



FINANCE &
MANAGEMENT
FACULTY

A guide to smarter business plans

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This report is one of a series produced for faculty members. In each report we give a review of a topic within finance and management, offering both analysis of the relevant theory and a review of the practical application of appropriate management techniques.

If you have any comments or suggestions for future topics, please contact
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The information contained in this and previous issues of this publication is available (to faculty members only) on the faculty website at icaew.com/fmfac

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FOREWORD

SMARTER BUSINESS PLANNING

Creating a written business plan offers the opportunity for an enterprise to clarify and understand its objectives before exposing them to a wider group. Setting matters down in writing will act to focus your mind on the business, more closely looking at its purpose and profitability. Those considering starting a business or embarking on a new project should give the idea of drafting a business plan serious consideration, even if this includes covering only some of the modules suggested.

It is important to remember that the plan, once written, will become part of the business and it must be worth your while to set some time aside to write this, even if it's a short and simple version of a few pages.

The blueprint suggested by Start up Donut (see page 23) is a fully comprehensive version; the one suggested by Andy Shambrook, 'Put customers at the heart of your project' on page 3, is a rather tighter plan template.

The choice between them is very much a personal one, although your bank or investor may stipulate which details they require.

All the articles in this special report, however, should assist you to draw up your plans and to set them out in a standard layout and may offer some ideas which you haven't considered – we certainly hope that you find this report practical and useful.



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A GUIDE TO SMARTER BUSINESS PLANS

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BUSINESS PLANS – WHY DO THEY MATTER?

Everyone in business relies on plans of some kind – whether for a start-up company, a project or a departmental forecast. **Clive Lewis** sets the scene for this report by explaining why plans matter.

There are three reasons why you need to prepare a business plan:

- to develop a route map for your business;
- to raise debt finance, such as a loan or overdraft; and
- to raise equity finance.

At start-up stage, your first plan will focus on developing a route map to establish a viable business.

In early plans, the sales forecasts are critical. The focus will be on the business proposition, research into the potential market, defining the competition and developing a marketing and sales strategy.

Next, the plan will identify the resources (people, equipment and money) required to achieve the forecast sales, together with realistic timescales to achieve significant milestones, such as date of website launch, date ready to start trading, date first stock delivered, etc. This information becomes the basis of the financial forecasts. Once completed, the plan can be used to monitor the performance of the business.

As your business grows, you can use the techniques and basic information developed in the first business plan to prepare annual budgets and updated financial forecasts. These are usually focused on the year ahead. The next time a business plan is required is usually when considering raising finance, often debt finance from a bank.

Planning for your audience

Banks and other finance providers require considerable information in support of loan applications. These include financial forecasts, historic annual accounts and management accounts. A business plan will help persuade finance providers that you are professional and take financial planning seriously. The plan should

include sales and market information and how current sales will translate into the future sales forecast. In addition, it will identify why the finance is required and how it will be paid back.

But it's when a business wants to raise equity finance from either a business angel or venture capital company that a full business plan will be required. The business plan is crucial in persuading potential investors to engage in discussions regarding an investment. It must be exciting but credible, with clearly identified customer benefits, and offer evidence of growth and future prospects.

Business angels and private equity investors read and reject many business plans; the executive summary is vital and it must have a wow factor. It should state the business proposition and summary of the financial figures, including the amount of capital sought. It is worth committing the main points to memory to discuss as required.

Credibility is common to all good business plans. An open and balanced view of the past and future prospects creates this. A good investor will quickly see through a biased explanation of past events and performance, or unrealistic projections for the future.

The information provided to business angels and private equity investors will be as for a bank but you will also need to provide a significantly expanded business plan. Financial forecasts will now be required up to five years ahead. Potential investors will want to examine the details supporting the business plan, particularly the market analysis and the financial forecasts. So be prepared to back up key assumptions.

The other elements of the expanded business plan should include:

- a history of the company;
- its current and future products and/or services (including patents);
- its sales channels and delivery;
- how the products will be produced;
- how the business operates and why it will be successful;
- a description of the market and sector plus details of the marketing strategy and sales and distribution process;
- full details of the management team;
- financial information (including debt finance already in place); and
- a risk analysis.

Committing to that first business plan and investing time in developing it may seem unnecessary when there are so many demands on your time. However, the skills learnt and the perspectives you gain will help with growing the business, raising finance and, who knows, one day potentially the sale of a successful business.

‘ The business plan is crucial in persuading potential investors to engage in discussions regarding an investment. It must be exciting but credible ’



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PUT CUSTOMERS AT THE HEART OF YOUR PROJECT

Developing your business plan can be challenging. Here **Andy Shambrook** highlights the vital issues to consider and sets out an eight-point model to build your document.

At a recent conference on leadership, the opening speaker said that leadership is about two things – context and choices. The choices leaders make determine where we end up. The challenge all leaders face is how to make consistently better choices – and how to make them faster, and together.

Business plans are all about choices. As a finance professional you are likely to contribute to business plans regularly. It may be a plan to launch a new product, or a new marketing campaign. It may be next year's operating plan, a major restructure, or a major acquisition. It may be in support of a bank loan or overdraft to finance ongoing operations.

Whatever the context, these plans all have one thing in common. They are written so that a leader somewhere can make a choice – about what to do next, where to invest, when to invest or whether to invest. A finance director or CFO is likely to be part of that ultimate leadership decision. So, as choices become more complex, how can finance professionals help leaders make consistently better decisions?

Here I outline the key issues in developing a business plan and offer a specific eight-stage model to help you.

Customers' needs are changing

The world we live in is changing faster than ever. Technological innovation such as superfast broadband, 4G mobile, the cloud, big data and 3D printers are changing the face of business.

A new generation of customers is emerging who don't remember a time before mobile phones. They don't buy music, they rent it. They can build their own websites, and can make and upload their own videos.

We now live in an open-source world where many things are offered free, whether as a free trial or a free standard service. Customers expect to be able to fully experience a product or service before they pay. And updates are regular. No longer do you wait three years for a new version to come out. Your software is updated every month or week automatically to give you the best features.

Brands no longer find customers. Customers find them. Companies don't educate customers, customers educate themselves. They find out more about your brand from other people than they do from you. And they value what they hear from other people more than what they hear from you. Especially if they hear it from someone they trust.

You can no longer attract customers with promises of what you can do for them. They will probably find you because you have been giving them something of value for maybe many months or years already. And probably you have been recommended to them via their networks.

As an example, cosmetic companies have dramatically changed the way they market in response to these trends. They have significantly reduced TV advertising spend. Instead they invest in YouTube videos showing people how to use their products to get the look they want. They give something of value every day, irrespective of whether you buy their specific products.

Data today is critical. Understanding your customers and delivering them relevant content is every marketer's holy grail. Consumers are taking control of this too, and are now monetising their own data by charging brands to market to them.

Traditional concepts are changing

In just a few short years there has been a fundamental change in the traditional concepts of 'unique selling point' (USP), barriers to entry and competitive advantage. As a result, being the owner of either tangible or intangible assets no longer guarantees you a competitive advantage.

Knowledge used to be one of the most powerful barriers to entry and source of competitive advantage. However, the internet now gives us almost perfect, immediate information. As soon as one person finds something out, the rest of the world finds out in real time. So being successful today is more about making your product or service stand out.

For example, the fast-growing mobile phone network Giff Gaff has shown that even in an industry where fixed investment is enormous, you can enter the market and grow quickly. They own no assets. They rent space from an existing network, keep their costs low, and pass the benefit on to their members. They use existing technology and infrastructure to create an offer that stands out to their target customers.

' In just a few short years there has been a fundamental change in the traditional concepts of "unique selling point" (USP), barriers to entry and competitive advantage '



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‘ Finance’s role is to bring clarity and transparency to each part of the business plan, and cohesion and consistency to the whole ’

Their whole business model is built around serving their customers.

