

TOPIC: THE BUSINESS PLAN

The success of any new business depends on how well it has been planned and how much thought has gone into the venture.

WHAT IS A BUSINESS PLAN?

A business plan is a document that sets out all the details and arrangements for a new business venture. It is a structured guideline of what needs to be done to achieve business goals. It is a road map for the entrepreneur.

A business plan is a description of the following:

- What you intend doing?
- How you intend doing it?
- When you intend doing it?
- Why you believe your idea is worthwhile and profitable?

THE IMPORTANCE OF PLANNING

To identify what action needs to be taken to reach a particular objective or goal.

To anticipate potential problems and identify ways around them to make it easier to take quick action when opportunities present themselves.

WHY YOU NEED A BUSINESS PLAN?

It is hard work to prepare a detailed business plan. It is important to invest time in planning because putting a plan together will:

- force you to arrange your thoughts in a logical order
- prompt you to stimulate reality and anticipate pitfalls before they occur.

Once your business has started to trade your completed business plan will become:

- your working action plan and guideline for what needs to be done on a day-to-day basis to achieve your objectives
- an essential decision-making tool helping you to make strategic decisions.

There are **TWO REASONS** you need to have a business plan:

- **Preparing a business plan can eliminate potential flaws in your idea.**
Some business ideas can look great in the beginning but once they are examined more closely the problems are clearly visible. Preparing a business plan helps you to identify potential problems which will prevent you from succeeding. If these fatal flaws exist in your idea, it is better to identify them before you invest money in and start the business.
- **A business plan is an essential aid when applying for financial assistance.**
Most people who want to go into business for themselves need to borrow money. No bank or investor will lend you money without first seeing a detailed business plan that shows what the business is going to do, its projected expenses and earnings and its plan for repaying the loan.

Your business plan must be written down on paper and should be neat and attractive, free of errors, concise, comprehensive, logical, simple and easy to read and based on irrefutable facts or evidence as far as possible.

ELEMENTS OF A BUSINESS PLAN

COVER PAGE AND CONTENT PAGE

Design a smart-looking professional cover page with the second page giving the contents of your business plan. It is important for your cover page and your whole business plan to show how serious you are about starting your own business. Your cover page must give:

- The name of the business
- The entrepreneur's name
- The entrepreneur's address and telephone numbers
- The logo or emblem of your business

DESCRIPTION OF THE PRODUCT or SERVICE

Include an interesting introduction that describes your business.

It should have the following information:

- a description of the service or product that you plan to sell or make
- why you believe your venture is viable
- what makes your venture unique or different from existing businesses.

GOALS OF THE BUSINESS

Include a list of the business goals, identifying exactly what you would like to achieve in the short, medium and long term.

Give details of what you hope to achieve in the next 12 months, the next 3 years and the next 5 years.

These objectives should be realistic, specific and measurable.

Include a vision and mission statement for your business.

A **vision** is a clear and inspirational statement of what you are trying to create or achieve.

A **mission statement** outlines the core purpose of a business and explains why the business exists.

DETAILS OF WHO OWNS THE BUSINESS

A business plan should include a description of the form of ownership that has been chosen for the business. It is helpful to explain why this particular form of ownership is most suitable for the business.

Include the names and credentials of all the owners of the business. Include their Educational qualifications, work experience and training courses attended. It will convince the reader that the owners of the business have the skills and knowledge to make a success of this venture.

PRODUCTION PLAN

A business plan should include a detailed description of your product(s) or service(s) and how you plan to produce or provide them.

If you intend manufacturing a product you must explain the manufacturing process in detail and describe the machines that you intend using.

If you are starting a service business describe in detail what you will have to do in order to offer the service and what equipment and resources you will need.

Include a description of your business location, floor layout and how near or far you are from other businesses. Explain if you will be buying or renting the equipment and property you need to run your business.

THE MANAGEMENT PLAN

Give an outline of the business structure and staffing needs.

The following should be included in this section:

- a description of how many people you intend employing and where and how you intend recruiting them
- a description of your management and staff – their qualifications, experience, job description and remuneration
- a description of your administration and record-keeping system
- a description of your staff policy regarding working hours, fringe benefits, overtime, sick leave and medical aid.
- It will be helpful to include an organisational structure. An organisational structure is a diagram that shows the structure of an organisation and the relationships and relative ranks of the employees.

THE MARKETING PLAN

It is important that an entrepreneur does **market research** to see if there are people who are interested in buying the product.

Market research can answer the following questions for the entrepreneur:

- Who is willing to buy my product?
- What price will they be willing to pay?
- Where is the best place to sell my product?
- What quantity will we be able to sell?

Based on your market research you have to decide on the **marketing mix** for your business.

