketing plan which sets out how you will reach them.

Promoting your business

First, write a short paragraph explaining how you will promote your business using, for example:

- leaflets, posters and brochures
- exhibitions and trade shows
- advertising in newspapers, magazines, online or in business directories like the Yellow Pages
- business cards
- word-of-mouth recommendations
- networking
- press articles

Then detail the budgeted costs and timings you have allowed for your marketing and advertising activities. It's best to decide on your marketing budget for the year and then divide this up into what can be spent each month. If your business is seasonal – for example, if Christmas is your busiest period – you may want to spend more on marketing in the months leading up to that season. Having a firm annual budget will help you work out your monthly spending so that you don't end up blowing your budget on one advertising campaign.

USP: the thing that makes your business stand out from your competitors

Unique selling proposition

Your research into potential customers' preferences and needs will help you describe what sets your business apart from everyone else – your **unique selling proposition (USP)**. This means writing down

the things you will do better, or in a different way, than anyone else in your industry. For example, you might:

- offer a product that is better than your competitors' products
- offer a more reliable service
- give customers who regularly buy in bulk a loyal customer discount
- excel in customer care

Pricing and sales analysis

Pricing policy

Having a realistic pricing policy is key to planning your start-up. How much you will charge for your product or service will affect the type of customers you attract and how well you do. Pricing must take into account the costs of running your business together with a small percentage to be taken as profit. If you set the price too high, you may not sell enough but set the price too low, and you may not make a profit or even cover your costs.

Your market research will give you a good idea of what your customers are prepared to pay and the prices charged by your competitors. In your business plan explain how much money you will charge for your product or service, describing the costs and profits you've built into your calculation.

Sales analysis

Your pricing policy will help you work out the amount of items, services or jobs you think you'll be able to sell over the next 12 months. Setting a sales target provides great motivation and can help you measure whether your sales are growing. These targets are normally broken down month-by-month, and could include:

- sales of different product types by volume and value
- sales from different customer groups (for example, new or existing customers)

- sales from different distribution methods (for example, mail order or Internet sales)
- sales at different times of year reflecting seasonal trends

When you first set up a business it can be difficult to predict what sales you will make in the future because your business has no history to work from. Use the information you've found when researching your marketing plan to set a realistic target. Although it's good to set ambitious targets, if you set a goal that is not achievable you will feel bad when you don't hit it.

Finances

The last stage of your business plan is to figure out how much money you'll need to start your business and keep it running each month. It's hard to forecast how much cash you believe your business will generate and use in the months ahead, but it's essential you think it through and estimate this before you start so you'll be able to:

- understand whether your business is viable
- keep track of your finances once you start up
- attract finance for your business idea from banks and investors

Costs

Start by working out what equipment and services you will need to run your business then estimate how much they will cost. These might include:

- equipment
- stock
- rent and rates
- postage and stationery
- telephone bills
- travel expenses
- marketing costs
- IT equipment
- other costs (such as licences)
- materials
- employee costs
- utility bills
- insurance
- vehicle expenses
- business repairs and maintenance
- legal and professional fees
- loan repayments and interest

In the early stages it's important to keep costs as low as possible so consider if you need everything new or whether you can manage with second-hand, hired or borrowed equipment. Also think about whether you can hold off on some purchases until your business gets going.

Personal income

Now you will need to consider your living expenses and calculate how much money you need to take out of the business to live on. Work this out by detailing your monthly minimum personal expenditure and any income you are receiving. For example, list costs for rent, council tax, utility bills, housekeeping, telephone, insurance, car and family expenses as well as any other income or state benefits you receive.

Cashflow forecast

Once you've calculated your costs and personal income you can create a cashflow forecast. This is your expectation of the flow of money coming in to (cash in) and going out of (cash out) your business every month. This helps you work out how much cash will be available in the business month by month.

A typical cashflow forecast is split into three sections:

- **cash in** – all money coming into the business from loans and sales from customers.
- **cash out** – all money leaving the business to cover costs such as rent, telephone bills and loan repayments.
- **balances** – monthly balances and cumulative balances (adding on to the amount from the previous month) which calculate the net amount of cash coming into or leaving the business (basically, cash in minus cash out).

Once you start trading you'll need to monitor your actual income and expenditure against your cashflow forecast to see how well you are doing. You can then make changes quickly to keep your finances in good order.

Top tips

-  Look into free training and workshops from local business agencies to help you develop your business plan and business skills.
-  Market research is vital to test your business idea and build a credible business plan. Make sure you understand your customers' needs and buying patterns, and the competition you face.
-  Stand out in your market – aim to offer something unique to your customers which will give you the edge on your competitors. Whatever your USP is, stick to it. If your USP means making a promise, such as free delivery of your product, you must be able to carry out what you've promised.
-  If you've been receiving state benefits, make sure you understand any changes to your benefits once you start-up in business so you can properly estimate your personal income in your business plan
-  Make sure you don't spend too much cash upfront on fixed assets. Cash is vital to the survival of any business so think through all your available options – buying second hand, delaying the purchase or looking into hire purchase.
-  Once you've started trading, regularly review your competition, pricing policy and sales targets and try to work out how you can improve your business.

Many of our loans benefit from a guarantee provided by the European Investment Fund under the European Community's Multiannual Programme for small and medium sized enterprises.



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