These trends mean that:

- no longer can you shout about the features and benefits of your product or services. You need your customers to do it for you. For them to do that, they’ll need to love you;
- to stand out means focusing your offer on the very specific needs of your target customers; and
- to gain competitive advantage you will need to move fast, and constantly adapt.

For business leaders this means making better decisions, faster than your competitors.

Finance professionals are in one of the best places to support leaders at different levels in all types of organisations to make those choices. We can use our skills and insights to help them make better choices. And in particular we can help them to make choices faster. Writing great business plans is just one of the ways finance can contribute.

An approach to a plan

My business plan model has three key components, that I believe help leaders to make better choices, faster.

- Customers – it puts customers at the heart of the plan;
- Collaboration – traditional marketing, sales, operations and finance sections are not present in isolation. All contribute to a rounded business plan, leveraging the power of collective intelligence; and
- Emotion – the business plan is balanced between logic and emotion. People make decisions based on emotions, and justify those decisions with logic. This model gives the reader just the right amount of logic and emotion, in the right order.

Importantly finance is not simply a section of the plan near the end; it is a key input throughout the plan. Finance’s role is to bring clarity and transparency to each part of the business plan, and cohesion and consistency to the whole.

Identify your audience

To write the perfect business plan, start by understanding whom your audience is, how they make decisions, and what decision you are asking them to make. Is it for the board of directors, or the bank? Is it for a single director or owner, or a group? What kind of person or people are they? Are they visual people who like pictures? Do they like the high-level vision or are they into the detail? Answering these questions will help you write a business plan that will engage them and help them.

Most business plans are for a diverse group of people. Some will be high-level and visionary. Others will look deeply into the detail. Because every human being’s

primary sense is visual, I like to lead with visuals. Use photos or charts to paint a picture of your business plan. Pull out the key points in bullet points that are easy to digest. I have seen many great business plans ruined by poor presentation. Readers quite literally lose the plot, and lose sight of the bigger picture.

Customers at the heart

Ask yourself the question: ‘Who is your perfect customer? What do they want and need? Why will they choose you?’ A common misconception is that successful companies market to everyone. Just because you may sometimes shop at Asda, it doesn’t mean you are necessarily its target market. Asda targets mums on a budget. Everything it does is with them in mind. They know everything about them and what is important to them.

Describe your perfect customer – their age, sex, and lifestyle. What do they do, where do they go, who do they spend time with? This is important because:

- you will design the features and benefits of your product or service to meet the exacting needs of your target market;
- you will promote and market your product to your target market in the places you will find them. Facebook marketing is not a marketing strategy. Facebook is a channel. A marketing strategy is to market to groups of mums in North London on Facebook;
- you will distribute and place your products in the places your target market shop; and
- you will develop your pricing strategy aligned to your target customer.

Once you understand your target customers, they become the centre point of your business plan.

THE BUSINESS PLAN

The eight sections of my plan are shown in the diagram on the opposite page. Below, the sections are explained in more detail.

Context

Leaders make the best choices when they really understand the context – what is going on around them. So the first thing is to give your reader context. Get off the runway and get into the control tower. Talk about the big picture.

There are a number of strategic planning models we can use to help set the context, including:

- SWOT (strengths, weaknesses, opportunities, threats) – a well-known, traditional model, which is helpful on a strategic level;
- PESTEL (political, economic, social, technological, environmental and legal) – useful in reviewing the situation and direction of a market, business, brand or product; and

‘ You will need a deep understanding of how your current customers behave, and of what their motivations and aspirations are ’

- VUCA (volatility, uncertainty, complexity and ambiguity) – a more recent model which focuses more on what may happen in the future. How quickly can the situation change? How well can you predict future change? How complex is the situation? How clear is the situation? It is particularly useful to align leaders to the dynamic things happening around them, and help them to plan for them appropriately.

Insights

The best insight will lead to a new understanding about how someone or something behaves and responds. A genuine, credible and workable insight can be used to generate growth in even the most competitive market.

Another way of looking at insights is the ‘so what’ of the facts from the context section. Our context shows us that smart phone penetration has reached over 60%, and 35% of online transactions are made using a smart phone. What does that mean for my business model? What does that mean for how my customers behave today and tomorrow? How can I use that understanding to generate growth?

I employ a simple model to generate insights:

- identify a relevant fact from the context stage;
- ask ‘how does this fact impact on the behaviour of our customers in the future?’; and
- ask ‘how can we use this understanding of customer behaviour to create value for our customers?’

To do this well, you first need a deep understanding of how your current customers behave, and what their motivations and aspirations are. The most important step of generating insights is the third bullet point above. ‘How can we use this understanding of customer behaviour (insight) to create value for our customers?’ The point of an insight is that it generates value for the customer. This will in turn create value for your business.

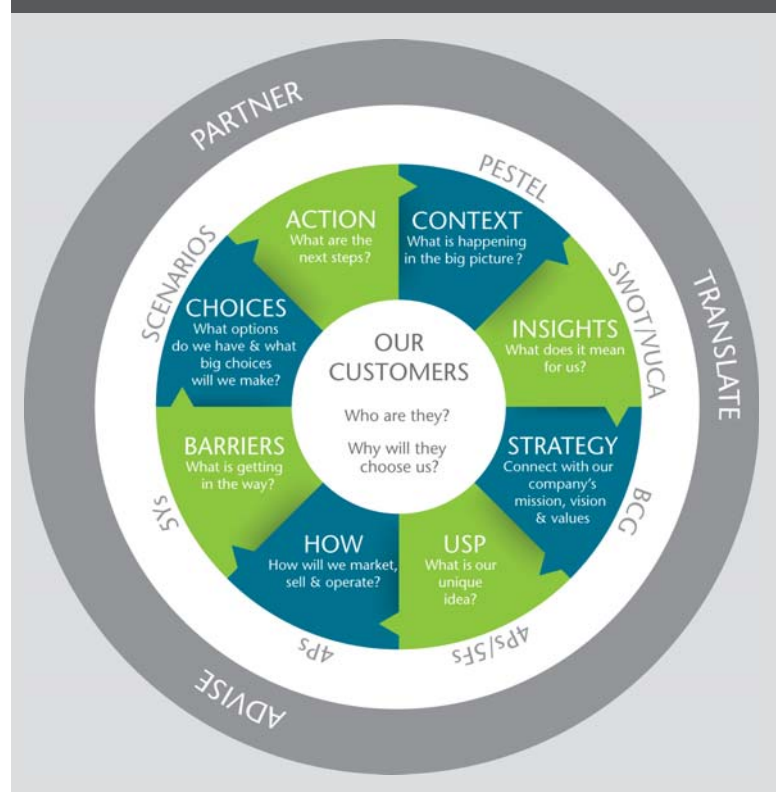
Strategy

Knowing where you want to get to is important before you set out, otherwise you may end up somewhere else. Most businesses have a strategy, made up of a mission, vision and values. A mission defines the reason the business exists, and is unlikely to change over time. A vision sets out where the business wants to go, and is normally updated every two to three years. Values define ‘how’ the people in the company will operate and make decisions.

Successful companies ensure that all projects and activities are aligned to the mission of the business, contribute to achieving the vision, and are executed according to their values. Failure to do this leads to ‘mission creep’ and wasted time and resources.

Use this section of the plan to connect the context

CUSTOMER-CENTRIC BUSINESS PLANNING MODEL



and insights with the mission, vision and values of the company. Are they aligned? Does that strategy still hold true in the current context? What changes may need to be made before moving forward?

This is an important part of the business plan to show the reader why they should care about this project. Why they should prioritise it. And why they should back it.

Your mission and vision should also be customer-focused, so this is a good check back to your target market to make sure you have clear alignment.

USP – idea and goals

The business plan model can help you create ideas in the first place. By understanding the context, asking ‘so what’ to develop insight, and connecting with the purpose of your business, often the next steps (ie, the ideas) become quite clear. Equally many business plans are written around an existing idea.

