



# PIPSO

Pacific Islands Private Sector Organisation

## PREPARING A BUSINESS PLAN

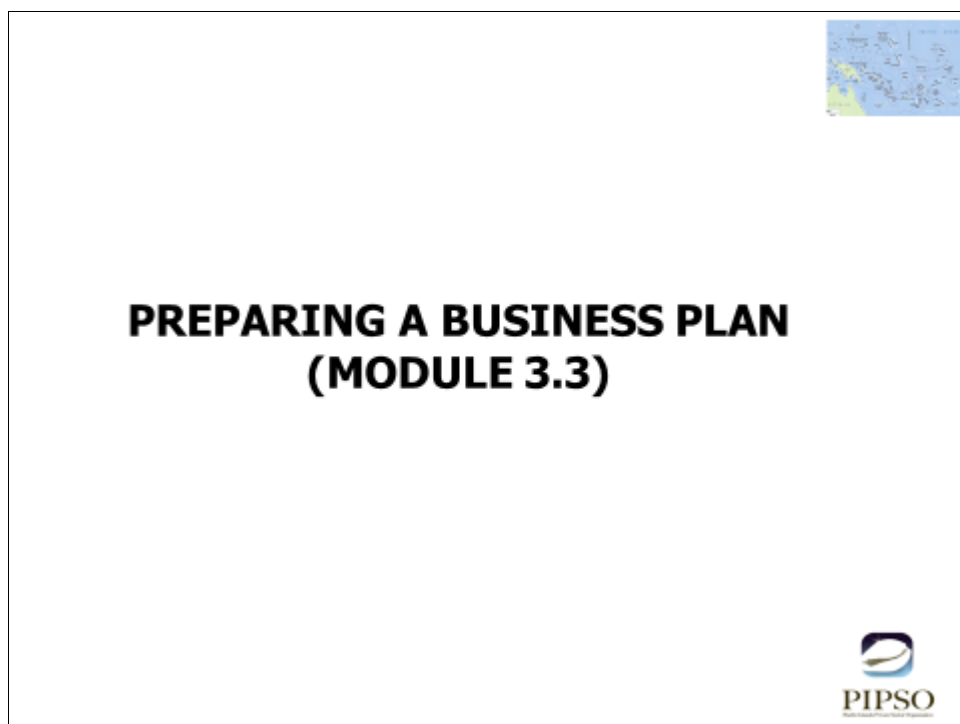
January 1

# 2014

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This Module introduces a business plan template that is used in Level 4 to build a business plan suitable for presentation to potential investors or lenders to a business. The business may be new or an extension of an existing business or the launch of a new product range.

## MODULE 3.3



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## PURPOSE

This Module looks at the components of atypical business plan. The Template discussed is suitable for a small to medium sized business. The Module emphasises that the business plan is personal to the business of the owner & preparer of the plan. The business owner must be actively involved in the preparation & data collection for the Plan. While accounting assistance may be required to prepare financial reports, the business promotor or entrepreneur should be personally capable of preparing, understanding & marketing the plan to potential financiers, be they investors or bankers.

The outline of the business plan Template is as follows:

### Business Plan

1. Structure & legal requirements
2. Market research & analysis
3. Marketing
4. Operational plan
5. Financial plan
6. Action plan

### Financial Plan

1. Personal finances
2. Cost of sales and sales
3. Start-up costs & funding
4. Cash flow forecast
5. Projected financial statements

We consider all sections of the business plan, in particular Section 2 & 3. An example of product costing & the impact of a change in market price is included.

On completion of this Module participants should be aware of what is required of them if they are to complete a detailed business plan.

## OUTLINE OF THE BUSINESS PLAN

### YOUR BUSINESS PLAN



**Your Business Plan & Financial Plan** will be unique and **will apply to your business alone.**

The Business Plan paints the picture in words that describe the business you plan for or opportunity you see (your vision).

The Financial Plan provides financial evidence that your Plan is achievable.



The business owner must be the active preparer & implementer of the business plan. It is common practice to have a third party, an accountant or similar, prepare a business plan for a business owner. If so, the business owner must embrace the plan & understand it in order to measure actual performance against it.

### THE TEMPLATE



There are a number of Templates available.

The template you need depends on the size, complexity & the financial requirement of your business

This Module develops a general Template. Sections in it may be deleted if unnecessary for smaller, simpler businesses or others added if required.