- Give details about the need for your **product** and why consumers are willing to purchase it.
- Give a description of which **people** you intend selling your product or service to (details of your target market).
- Give details about the **prices** you intend to charge indicating how you have arrived at the decision to charge these prices.
- Give details about your **promotion** strategies and the advertising you plan to use to convince customers to buy the product or service.
- Give a description of the **place** where you intend to sell your goods.

COMPETITION

A business plan should include a description of your competitors and their products. Include details about the competitors' marketing strategy and the potential effect on your business. Describe your competitive edge (what it is that you intend to do to attract customers from your competition).

SWOT analysis

An entrepreneur can use a SWOT analysis to identify and understand the **strengths** and **weaknesses** of his business as well as the **opportunities** and **threats** facing the business.

The SWOT analysis is about the (S) strengths, (W) weaknesses, (O) opportunities and (T) threats the business will face.

Strengths are those aspects of the internal environment that make the business strong and able to succeed.

Weaknesses are those aspects of the internal environment that slow down the progress of the business and keep it from becoming successful.

Opportunities are found in the external environment.

Entrepreneurs should take advantage of circumstances in order to become successful.

Threats are found in the external environment.

Threats are dangers that may affect the business concept or the entrepreneurs negatively.

Threats are difficult to control, but should be identified so that the entrepreneur can minimize or avoid their affects.

THE FINANCIAL PLAN

Poor financial planning is one of the most common reasons why businesses fail.

Inadequate financial planning will lead to cash flow problems which have the potential to kill any new business.

WHAT IS A FINANCIAL PLAN?

A financial plan is a detailed document that sets out what it will cost to set up a new business venture and what income will be earned.

- **Start-up costs**

It is important to provide accurate information about what it will cost to start the business.

You need to provide details of how much money you need to start and run the business and a description of how the money will be used.

You should also indicate where you plan to get this money from as well as details about how much of your own money you are investing in the business.

- **Fixed and variable costs**

Fixed costs are those costs that are the same regardless of how many items you sell. Examples are rent, salaries, depreciation and insurance.

Variable costs are those costs that increase with each unit produced. Example: if you bake pies the electricity costs will increase as the number of pies increase.

- **Break-even point**

The **break-even point** is an indication of how many units you have to sell in order to cover your expenses. In order to reach the break-even point, you need to sell enough units of the product to cover the variable costs and all the fixed costs.

- **Financial statements**

A detailed **Income Statement** for a projected period of 12 months. This means a monthly account of your sales revenue and expenses as well as the profit or loss that you expect. Scenarios showing what would happen if sales were excellent, good, average or poor.

A detailed **cash flow** for a projected period of 12 months. This means a monthly indication or budget of the projected flow of cash into and out of your business.

A detailed **Balance Sheet** for a projected period of 12 months. This means a list of all your business assets and liabilities at a specific point in time.

CONCLUSION in a business plan

Finish your business plan off with a positive and motivational conclusion.

Your conclusion should be a summary of the following:

- why you believe your business plan will succeed
- why you believe finance should be granted.

Topic: The Business Plan – Activity

1. Discuss the main purpose of a business plan. (4)
2. Briefly explain the importance of a business plan. (4)
3. List **SIX** essential items that the format of a good business plan should have. (6)
4. Give **ONE** example of a fixed cost in a business. (2)
5. The marketing mix consists of 4P's. Name and discuss the 4 P's of the marketing mix. (8)
6. Read the scenario below and then answer the question that follows.

KIDZ Clothing Company

We are in a profitable market in a rapidly growing economy. We have the ability to respond quickly to what the market requires and to provide quality children's clothing in a growing market. Our key personnel have a thorough knowledge of the local retail market and expertise that will assist us in penetrating the target market. We recognise our challenges in being a new medium sized company targeting established children's clothing market, dominated by experienced competitors.

Complete a SWOT analysis for KIDZ Clothing Company. (8)

Strengths	Weaknesses
Opportunities	Threats

7. Read the scenario below and then answer the question that follows.

MARY'S STORY

Mary dropped out of university after the passing of her father. As the eldest in her family, she had the responsibility to provide for the family. With no experience, she decided to open the "Weekend Child Care Centre" in her garage, which operated on weekends only. She used the R20 000 she had as start – up capital to buy baby cots, blankets, toys, electronic games, kid's chairs and tables. She drew up the business plan so that she could attract further investment. She employed two ladies to assist her. Her business attracted many parents with children who work over weekends and those who have other commitments over weekends. Mary and her staff never attended any form of training and their fees are very high. There is currently no child care centre offering aftercare programmes during the week.

Complete a SWOT analysis for KIDZ Clothing Company. (8)

Strengths	Weaknesses
Opportunities	Threats