The important part of this section is to make the idea compelling to the reader. This is the sales part of the business plan. Follow this four-step process to make your big idea compelling:

- link it to the context, insights and strategy section;
- use action-oriented words that connect with the reader such as ‘we will’;

‘ Internal barriers are harder to deal with than external barriers. The biggest barrier is always people and the fear of change ’

- include the most important emotional benefit to customers; and
- conclude with the key financial implication.

So rather than say ‘our business plan idea is to launch a new range of smart phone covers’, instead say, ‘smart phone penetration has grown to record levels, and customers are looking to personalise and cheer up their phones. We will make our customers smile with our humorous range of smart phone covers, and generate £1.4m of incremental profit’.

That is a compelling big idea. You can also drop this straight into your executive summary.

As part of your big idea, set out your goals. Focus on the few big outcomes that will make the biggest difference to your business. It may be to grow market share by three points, or attract 100,000 new users.

How

Now you have established your high-level goals, it is time to get into some detail for the reader about how the big idea is actually implemented. Insights and goals are most valuable when they are realisable. This section gives your reader the confidence that your idea is viable, and that your goals can actually be achieved.

Traditional business plans have four sections to explain the how: the marketing plan, the sales plan, the operational plan and the finance plan. In my experience they are often written in isolation by

different silos within the organisation. This can lead to focusing internally on how you will execute the big idea, which in turn leads to the idea being force-fitted to the existing business model.

I prefer to use the ‘4P’ model here of product, place, price and promotion:

- product – how the product or service meets the needs of your customer;
- price – how you price the product or service to be competitive and maximise the opportunity;
- promotion – how to communicate your new idea to your target consumers; and
- place – how to provide the product or service somewhere that is convenient for your customers.

This focuses on the entire marketing mix, and how you will leverage it to delight your target customer. It keeps the focus external. It also keeps the plan focused on how all parts of the marketing mix will work together to create a product or service that stands out to your target market.

Dealing with these points will lead to the development of a very clear plan for sales, marketing and operations to implement together. This is far more powerful than separate plans.

A strong ‘how’ section is easy if you are clear on who your target customers are, and understand them deeply. You can easily identify the right features and benefits that will engage them. You know how to price your product or service to be attractive to them. You know where to find them to tell them about it. And you know where to place it so they can purchase conveniently.

Barriers

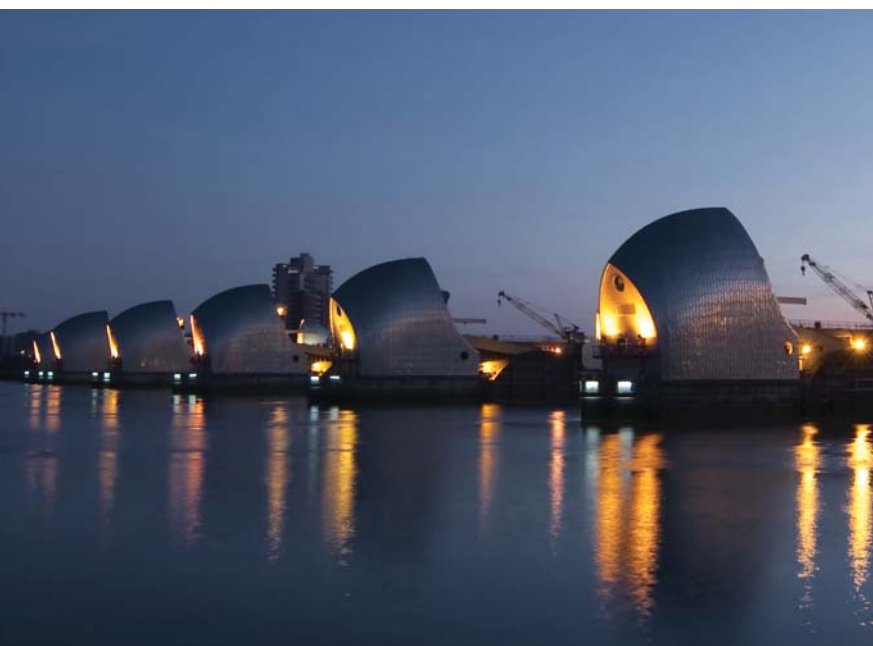
All business ideas have internal and external barriers. These are the things that kill projects and plans. In my experience, internal barriers are harder to deal with than external barriers. The biggest barrier is always people and the fear of change.

This is the time and place to look back over your context and identify past negative patterns in your market, business or team that unmanaged will hold your business plan back. Why haven’t you done this before? What has gone wrong before?

Reviewing the past is helpful to identify negative recurring patterns. Refer back to your VUCA analysis from the context section to look forward and identify potential future barriers that you may not initially recognise.

Once you have identified a potential barrier, the next stage is to get to the root cause:

- use the 5Ys model (simply ask the question ‘why’ five times) to get to the root cause of the barrier. You’ll know when you get there, because you’ll have that ‘aha’ moment; and



‘ Customers predominantly buy brands because of the emotional benefit they gain, over and above the practical benefits ’

- propose a plan to overcome the barrier. This can be harder than it sounds. There are no flash models to use here. Simply put your most talented people to work on finding solutions to your biggest barriers.

Choices

Leaders need options – no one appreciates a ‘gun to the head’. Leadership is about context and choices.

Understand the context, what is really going on. Make the best choice possible at the time. Great business plans give leaders choices. This is because a great business plan is challenging. It is creating something new. This involves uncertainty and ambiguity. That is why you see two companies competing in the same market with the same market knowledge, making different strategic decisions. A great modern business plan gives leaders choices, and helps them to understand the implications of those choices, so they can make the best choice possible – see the box, right, on scenario planning.

There is a common misconception that business people (and particularly finance people) make very logical decisions. They analyse the data, follow the money. All decisions are rational and there is no place for emotions.

Marketing professionals know that customers predominantly buy their brands because of the emotional benefit they gain, over and above the practical benefits. A competitor can replicate practical benefits. The specific emotional benefits of a specific brand are much harder to replicate.

Good, fast decisions happen when there is an equal balance of logic and emotion. Normally in business there is plenty of logic, and often a complete absence of emotion. Your aim is to create an emotional connection with your reader throughout your business plan. It is very important to make that connection again in the choices section. You want your reader to feel the emotional benefit to them of making the right choice. And remember that doing nothing is still a choice.

If you are asked for more analysis before your readers will make a decision, it is normally a sure sign that you have not connected with their emotions. They have the logic but something isn’t quite right, it doesn’t feel right. So before you complete lots more analysis, have a think about emotion. In my experience, failure to consider emotional connection is the main cause of ‘analysis-paralysis’ that sees businesses meander through mediocrity.

Actions

A good plan implemented today, is much better than a perfect plan implemented tomorrow. The final section of your business plan is intended to galvanise people to commit to actions and goals. Your key actions will

FINANCE AND THE ART OF SCENARIO PLANNING

Scenario planning is often misunderstood. It is not done to make a choice of scenario one, two or three. It is done to provoke a conversation around the options, and the range of potential outcomes and sensitivities. The finance team adds value by bringing clarity and robust comparison to the financial implications of some of the choices we could make.

Keep it simple. Use these tips to write an insightful and provoking choices section.

- Use the VUCA model (see page 5) from your context section to bring out the key sensitivities in your business plan. This brings clear consistency and cohesion to your plan, and underlines the importance of setting the context appropriately.
- Only show three scenarios and name them appropriately. Perhaps low, medium, high risk or return.
- Show a simplified profit-and-loss account or cash flow, with the detail available for separate inspection if required. I work on the basis that most people can handle around 15 numbers at a time and make sense of them. So if you have three scenarios, that gives you five lines of numbers per scenario. Remember the scenario plan is there to provoke a conversation, so it only needs sufficient information to do that.
- Identify the key areas of financial sensitivity in the business plan – these are the critical factors that determine whether the plan is a financial success or failure.