A business plan should be reviewed annually & not just sit on a shelf.

The following Template is designed to cover most, if not all, possible issues arising during the preparation of a business plan. Where a section or heading does not apply it may be deleted. Similarly, additional information identified as relevant by the preparer should be added.


The plan may use headings & subheadings or use a more narrative style. Either way, the important thing is to maintain the interest of the reader & paint a clear picture. Difficulties should not be ignored, but recognised & put in context. The intention is to inform readers, not deceive them.


The plan should have a logical structure & be linked to the financial plan that attaches to it wherever relevant. The ability to quantify sales, procurement & marketing costs as the picture is painted adds to the credibility of the plan.

## THE TEMPLATE

This Template is divided into a number of sections.

**An executive summary precedes the detail to provide a reader with a clear snapshot but is the last part of the plan prepared.**





The executive summary is prepared after the full plan is completed. It can then be summarised & selling points highlighted for a reader. The summary should highlight the strengths of the plan, backed by financial information or research undertaken wherever possible.

The recommended sections of the business plan are listed below.

Note the emphasis on market research & marketing of the product or services offered. For a start-up business or new product these are most important sections.

## THE TEMPLATE



This Template has the following sections:

1. Structure and legal requirements
2. Market research and analysis
3. Marketing
4. Operational plan
5. Financial plan
6. Action plan

We will look at the contents of each in turn.



If it is to be provided to external parties, in particular an investor, lender or bank, the business plan must be supported by financial information that illustrate:

- The personal circumstance of the business owner(s)
- The initial dollar investment requirements of the projected
- All cash flows arising, including shortfalls, if any, over the first 12 months
- Projected income statement & balance sheet at the end of this period
- That the plan is financially viable & profitable in the medium term, say 3 to 5 years

For your plan, what ever template you use, you need to tailor it to the information & style that suits your opportunity.

The headings used in the PIPSO business plan are NOT mandatory. They are a guide only. Headings may be changed, deleted or added to at the discretion of the preparer of the plan.

The business owner must also understand & own the plan. If it's your plan, you must be capable of presenting it to an interested third party & using it for monitoring future performance.

## STRUCURE & LEGAL REQUIREMENTS



### 1. STRUCTURE & LEGAL REQUIREMENTS

#### 1.1 LEGAL AND ADMINISTRATIVE REQUIREMENTS

- Local authorities, or other Government regulations
- Restrictions or other requirements
- Business insurances & workers compensation
- Contractual arrangements

#### 1.2 LEGAL STRUCTURE OF BUSINESS

- Description
- Legal consequences
- Tax requirements
- Trading name, website, domain name etc

#### 1.3 BUSINESS PREMISES

- Details of premises required
- Preferred location, i.e. address & description of surroundings
- Insurances required



This section should briefly describe the existing business, if one exists, plus the planned business opportunity.

The headings provided are intended to act as a guide. They are not mandatory.

## MARKET RESEARCH & ANALYSIS

### **2. MARKET RESEARCH & ANALYSIS**



- 2.1 Market research undertaken
- 2.2 Current state of the industry
- 2.3 Market size and trends
- 2.4 Customers
- 2.5 Competition and competitive advantage

What is required here?



The extent & nature of research undertaken will depend on the complexity of the business venture planned or product/service to be introduced.

Note that research can be split into big picture (macro)& little picture (micro) analysis. It is possible that these influences are quite different. The dominant factors influencing the business decisions should be highlighted in this process.