The final point is vital. Often scenario plans become so complicated that it is hard to see the wood for the trees. The science of finance will lead you to create detailed spreadsheets and models. The art of finance turns this into useful insightful information to help leaders make choices. This is the time for the latter. Help your leader by focusing on the few things that make the biggest difference to the outcome.

depend on the choice made in the previous section. You may have presented an action plan for each of the potential options. Either way, once a choice is made it is time for action.

You set goals as outcomes in the idea section of your business plan. This part of the business plan is about implementing plans to achieve those goals.

Traditional business plans are linear. They have a beginning and an end. In my experience they are written and then filed away until the next budget review. In some companies there may be a post-implementation review process. Even where there is a process, it is rarely well followed.

My model is circular because I believe business planning is never complete. It is an iterative continuous process of ongoing dialogue and collaboration between people. The business plan evolves and adapts to the changing environment.

This calls for a new form of project management, embedded within the business plan model.

‘ Look at what is really going on around you, and get ready to make some really good choices. The rest will look after itself ’

This is why I advocate setting business plan goals as outcomes, as opposed to actions. Intelligent people will adapt their action plans based on what is happening around them to achieve stretching goals. Hard action plans often result in outputs that do not achieve goals, because in the meantime the world has moved on.

The executive summary

If you only write one part of the business plan, make it the executive summary. If it's good, no one reads the rest anyway. If it's bad no one reads the rest anyway.

Your executive summary is the most important part of your business plan. If you follow the steps above correctly, it is also the easiest part. Simply take the most important sentence from each section of your business plan, and put them together.

Here are a few more top tips:

- keep sentences short and to the point;
- use straightforward language – avoid jargon;
- one sentence = one point; and
- go back and amend each section of your full report so that it starts with the sentence from your executive summary.

Collaboration

The best business plans are collaborative, led by a leader who values a diverse range of opinions and perspectives. Rather than each department writing their section of a linear plan, in our circular plan people collaborate on all sections. Marketeers lead the marketing thinking, and operations lead the operational thinking. Finance lead the financial thinking, and sales lead the sales thinking. However in the absence of those section headings, the team collaborates to generate an end-to-end plan together.

Final thought

Business plans are all about helping leaders make choices. Better choices. Faster choices.

As a finance professional you have a unique opportunity to input and influence across the business plan. By collaborating with your colleagues, you can lead the way to making better decisions together.

At the same global leadership conference, one of the speakers asked: when do you get your best ideas? The audience consisted of almost 100 leadership consultants, so there were plenty of answers. Some

THE ROLE OF FINANCE

In many businesses, finance's real involvement comes at the end of the business plan when they are asked to 'do the financial section'.

Finance is not a specific section in my business plan model. Instead finance is involved at every stage of the business plan. In my business plan the project team collaborate on each section, together. Each section has an input from sales, marketing, finance and operations. And each section has an output from the same.

The role of finance in business planning is to translate, advise and partner so as to:

- translate context, insights and choices into robust, relevant financial consequences;
- advise the team on more cost-, cash- or profit-effective options; and
- partner the team to make a rounded decision.

Throughout the business plan model finance play a different role. Finance collaborates so that the right finance people play the right role at the relevant part of the business plan process. Analysts may start the process, with business partners and the FD or CFO involved in the final decision. The critical factor is finance's involvement at every stage.

common themes emerged. In the shower, walking the dog, in the gym, outside in nature. Not a single person said 'at my desk in front of my computer'. Not one. In fact, nobody even mentioned the office.

There are scientific reasons for this. The conscious brain has something else to do, which allows the unconscious brain space to breathe and think. And relaxation releases hormones that feed our brains and take our thinking to the next level.

So next time you are writing a business plan, or have a choice to make, turn off your computer, leave the office. Go for a run, walk the dog, go out into nature. Find some headspace. Look at what is really going on around you, and get ready to make some really good choices. The rest will look after itself.

HOW TO GET IT APPROXIMATELY RIGHT, NOT PRECISELY WRONG

We all know that there is a good chance of our annual plan being wrong as soon as the ink is dried. **David Parmenter** suggests a way forward.

In the past accountants have tried in vain to budget at an ever more detailed level to somehow see into the future. It was and is now still a pointless exercise. We need to acknowledge that it will be wrong so let's get it wrong quicker! Albeit as close as possible to the future actuals.

In planning, many processes are carried out, year-in and year-out, because they were done last year. All the previous 'givens' associated with forecasting should be challenged and all the inefficient processes abandoned as Peter Drucker preached.

Just as a house is built on a solid foundation, forecasting financial numbers should be built on best practice 'foundation stones'.

Forecasting at a category level rather than at account code level

Forecasting at a detailed level does not lead to a better prediction of the future. A forecast is rarely right. Looking at detail does not help you see the future better. In fact, I would argue that it screens you from the obvious.

Staying in a helicopter to count the trees in a forest

Imagine that you have been asked to count the trees in a state forest that consists of 100 square miles of trees. You have two choices: the detailed way and the 'helicopter' way. For the detailed way, you could set up 10 teams of seven people.

Each team is assigned 10 square miles and is given satellite navigation equipment, a different colour of spray paint, safety gear, camping equipment and provisions for three weeks or so. The teams update their count each night on a spreadsheet. At the end, the counts are consolidated, and some data is left out because the counters in some teams forgot to load all their spreadsheets into the workbook.

'A forecast should concentrate on the key drivers and large numbers rather than a myriad of numbers gathered at account code level'

The final count, therefore, is wrong, although no one knows that. For the helicopter way, satellite imaging is used to select five sample areas that are 1/1,000 of the forest. The staff is assigned to five bigger teams, and each counts their area in a day. The count of the five areas is averaged and then multiplied by 1,000.

The answer is wrong. But it was wrong quickly and is still a good approximation.

For forecasting, the helicopter way is usually the better option unless you are forecasting payroll, which each manager can forecast by staff member, in less than 20 minutes.

A forecast should concentrate on the key drivers and large numbers rather than a myriad of numbers gathered at account code level. Think about it. Do you need a target or budget at account code level to control costs? If we have good trend analysis captured in a reporting tool we can easily identify costs that are out of control. Therefore, you can apply the 10% rule and dispense with forecasting at account code level unless an account code is over 10% of total expenditure, see Figure 1, below left – How a forecasting model consolidates account codes.

Separating targets and realistic forecasts

Generating realistic forecasts rather than forecasts that the board or senior management wants to achieve is vital. The board might want a 20% growth in net profit, yet management might see that only 10% is achievable with existing products, customers and capacity constraints. If the forecasting team reports what the board wants to hear, they are simply hiding the truth. Figure 2 (on the next page) shows what happens if the team reports what the board wants.

In this example, only in the final quarter does the real situation become clear: a year-end performance below expectations. The annual plan, which was prepared in

FIGURE 1: FORECASTING MODEL

Forecasting at account code level		Forecasting at category level
Stationery	4,556	Consumables 22,000
Uniforms	3,325	
Cleaning	1,245	
Miscellaneous	7,654	
Consumables	2,365	22,000
Tea and coffee	2,134	
Kitchen utensils	145	
	<u>£21,424</u>	<u>£22,000</u>



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‘ Involving a “crowd” in planning and forecasting can have a major positive impact on the process ’

March for the new year that starts in July, is forced to match the stretch target and subsequent forecasts in June, September and December to keep up this charade. In reality, the truth was always a shortfall, as the dark line in Figure 2 shows.

In this scenario the board when setting a stretch target accepts that the organisation might not be able to achieve it with existing resources. The bonuses would not be pegged against the lowered threshold. The early communication of the performance gap enables the board to think strategically about how we are to close the gap.

How to forecast revenue – a number you will never get right

With over 200 products and 2,000 customers, how do you reasonably obtain an accurate sales forecast? The answer is to follow these guidelines by:

- applying Pareto’s 80/20 rule (see the definition in the box below) to the sales forecasting process; and
- using the wisdom of the crowd.