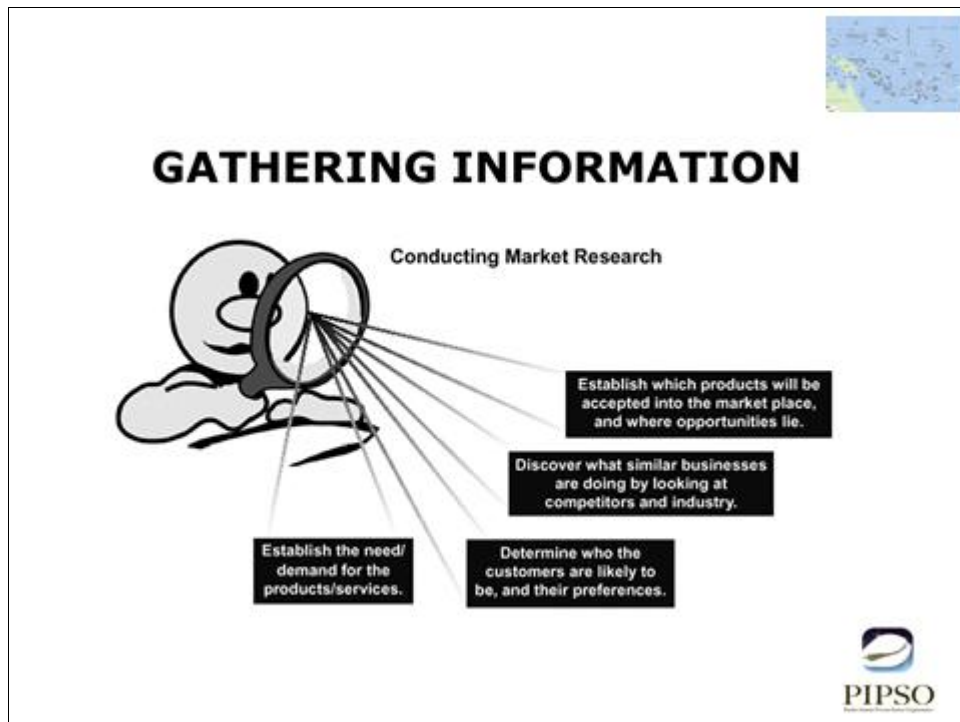
There are only four possibilities when investing in a new product or service as follows:

1. Existing product or service in an existing market
2. Existing product or service in a new market
3. New product or service in an existing market
4. New product or service in a new market

The time energy required to be spent on research rises as we move down the spectrum of possibilities above. New products & markets clearly present more challenging issues & higher risks. Therefore, they require innovative research techniques to acquire knowledge of the potential market, composition & size, including

- Market demand & your capacity to meet it
- Likely customers & their preferences
- How to reach customers in the marketplace
- Acceptance of the product or service & how to package it
- The ease with which a competitor can copy or otherwise compete
- Does the timing of the product/service launch matter?

The point of doing the research is to identify potential business risks, eliminate or reduce the likelihood of any that can be & mitigate the consequences of uncertainty & errors in judgement, wherever possible.



**MARKET RESEARCH INFORMATION**

**Participants are to match the 2 sets of cards handed out (Activity 3.3.1):**

- **Research topics**
- **Range of information required.**

**This is a group exercise for discussion once participants are satisfied with their responses.**

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This activity requires participants to match the market research topics listed with the sort of information required to meet (match) each of the topics. From the list “range of information required” below match two to each “research topic”.

## Activity 3.3.1

### MARKET RESEARCH REQUIRED

ADVERTISING & PROMOTION

CUSTOMER PRECEPTIONS

DISTRIBUTION & RETAILING

MARKET STRUCTURE

NEW PRODUCT DEVELOPMENT

PRICING

PRODUCTS & SERVICES

THE MARKET

### RANGE OF INFORMATION REQUIRED

Branding

Campaign planning

Current price structure

Customer profiles

Distribution structure

Distribution levels

Major players

Total size of market

Perceptions of brands

Price sensitivity

Promotion evaluation

Types of outlets

Underlying needs

Unsatisfied needs

Usage patterns

What is available

### REQUIRED

Match the Range of Information Required with the Research Required.