Applying Pareto’s 80/20 rule to sales forecasting

Sales need to be forecast by major customers and major products. The rest of the customers and rest of the products should be put into meaningful groups and modelled based on the historic relationship to the major

customers’ buying patterns (see ‘Pareto and the sales forecasting process’, below left).

Using the wisdom of the crowd

James Surowiecki wrote that ‘a large group of people are often smarter than the smartest people in them’ in his book *Wisdom of the Crowds*. Involving a ‘crowd’ in planning and forecasting can have a major positive impact on the process because:

- a great deal of trend information is being noted by those at the workplace, such as unsold products that are piling up, products that are being returned and customer comments;
- groups are less motivated to forecast what management wants to see;
- a small group of forecasters can only process a tiny fraction of the information available whereas a crowd can take in an almost unlimited ‘harvest of data’; and
- experts tend to have a bias of optimism, especially if they are looking at sales from inside the company rather than from the customer perspective.

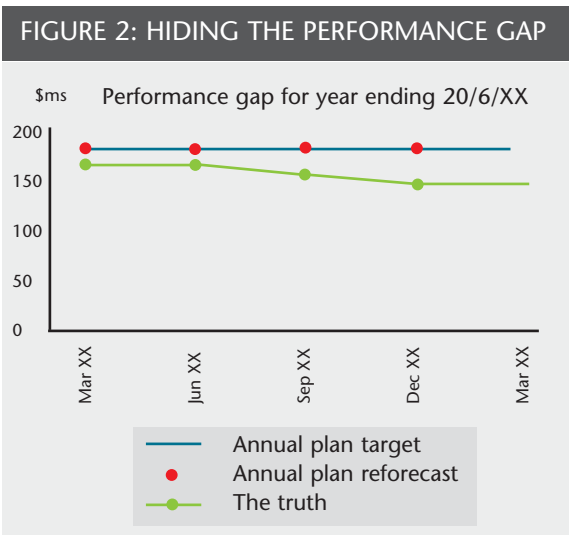
The theory of ‘the wisdom of the crowd’, has been well documented by a number of writers and proved by a number of organisations. At Best Buy, a leading US electronics retailer, the forecasts are now prepared by asking selected ‘sages’ in the business to provide an anonymous forecast directly into a system. They are provided with some basic trend information with the incentive of the recognition and a prize if their forecast is the nearest to the actual figure.

The forecast used in the business is now an average of all the forecasts and the reported forecast accuracy to actual is on occasion so close that it appears incredible.

PARETO AND THE SALES FORECASTING PROCESS

Major customers	You can forecast revenue more accurately by delving into your main customers’ future demand patterns by asking them ‘Who should we speak to in order to get a better understanding of your likely demand for our products in the next three months and subsequent five quarters?’ Forecast the major products line-by-line. You would not identify a product if the revenue was less than 5% of total sales in the year. Using analytics then forecast the minor product purchases in relevant groupings.
The other customers	Forecast all non major customers by first looking at their demand for the major products and then by minor products using analytics to forecast their demand.
Products with recall risk	Identify in the forecast all products with a significant recall risk so you can quickly identify these and the impact should a recall occur.
Branches	Important to forecast through the major customers to the organisation. One branch may be assigned the responsibility to link to the customer and complete the forecast for all relevant branches.

* Pareto’s 80/20 rule is the principle, named after Italian economist Vilfredo Pareto, which asserts that for many events, 80% of the effects come from 20% of the causes.





Take the politics out of planning

The annual plan should not create an entitlement to spend, it should merely be an indication, the funding being based on a quarterly rolling basis, a quarter ahead each time. This takes the politics out of planning.

Asking budget holders what they want and then, after many arguments, giving them an 'annual entitlement' to funding is the worse form of management we have ever presided over.

Organisations are recognising the folly of giving a budget holder the right to spend an annual sum, while at the same time saying if you get it wrong there will be no more money. By forcing budget holders to second-guess their needs in this inflexible regime you enforce a defensive behaviour, a stockpiling mentality. In other words you guarantee dysfunctional behaviour from day one!

In fact, the annual planning process has a lot in common with the handling of a nine-year-old's birthday cake.

The cake is never offered to the kids with the question 'How much do you want?' There is not enough time in the party for that debate. The clever care giver says to the kids 'Here is the first slice, if you finish that slice, and want more, I will give you a second slice.'

Instead, what we do in the annual planning process is divide the cake up and portion all of it to the budget holders. Like the nine-year-olds, budget holders will not share any surplus to requirements. Why not, like the clever parent, give the manager what they need for the first three months, and then say 'what do you need for the next three months?' and so on. Each time we can apportion the amount that is appropriate for the conditions at that time. This is called rolling planning.

Abandon large forecasting spreadsheets

Spreadsheets have no place in forecasting, budgeting and reporting routines because of their susceptibility to error. A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template; what it is not, and should never have been, is a building block for your organisation's reporting, forecasting or planning systems.

'Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheets'

Rule of 100

If you can build a forecasting, reporting or planning model in a spreadsheet application and can keep it within 100 rows, you can do so without much risk. Pass this threshold and you expose yourself, your finance team and the organisation.

Forecasting requires a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, 'Who has a massive spreadsheet written by someone else which you pray about before you use it?' You can see the pain in the instant response.

Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance of understanding.

Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheets. It has been a long and troublesome marriage, that has limited the finance team's potential.

Acquire a planning tool

Acquiring a planning tool is a major step forward, and one that needs to be pursued, not only for your organisation's future, but also for the future careers of the finance team. Soon, a career prerequisite is likely to be planning tool experience, and, conversely, being a spreadsheet guru is likely to be career limiting.

Search the internet for all the reasons why a spreadsheet is inappropriate for planning and forecasting. Use the following search strings: 'spreadsheet errors'; 'implementing a planning tool'; and visit my website for further assistance on this important journey. In all my workshops, around the world, I have never come across a finance team that have reverted back from a planning tool to a spreadsheet willingly.

‘ An annual plan should be completed from start to finish in a two-week timeframe. You will then be ready for quarterly rolling planning ’

Embrace lean and complete your plan in two weeks

An annual plan should be completed from start to finish, including negotiations and quality assurance, in

a two-week timeframe. You will then be ready to migrate to quarterly rolling planning. Unlike wine, planning does not improve, with the more time and effort you put into it. Planning can be quick if you follow the guideline set out in ‘Guide to faster planning’ on this page.

Management consultant Jeremy Hope called it a fast light touch and he saw no reason why the forecast process could not be done in a day in a financial services organisation, where there is no physical supply chain and inventories to manage. For more complex businesses, Hope believed that these forecasts can be done in several days.

A two-week annual plan is possible. I first heard about it in a major government department in the 1990s when I was benchmarking finance functions. Quite unbelievable. The programme they followed is set out in Figure 3 (below).

The next steps

- List now what you need to abandon in your annual planning process.
- Dispense with forecasting at account code level unless an account code is over 10% of total annual expenditure.
- Use wisdom of the crowd for your revenue forecasting.
- Migrate your forecasting to a planning tool.

GUIDE TO FASTER PLANNING

Reliability	Consolidation is instantaneous with a planning tool.
Pareto's 80/20	<p>The planning model is based on Pareto's 80/20 and the 'keep it simple' principle.</p> <p>Budget holders can enter numbers directly into the planning tool after training as the model is based around Pareto's 80/20 principle, focusing on the major items, events, drivers etc.</p> <p>Because forecasting is at category level, only 12-15 categories are forecast by a budget holder.</p> <p>Only need monthly data for the first two quarters.</p>
Quarterly repetition improves forecasting	Clever organisations are doing quarterly rolling planning so the quarterly repetition aids efficiency.