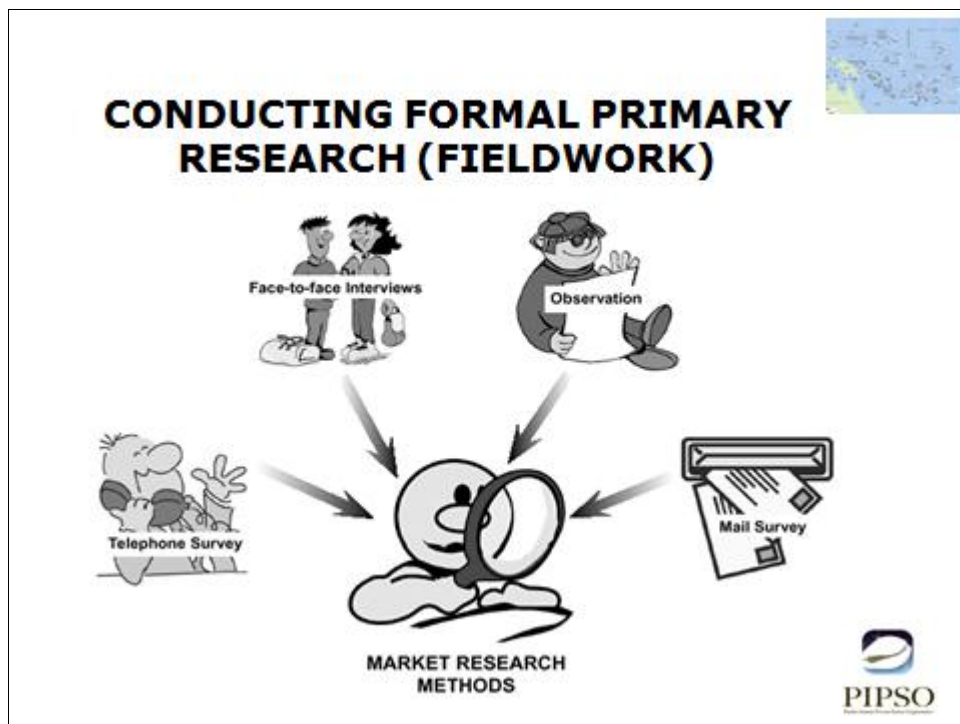
## THE SCOPE OF MARKET RESEARCH INFORMATION



## THE MARKET RESEARCH PROCESS

1. **DEFINE OBJECTIVES** – State clearly the research is being carried out and decide on what information is being sought.
2. **PLAN STRATEGIES** – Develop a plan of how the information is to be collected.
3. **COLLECT DATA** – Use appropriate research methods to gather information.
4. **ANALYSE DATA** – Process and interpret the data in preparation for decision making.
5. **MAKE MARKETING DECISIONS** – Based on the information gathered through the research process.





Fieldwork is directed at your product or service in your chosen target market.

Don't neglect the big picture as industry trends may or may not favour new developments because of overriding issues & constraints. These may or may not actually impact on the market's capacity to receive, & your ability to launch, a new product or service. Alternatively, it may only influence the timing of the product/service launch. In any event, don't ignore the bigger picture.

**TRENDS AND DEVELOPMENTS**

**Strategies to identify industry trends and market developments include:**

- Engage the services of a consultant
- Become a member of trade and industry associations
- Review trade magazines
- Review and analyse relevant published statistics
- Contact the small business development agencies in your country/territory
- Contact related government agencies
- Search the internet, and review related websites

A small map of the Philippines is in the top right corner, and the PIPSO logo is in the bottom right corner.

## **SOURCES OF INFORMATION ON YOUR INDUSTRY**



### **Sources for business comparisons and industry profile reports include:**

- Trade/professional associations
- Chambers of Commerce
- Local small business development agencies
- Credit agencies, if any (e.g. D&B)
- Government bureaus of statistics
- Trade and Invest, SPC and PIFS
- Ministries of Trade and Commerce



Take time to consider the marketplace you are operating in. Is there any research you should be undertaking routinely to test your existing products or services? Market research should not be confined to times when new products, services or markets are being assessed.

The best way to stay ahead in any market, new or existing is to test it periodically. If you are not testing your business from time to time, you run the risk of a slow decline as the market passes you by.

Having completed your market research there are two tasks you might consider undertaking, whether as a part of the research or at its conclusion. It is recommended that you prepare a SWOT analysis on:

1. Your business
2. The competitor(s) business(es)

The SWOT analysis comprises assessment of:

- Strengths
- Weaknesses
- Opportunities
- Threats

You might carefully consider the output from this analysis as it may shed some light on actions that you may need to undertake to maximise your opportunity.

## MARKETING & PRICING

### 3. MARKETING

- 3.1 Strategy
- 3.2 The product(s) or service(s)
- 3.3 Pricing strategy
- 3.4 Location
- 3.6 Advertising and promotion
- 3.7 Customer relations
- 3.8 Marketing action plan



NOTE: Not all marketing precedes a sale. Customer service after sale & complaints handling can also affect customer loyalty & longevity.

### MARKETING

#### FIVE Ps OF MARKETING

**PRODUCT:** What you are selling, how it compares to competitors

**PRICE:** Must be competitive, reasonable, and fit the budget and income ranges of the market to which it is intended

**PLACE:** Where you will sell this product

**PEOPLE:** Who is selling your product, who are you selling to – relationship focused

**PROMOTION:** Mix of advertising and promotional activities



## PRICING A NEW PRODUCT



There are many influencing factors which impact on pricing, including:

- your target market
- your business objectives
- your marketing mix
- competitors' prices
- products/services costs
- demand for the products/services
- general market conditions/trends.



## PRICING A NEW PRODUCT



Participants are to work through the example provided & answer the associated questions (Activity 3.3.2).





## Activity 3.3.2

# Costing a product – Making aSulu

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Ana has a small business making clothing, largely for women. She actively manages her costs. One of her products is a Sulu. To meet current demand, she has 5 workers on a 5 day working week, with each worker putting in 8 hours per day. She has estimated her costs & prices as follows.

Each Sulu comprises approximately 2 metres of cloth costing \$2.50 per metre. To each Sulu she also applies, per metre, \$3.00 of paint & 1 hour's labour. Her workers earn \$2.85 per hour plus she is required to put aside 8.0% of her workers' gross earnings for the Provident Fund. Tailoring costs are estimated at one sixth of the total labour costs per Sulu. Packaging adds a further 10 cents per Sulu.

Ana provides coffee & tea making facilities for her staff at an estimated cost of \$2.00 per day. She allows a further \$20 per week for her fixed overheads such as electricity, water, administration (invoicing & debtor management) & maintenance of her furniture & other equipment.

Ana sells exclusively to a handful of retailers only. These retailers require a mark-up of 30% of the price they buy from Ana to carry her clothing.

After VAT of 15% the retailers sell the Sulus at \$30.00 each.

## Questions

1. What \$ mark-up does Ana earn on each Sulu?
2. What percentage of her overall costs does her mark-up represent?
3. Due to competition from other suppliers, the retail price of a Sulu has dropped to \$25.00. What can Ana do, if anything, to continue profitable production?

## OPERATIONAL PLAN

The operational plan is all about resources.

What resources do you need?

- Plant & equipment
  - What do you need up front?
  - What will you need in time?
- Support & logistics
  - Transportation & communications
  - Computer software & systems
- Production & services
  - Required materials & suppliers
  - Procedures
- Staffing
  - Skills sets required
  - Full-time, part-time, contract or casual
- Location
  - Where will you operate from?
  - Accommodating physical resources
- Timing
  - When do you launch?
  - How does this match/affect your other business?
- Training
  - Who, where & when?
  - Buy skills or train; internal or external
- Occupational health & safety
  - Legislative requirements
  - Workplace safety
- Risk management
  - Identify business risks
  - Build a risk matrix (probability vs severity of consequence)

The resourcing issues may be summarised under the following headings or adapted to the specific needs of a particular business plan.

## **4. OPERATIONAL PLAN**





- 4.1 Plant and equipment
- 4.2 Production process (if relevant)
- 4.3 Staffing and organisation
- 4.4 Occupational health and safety
- 4.5 Risk management



## FINANCIAL PLAN

### 5. FINANCIAL PLAN

- 5.1 Personal finances
- 5.2 Cost of sales and sales
- 5.3 Start-up costs and funding
- 5.4 Cash flow forecast
- 5.5 Projected financial statements



A business plan must be supported by a financial plan which quantifies in monetary terms the costs & revenues resulting from the new activity. Therefore, the business plan should contain comment on the highlights of the financial information provided. The PIPSO template does this in Section 5 of the business plan. It covers each set of related financial tables from 1 to 5 as follows.

### Financial Plan


1. Personal finances
2. Cost of sales and sales
3. Start-up costs and funding
4. Cash flow forecast
5. Projected financial statements

All tables require comment & explanation.


Any problems or negative issues need to be noted & addressed, not ignored or overlooked.

## ACTION PLAN

**6 ACTION PLAN (TEMPLATE)**



ACTIVITY	DETAILS	RESONSIBILITY	START DATE	DUE DATE

  
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Philippine Institute of Public Safety Officers

This is simply a list of activities which assigns responsibility & puts the actions into a timeframe. Once a plan is approved the action plan becomes the action benchmark for performance measurement.

Nominated persons should be involved in the preparation of the table & accept their roles & responsibilities. The commitment of all relevant individuals to the tasks is essential for success.


## FINANCIAL PLAN TABLES


The details of the tables that may be prepared to form a financial plan are as follows. The formats used may vary, but the content should essentially be the same regardless of the products or services offered

### THE FINANCIAL PLAN

The Financial Plan quantifies the Business Plan and is also split into a series of tables to combine forecast information.