FIGURE 3: THE TIMETABLE FOR A 10-DAY PLAN

10 day annual planning process (part of the fourth quarter's QRP performed in the last month of the third quarter)													
	Pre-work			1	2	3	4	5	6	7	8	9	10
Process	Budget prework	Meeting with divisional heads (DHs)	Present budget workshop	Budget holders prepare and load their forecast			First look at numbers	Rework some budgets	Submissions by BHs to budget committee			Completion of final draft budget for board approval	Final alterations and finishing documents
Activities by team													
Strategic planning	Attend			Reviewing to ensure linkage to plan, and advising of any discrepancies							Attend		
Senior management team (SMT)	Set assumptions	One-to-one with the finance team					First look at numbers		Review submissions, all day long			Hear presentation and give instructions for final changes	
Finance team	Prepare system, overheads, costs etc.	One-to-one with DHs	Give presentation to BHs	Help BHs with budget plans (extended team)		Quality assurance		Help BHs	Further quality assurance			Complete preparation and deliver annual plan presentation	Complete documentation
Budget holders (BHs)			Attend	Prepare budget		Alter numbers after feedback	Rework numbers if needed	Present plan to SMT when called				Attend	Document and file all calculations

GETTING YOUR CONTRACTS AND OPERATIONAL LAW RIGHT

You may have a brilliant business idea, but in our legalistic world, you will need to build your implementation on a sound legal framework. **Jeremy Harris** discusses the priorities for plans.

There are many legal issues to consider when developing a business plan; either when starting a new commercial venture or even when developing an existing business project. Everything from the 'simple' choice of a business name to its structure and operation have legal implications. Indeed, to make matters even more difficult for businesses it seems that every day new legal rules and regulations from either local, central or EU government are imposed that affect every business in the UK.

The key to business planning is about recognising from the outset the desired result. The plan must match the purpose; and often generic strategy obtained from, say, the internet, will hinder more than help effective business strategy.

Role of the business plan

The reason you write a business plan is to create a document that you can continually review to help you understand where you and your business have been and where you and your business want to go. An effective business plan allows for a business to look ahead, allocate resources and prepare for problems and opportunities.

Unfortunately, many entrepreneurs think that a business plan is needed only when starting a new business but indeed they are also vital for the continuing operation of any business. Clearly, the answer to where the precise focus and role of a business plan is will greatly depend on an organisation's size and the nature of its operations. Certainly the 'one size fits all policy' does not apply especially when considering legal aspects of the business plan.

Engaging in business planning

Any businessman's (or businesswoman's) knowledge of the likely developments in law, financial regulation and the market will be an important element in informing the future direction that the firm takes and ultimately its success.

Obviously, from a general viewpoint an effective business planning exercise will involve several key elements: from the traditional examination of strengths, weaknesses, opportunities and threats (SWOT); through to a more detailed examination of its existing client base and the scope for future business. It is essential, from a legal perspective, to ensure that all business plans include the following.

Contractual issues

If anything is essential to advise businesses from a legal standpoint it is this: contract; always contract and always in writing: between the business and supplier, business and customer and business and employee. Although contracts do not always legally have to be written it is certainly strongly advisable as it allows

' Contract; always contract and always in writing: between the business and supplier, business and customer and business and employee '

disputes to be clearly resolved and offers further protection as certain 'implied' terms could be added to any contract by a court. Unless you have a legal background it is always advisable to employ a lawyer to draft or approve any contract that your business creates or enters into as poorly drafted clauses often leave businesses exposed.

Commercial contracts do not need to be complex, but it is essential to ensure all contractual obligations are, and will be, performed by both parties. Having a written contract clearly sets out the roles and responsibilities of both parties, which is imperative when monitoring any business relationship's success, as well as acting as evidence if the business relationship 'sours' and the law becomes involved.

Operational issues

When starting any business it will need to have a legal framework. Possible corporate formations include private limited company (LTD), public quoted company (PLC), partnership, limited liability partnership (LLP) or, at its simplest, sole trader. The business structure chosen has serious legal implications; it will affect the company's taxes, liability and even profits. Without delving into each of the various structures in detail it is necessary when developing a business plan to consider carefully the risks and liabilities associated with each legal entity and again a lawyer's advice is always paramount. Lawyers can enhance any business plan and corporate structure to minimise corporation tax liabilities, utilise any available reliefs and ensure that all deadlines and returns are filed correctly to avoid potential penalties.

Shareholders agreement

Once the legal structure of a business has been chosen it is important to have agreed documentation stating exactly how the organisation is going to be managed; normally in the form of the company's articles of



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‘ More often than not business owners believe that they can state “anything and all” to sell and increase turnover. They can’t ’

association or a shareholders’ agreement. It is important that these documents be accurate and well drafted so a business should avoid simply opting for the ‘standard’ £24.99 packages available on the internet and take proper legal advice. If the company’s incorporation documents do not parallel its business plan, problems are bound to ensue.

Identification

Secondly a vital component of corporate creation is identification. William Shakespeare famously declared ‘What’s in a name?’ However for businesses and business planning the legal considerations in a corporate name are crucial. In simplest terms a business is not allowed to call itself whatever it so chooses. There are restrictions relating to commercial use and certain words are simply prohibited without governmental consent.

Furthermore although lawyers may not necessarily be the first choice when it comes to deciding on a company name they are the correct choice for protecting it. Just as one personally has rights to protect one’s own identity, so too does a company.

Online

From company name to domain name protection. During the past decade, having a strong online web presence has evolved from being a useful marketing tool to a ‘make or break’ business tool and it is important to understand the legal implications of trading online. Indeed, with the online market come onerous regulations including EU regulations and additional trading law such as the ‘Remote buyers – The

Consumer Protection (Distance Selling) Regulations 2000’ which allows any online customer to cancel a contract within seven days. The rationale for giving online consumers such special protection being that the consumer does not have the benefit of meeting face to face with the supplier and inspecting the goods or services offered for sale.

Finance

Once any business has been created and started trading the next element for any business plan is securing the right finance. Investment, bank finance and other forms of funding can help businesses grow but there are legal ramifications for each stage of commercial financial planning.

Every organisation needs to decide what source of financing is most appropriate and a lawyer can advise it through the myriad of documentation needed to secure that finance.

After a business is operational and trading, a legally sound business plan can help to increase profits correctly through advertising. More often than not business owners believe that they can state ‘anything and all’ to sell and increase turnover. They can’t.

Overstated claims, false promises or sometimes outright lies can have huge legal ramifications for a business. The UK has strict regulations under Consumer Protection from Unfair Trading regulations to prohibit such exaggeration and embellishment and even from prejudicial comparisons with market competitors. At best it may be simply ‘bad business’ but at worst it could be considered slanderous and end up with the business in court.



‘ When formulating a business plan any organisation must comply with the eight principles of the Data Protection Act 1998 ’

Health and safety

Another area to consider in any business plan in order to avoid liabilities is health and safety compliance. All businesses have a legal responsibility to protect the health and safety of their employees and others affected by their activities. Employers must comply with the Health and Safety at Work Act 1974 and extensive subordinate legislation. If health and safety rules are infringed, employers face severe penalties, with potentially unlimited fines. The worst transgressions can even result in imprisonment. Furthermore businesses aren't simply exempt because of their size. Ironically, the smaller the business, the more exposed their owners and directors are to such claims of non-compliance. Indeed if the business employs as little as five personnel it must have a written health and safety policy statement offered at any request by a customer or consumer.

Insurance

In order to combat such claims it only makes commercial sense to have adequate business insurance for all possible eventualities. The very basic insurance all businesses should invest in is public liability insurance, which protects a business against the cost of a claim if an accident happens with a member of the public on the business' premises. Furthermore whatever the business structure, if a company has employees, even if on a casual or temporary basis, the organisation must take out Employers' Liability Insurance under law. Further insurance policies are also often advisable; key-man insurance, employee health insurance and other policies that can protect any business against unexpected and expensive claims.

Employment

A further legal consideration essential to business planning is matters of employment. An efficient business plan should cover the legal implications of recruitment in terms of discrimination, payroll in terms of tax, and working hours under the working time directive. Any company's success hinges on the quality of the people employed and to keep them (and to keep them happy) it is necessary to have legal protection.

Rights and data

Finally, a business plan must detail the legal aspects of consumer rights and data protection. This has recently become a 'hot topic' with media sensationalism over

STAY LEGALLY PROTECTED – A CHECKLIST

- ☐ Legally binding contracts drafted for dealings with suppliers, customers and employees.
- ☐ Most suitable legal entity chosen based on structure and taxation.
- ☐ Articles of association or shareholders agreement drafted.
- ☐ Company name lawful, and legally protected.
- ☐ Understanding of distance selling regulations (if applicable).
- ☐ Financing arrangement in place and associated paperwork complete.
- ☐ Advertising/promotional messages comply with regulation.
- ☐ Written health and safety policy (if five or more employees).
- ☐ Business covered by insurance, including public liability insurance.
- ☐ Understanding of employment law, including discrimination law.
- ☐ Consumer rights and data protection policy written.

the phone hacking case and the considered dissolution of individual privacy. Indeed the Information Commission Office (ICO) launched its most aggressive corporate plan in March this year promising a fresh approach to issues of data protection for businesses. When formulating a business plan any organisation must comply with the eight principles of the Data Protection Act 1998, ensuring that all personal information is secure, accurate and processed only for its limited purpose. This burden remains for all businessmen; from Sir Philip Green to the greengrocer.

Conclusion

While these legal issues in consideration of any business plan can seem overwhelming and often non exhaustive; they are not as cumbersome to navigate as may be firstly perceived. The key from a lawyer's opinion is to seek legal advice and tailor the plan to its purpose. The saying 'better safe than sorry' certainly applies to laws governing business and business planning.

TEAM-BUILDING – THE SOFT STUFF IS THE HARD STUFF

Whatever plans you make will have to be delivered by your people. Here **Alex Swarbrick** highlights the key elements in building a strong team to bring your projects to success.

Your idea is pure genius, the business plan a work of art. The tricky bit is the people. And let's face it, we can be rubbish at finding and keeping the right people. As Lucy Kellaway put it in the *Financial Times* recently: '... in reality we never know if the people we pick are going to be any good – sometimes they turn out to be great, sometimes awful, and mostly somewhere in between.'

Hire for attitude, train for skills

The principle of hiring for attitude and training for skills has become a highly successful one for many innovative start-ups. So, in building a team for your new business or project, that may be the best model to follow.

You know how it usually works. You draft your person spec and your advert, and then the floodgates open. In pour the CVs of people who look technically up to the job, but who leave you cold. You know they just aren't what your business is like. And the culture of your new business matters; frankly, it matters more than almost anything else.

So, what will help? First, be very clear about the culture you want to establish. Think of your culture as a 'web' of interconnected elements, and try asking yourself the questions in the 'company culture' box (right).

Answering these questions can give you a clear picture of your culture and will start to separate out those whom you want to join your business from those you don't. Hiring new people can be a great opportunity for both of you, so hire people who think like owners not like employees. And you won't get it right every time, so when it's not working out have the courage to say good-bye early on.

'Be very clear about the culture you want to establish. Think of your culture as a "web" of interconnected elements'



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KEY QUESTIONS ON COMPANY CULTURE

Stories

- What's the story people are told of how the business came about?
- What core beliefs does the story reflect?
- What's the mould we're breaking?
- Who are the heroes and villains?

Routines and rituals

- What do we always do here?
- What core beliefs does that reflect?

Symbols

- This includes our language, and jargon
- Symbols of status?
- Dress code?
- Logo?
- What do these symbols say about us?

Structure

- Are we hierarchical or flat?
- Formal or informal?
- Collaborative or competitive?
- What does that say about what matters to us?

Control

- What gets measured?
- Do we ask for permission or forgiveness?
- Reward or punishment?

Power structures

- What does 'leadership' mean here?
- Is power distributed across the business or focused in a discrete few?

Adapted from Johnson and Scholes' (1993) Culture Web

Finders keepers

Now you've found the people you want, the challenge is to keep them. So what makes a great and successful place to work, where people want to give their best?

The concept of 'employee engagement' has preoccupied business leaders and politicians alike over recent years, and with good reason. When the last Labour government commissioned 'Engaging for success', a report by David MacLeod and Nita Clarke into employee engagement in the UK, the central question was whether a wider take-up of engagement approaches would, among other things, impact positively on UK competitiveness and performance, and 'meet the challenges of increased global competition'.

On completion of the report, in the words of MacLeod: 'Our answer is an unequivocal yes.' More



than that, MacLeod suggested: 'If employee engagement and the principles that lie behind it were more widely understood and shared we would see a step-change in productivity and performance across the UK, and a rise in levels of employee well-being and motivation.'

So what helps achieve that engagement? Roffey Park's own research on engagement highlighted how it works in practice within a business. It's a two-way relationship, and hinges on three questions.

- First, your new starter will be wondering 'is this the right job for me? Does it fit me, and do I fit?'
- He or she will also be asking 'do I feel valued for the contribution I make?' And that sense of being valued comes directly from you, the manager.
- The other question is about the organisation – 'is this somewhere I'm proud to say I work? Can I sign up to what this business stands for?'

The evidence suggests that achieving a 'yes' in response to those questions, will help you keep your new starter.

Along the same lines, in his book *Drive*, the business writer Dan Pink highlights three keys to the motivation behind engaged performance:

- purpose – does this business, and what I'm doing here, have a meaningful purpose for me?
- autonomy – am I able to use my capabilities autonomously to do my job well, without being micromanaged? and
- mastery – is this something I can delight in getting better and better at?

What makes a team?

You've hired your people, and are working on maintaining their engagement. Now you want your new team to be a great team. How do you achieve that?

'Team' is a word managers use indiscriminately. Roffey Park works with organisations all over the world, eager for their teams to perform at a high level. And we see managers sometimes pouring unproductive effort into turning a group into a team, when they're not. So before you do the same, how do you decide whether this group really needs to perform as a team, and what does that take?

First, ask yourself whether the individuals share a common purpose, clear targets and interdependent tasks? If so, they're probably a team. If their work is pretty well independent, and in parallel to one another, they may be a cooperative group, but not a team.

If they are truly a 'team', then the soft stuff really is key to their success. That includes people taking both collective and individual responsibility and having high levels of trust and openness, as well as of support and challenge. In healthy teams, conflict isn't glossed over or avoided, but addressed, adult to adult.

These qualities were described by the author Patrick Lencioni in *Five Dysfunctions of a Team*, and really are central to your new team delivering high levels of performance.

Conclusion

So, the soft stuff really is the hard stuff, and also the vital stuff. But if your idea really is genius, and your business plan looks like a work of art, then it's worth getting right. Hiring for attitude and values, not just skills, investing in the engagement of those you hire, and enabling them to work like a team might just give you that extra advantage you're looking for.

FIVE QUALITIES OF A HEALTHY TEAM

Trust

This is the foundation. Trust is developed through a team's willingness to be open with one another about mistakes as well as successes. Team members deliver on what they say they are going to do.

Willingness to engage in conflict

Trust allows team members to have robust conversations. Diverse views and opinions can be heard and considered when making decisions and finding solutions.

Ability to commit to decisions

These healthy discussions allow a team to come to a collective commitment to action in solving business issues.

Being accountable for delivery

Once a collective decision is taken and an action plan agreed, it is important that each team member be accountable for their actions. Other team members are responsible for challenging them when they are not delivering.

Focusing clearly on results

When your team is accountable to each other for the delivery of the overall results, this allows them to stay focused on achieving the outcomes to which each has committed, and on which the business depends.

Adapted from Patrick Lencioni (2002) Five Dysfunctions of a Team

FINDING THE RIGHT WORDS FOR YOUR PLAN OF ACTION

Setting your thoughts down on paper is not always easy. **Rob Ashton** shows you how to make sure the plan reads well, leads to action and doesn't just gather dust.

It's sometimes said that no business plan survives the first week of execution. Partly this is because any plan will involve a certain amount of prediction that may not pan out in practice. But it's also because too many become little more than glorified paperweights once the hullabaloo of the launch meeting has faded away.