**Note: The forecasts are only as reliable as information you prepare.**





**Remember:** Rubbish in equals rubbish out.

When prepared for an outside party, a bank or investor, in order to raise funds personal information will almost certainly be expected. Where a business is preparing a plan for internal consumption the personal tables may not be required.

## THE FINANCIAL PLAN



The Financial Plan is normally comprised of:

1. Personal finances
2. Cost of sales & sales
3. Start-up & funding costs
4. Cash flow forecast
5. Projected financial statements

**These match headings in Section 5 of the Business Plan.**



We begin with personal finances, including a 12 months personal budget & current statement of personal net worth (balance sheet)

## THE FINANCIAL PLAN



Personal Finances comprises 2 tables:

1. Personal expenditure for 12 months to match the business budget period
2. A calculation of personal net worth or balance sheet at the commencement of budget period




Templates for completing personal budgets & statements of wealth are available from the internet. Generic templates tend to include many items not necessarily relevant to all individuals & should be tailored or reduced in size to include relevant items in your statements only.


Note that if any personal surplus or shortfall is put into, or required from, the business it must be carried forward to the business cash flow when it is prepared. Otherwise the personal statements will not impact the business budgets & forecasts.

## THE FINANCIAL PLAN

The next requirement is:

1. Calculation of the cost of sales (unit costs for each product/product group)
2. Estimate of sales price for each product
3. Monthly unit sales forecast for each product/product group for the budget period
4. The split of sales into cash & credit (different timing of receipt of revenues)





As indicated it is desirable to records selling prices & cost of sales on a per unit basis.

The unit costs & price can then be multiplied by the units sold & split up based on whether sales are for cash or on credit. It may also warrant some recognition of payments beyond the credit terms offered, e.g. if 30-days terms are offered, some receipts in the 30 to 60 days are likely & even a small portion in the 60 to 90 days may be prudent. The information required includes the input of a forecast of units expected to be sold on a monthly basis, the monetary value of costs & sales plus the forecast timing of receipt for credit sales.



## THE FINANCIAL PLAN



Start-up costs & funding are comprised of:

1. Estimates of
  - a) Fixed assets required for business
  - b) Working capital
  - c) Preliminary expenses of set-up & promotion
  - d) Owners contribution & amount to be funded
2. Calculation/estimation of cost of funding based on best of at least two 2 different sources.



It is necessary to ensure that funds are available for the purchase of assets & for prelaunch expenses.

**NOTE:** If these funds are to come from a personal source, make sure that your net worth statement includes these funds.

Participants should, therefore, make preliminary estimates of all set-up costs in the form of:

- Fixed assets to be purchased or provided by the business owner(s)
- Working capital to make purchases of goods & materials for sale or manufacture into other products for sale plus other business supplies.
- Expenses incurred at start-up, e.g. legal & accounting fees, marketing costs at or prior to launch.

In the event that external funds from a lender or bank are required you should include a preliminary estimate of the amount to be borrowed & the cost of interest & principal repayments for inclusion in the cash flow & financial forecasts that follow.

## THE FINANCIAL PLAN



Prepare a **monthly** cash flow forecast of:

- Receipts from sales & payments for cost of sales
- Borrowings & repayment of borrowings
- Assets & expenses paid at start-up plus other monthly revenue (if any) & expenses
- Include VAT/GST receivable & payable & periodic tax instalments, if applicable



The Financial Plan must provide a cash flow for the first 12 months of the business plan. It is partially populated with the costing & pricing data already prepared earlier. In addition, all other business running costs must be included here, e.g.

- Freight outwards
- Electricity
- Insurances
- Motor vehicle fuel & maintenance
- Rent
- Printing, stationery & other office supplies
- Telephone & internet access costs

Do not forget to include a line for personal drawings from the business if required & any equity injections into the business planned.

If not done before participants must take particular care to **include** VAT/GST as required. Take particular care with this as not all costs will incur VAT/GST, e.g. salaries & wages & interest on borrowings. It may be necessary to have regard for both the amount & timing of payments.

## THE FINANCIAL PLAN



From this projected financial statements are to be completed at year end comprising:

- a) Profit & loss statement for 12 months
- b) Estimates of depreciation of fixed assets
- c) Estimates of fixed & variable expenses, if break-even analysis is to be done (recommended)
- d) Calculate estimate of tax payable



Your business plan must include a set of financial statements for the first year & several future years. Depending on the complexity of the business, these may be prepared on a cash or accrual basis. Both are acceptable, but the basis for the forecasts must be clearly stated.

In order to prepare a standard profit & loss budget & balance sheet using a cash based system, the preparer of the plan is required to calculate & add an estimate for business depreciation of assets used in the business only based on:

- the estimated life of any assets acquired
- the depreciation rate applicable to assets (an accountant or the facilitator may be able to assist)
- the percentage of personal & private use of assets

If an accrual set of financial statements is to be presented, then there are additional changes to the cash flow revenues & expenses required in the preparation of the statements.

If a break-even analysis is desired, the preparer must also split all costs & expenses into fixed & variable as outlined in Module 3.2 of this Toolkit. A simple way to do this is to list all business expenses in two columns headed “fixed” & Variable”. Remember that some costs have a fixed component & a variable component.

Finally, an estimate of tax payable should be made using local tax or accounting advice as required.

Based on the profit & loss budget & future expectations the financial forecast should be extended for a period of from 3 to 5 years.

## THE FINANCIAL PLAN



The business plan should go beyond a budget  
& also include, at a minimum:

- a) A 3 year profit forecast based on expected growth (a bank may ask for 5 years)
- b) Some performance measures
- c) Details of assumptions underlying the forecast



It is a good idea to include a range of financial performance measures that you, as the business owner, may use to reveal issues that the you may need to address with care to ensure sound performance. It is important that the owner of the business understands each measure & its implications.

A table of the performance measures in the Executive Summary at the front end of the document may be a good way of highlighting the financial rewards available from the opportunity assessed in the business plan.


## EXECUTIVE SUMMARY


### EXECUTIVE SUMMARY

Last but not least the executive summary must make the reader want to read on.

1. Maximum 2 pages
2. Highlight important features of the Plan
3. Use financial information to show success

This is your best opportunity to sell your plan to the viewer





The executive summary that a reader sees first is very important in a business plan. It is your first point of sale to the audience. The summary should be brief, a maximum of two pages is recommended. It should feature the highlights of the plan.

The PIPSO template offers headings as a guide that may be used. A narrative form is also acceptable.

This slide ends the Module.

## ANSWERS TO ACTIVITIES

### Activity 3.3.1

<b>MARKET RESEARCH REQUIRED</b>	<b>SCOPE</b>
MARKET STRUCTURE	Major players
	Distribution structure
THE MARKET	Total size of market
	Customer profiles
CUSTOMER PRECEPTIONS	Underlying needs
	Perceptions of brands
PRODUCTS & SERVICES	What is available
	Usage patterns
PRICING	Current price structure
	Price sensitivity
ADVERTISING & PROMOTION	Campaign planning
	Promotion evaluation
DISTRIBUTION & RETAILING	Distribution levels
	Types of outlets
NEW PRODUCT DEVELOPMENT	Unsatisfied needs
	Branding

## Activity 3.3.2

### APPROXIMATE COSTS TO MAKE A SULU / IE LAVA LAVA

<i>Cost/Price</i>		<b>\$ Price</b>	<b>Comments</b>
<b>Variable costs</b>			
<i>Direct</i>			
Material		5.00	\$2.50 per metre
Paints		6.00	\$3.00 per metre
Labor		6.16	\$3.08 (\$2.85 + 8%) metre
Tailoring		1.03	\$6.16 / 6
Packaging		0.10	
<i>Indirect</i>			
Staff facilities (tea, coffee, sugar, milk)		0.10	\$2.00 / 5 workers / 4 sulus
<b>Overheads</b>			
Fixed costs - elect, water, admin & equip maint)		0.20	\$20 / 5 days / 5 workers / 4 sulus
Profit		1.48	7.96% of costs
Price to retailer		20.07	
Retailer mark-up	30%	6.02	Price to retailer x mark-up
Retailer price		26.09	
VAT	15%	3.91	Retailer price x VAT rate
Price to customer		30.00	

Mark up \$ 1.48  
Mark up % 7.96%

What to do?

- Nothing - rely on quality
- Cut price in line with market
  - renegotiate retailer margin
  - look to cut costs
- Cut price but not to match market
  - what price?
  - cut costs (labour or materials)