To keep your cherished masterplan from such an ignominious end, it's critical to take great care over how you write it. You want this to be a document that people continually refer to: a constant spur to action. And to do that, it needs to be clear and engaging. (If you're basing each section on little more than lists of bullets, then you're going to need to think again.)

Business plans made simple

Once the excitement of the planning meeting has died down (and yes, planning new things is exciting), you're going to need to write the document. Many people see this part as a chore, and as a result they tend to put it off until the last possible minute. Then, faced with a looming deadline, they hurriedly cobble together something that doesn't differentiate the key points from other information. In doing so, they'll probably focus more on the writing process than on the reader's needs, because that's what's uppermost in their mind at the time.

Don't underestimate the importance of how the plan document is written. Even the best ideas will remain just that – ideas – unless you can move people to take the right action (or, indeed, any action).

What that action is will depend on why you're writing the plan. Winning investment from a private equity firm and a working plan to spend that investment are very different aims. So they really need two different documents.

Focus on your reader

Investors are busy people, and it's highly unlikely that yours is the only plan on their desks. So if you're writing for them, you'll need to grab them in the first paragraph. Also ask yourself the following questions:

- who will read what I'm about to write?
- how much do they already know about the subject?
- what do they absolutely need to know?
- how interested are they in this subject?

Map out your ideas

Decide what you want to include before you begin writing. (Do not be tempted to use the writing process to clarify your thoughts.) For longer, more complex plans, it often helps to write your topic in the middle of the page and use a mind map to brainstorm ideas. Then group together the ideas that have things in common. Next, decide what order to put your groups in, starting with the most important first. Cross out anything that is irrelevant to your reader: never be tempted to include information simply because you have it. Earmark non-essential detail for appendices.

Don't be tempted to shortcut this process by creating lists on your computer instead. Using a pen and paper not only takes you away from all of the distractions of the modern age, it also keeps your mind fresh. It encourages the creative process, as it helps you to link ideas rather than thinking in a linear fashion. The messier you are now, the more ordered your thinking will be later. If you can complete this stage away from your desk altogether, even better.

Clarify your main message

Now that you've decided what your most important idea is, your next task is to explore this in more detail. Take another sheet of paper and write the six questions: What? Where? When? How? Why? and Who? Keep writing down the answers to these questions until you get to the heart of what you're really trying to say. Then, with this main message in mind, decide on a final order for the rest of your points.

Following this process will help you avoid the temptation to cram every idea or piece of information into your business plan. It's more important to have a clearly defined point of view than to give the reader 'value for money' with a jam-packed document.

Craft a compelling summary

The summary should be able to stand alone and clearly explain the 'Four Ps' – position, problem, possibilities and proposal (see p20). Many people still follow the structure they were taught at school: introduction, method, results, conclusion. However, no one in the business world has the attention span of your old science teacher. They want you to get to the point quickly and efficiently.

'Using a pen and paper not only takes you away from all of the distractions of the modern age, it also keeps your mind fresh'



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‘ Sentences packed with figures are hard to read and process, even if you do work in finance ’

Don't forget that your readers are suffering from information overload. If they fully digested every document sent to them, they'd find little time to do anything else. Even if your writing is impeccable, it will still compete for their attention with a mountain of other information, including emails, phone calls and Twitter updates. Keep this in mind with every sentence you write.

You can also use the above six-questions technique to help you here. You don't need to answer all of them in every section, of course: they're just a prompt. For example, when writing to investors, you really need to tell them why they should invest in the first few paragraphs. So you can use this technique to plan a short summary that states: who you are, what you do, why you need investment and why you're a safe bet.

A streamlined style

To truly develop your writing style, you need to bid farewell to the rules of academic writing. In universities and other educational institutions, the more knowledge, information and argument you display, the better the work is received. It's also standard practice to write in the passive voice. And it's common to reach a conclusion only after a long period of argument and analysis.

But when you're trying to influence the reader to take action, you need a more streamlined approach. You're not underselling yourself by keeping the information to a minimum: you're doing your reader a favour and exhibiting good judgement at the same time. Contrary to what you may have been taught long ago, it's possible for your work to be both factually sound and concise – and therefore compelling. You can use short sentences and paragraphs and still present a rigorous case. Question your use of language and make conscious decisions about your writing.

Don't talk in numbers

Or, rather, do talk in numbers, but only the important ones. Sentences packed with figures are hard to read and process, even if you do work in finance. Rather than risk losing their attention before you even start, use your words to explain, simply and directly, what you have to say. Put your figures in tables or graphs, and then refer to them in the text – making sure they're on the same page, if possible.

Quick style tips

Applying the following tips to every document you write will help make sure your work is clear, concise and compelling.

Avoid the passive voice

Use the active voice, where possible. So instead of 'action should be taken to reduce spending in this area

of the business', write 'we need to reduce spending in this area of the business'. Using the words 'we', 'you' and 'us' can also help you to connect with your readers.

Keep your sentences short and sweet

Hold your readers' attention by using an average of 15–20 words in each sentence. Prune your sentences by going through your document and ruthlessly cutting out meaningless phrases and non-essential information. Choose simpler words over more complicated alternatives. For example, it's much better to write 'because' than 'due to the fact that', and 'implement' (or even 'do') than 'undertake the implementation of'.

Put only one idea in each sentence

Your reader will find it easier to understand what you're saying if you stick to one idea per sentence. If you find yourself having to add more than two or three commas or dashes, you're probably trying to squash too much into one sentence. If you notice this happening, see if you can split it into two shorter ones.

Jargon is not the bogeyman

It's perfectly acceptable to use jargon if you're certain that your readers will understand it. Your fellow professionals will instantly know what 'above the line', 'below the line', 'variance analysis' and 'pro-forma' mean. But they would probably bemuse someone without a background in finance. And if that someone is the person you're hoping to influence, you're in trouble. If in doubt, underestimate your readers' level of knowledge, keep the language direct and simple, and focus on cause and effect.

Avoid management speak

In some workplaces, people find it almost impossible to speak without using terms such as 'going forward', 'utilise' and 'pre-prepare'. But while these words may get bandied about in boardrooms, don't be tempted to use them in documents. Instead of 'going forward', write 'in the future'. Or, leave it out altogether and simply say 'will'. Opt for 'use' instead of 'utilise' and remember that there's no such thing as pre-preparing. Ask yourself if what you're writing really makes sense, and don't be afraid to cull words and sentences if it doesn't.

Beware of abbreviations

Abbreviations are a great shortcut when you and your reader speak a common language. But don't forget that there may be acronyms and abbreviations that people outside your profession just wouldn't know. LIFO, GAAP and even EBITDA sound a bit like Star Wars characters if you don't know what they mean.

‘ Make the headings themselves useful and specific – for example “40 years in business” is better than “Our experience” ’

Use subheadings

Be kind to your readers’ eyes and brains and give them some structure to guide them through. Subheadings and bullet points make it easy for them to jump to the relevant section, or return to it at a later point. Make the headings themselves useful and specific – for example ‘40 years in business’ is better than ‘Our experience’. The subheadings alone should tell a miniature version of the whole story.

Find your flow

If you find it difficult to get started, try writing in short bursts. Start by writing for 30 minutes and keep increasing this time until you’re comfortable writing for up to two hours. Keep referring to your plan and just aim to write very specific sections of information. No matter how long or short your final document, even squeezing in a 15-minute session can help you make progress.

Check your facts

It can be such a relief to finish a document that you forget to proofread it. But making simple spelling mistakes, typos and other errors can undermine the validity of your work. Print out your document (proofing on screen is unreliable) and proofread extra slowly by stopping a pencil at each word to check that it’s accurate. Ask a colleague to do the same: it’s easier to spot mistakes with a fresh pair of eyes.

Influencing

Grab readers’ attention, guide them through your thought process to the logical conclusion, and leave them in no doubt about what they need to do. A good way to do this is with the Four Ps formula (see below).

THE ‘FOUR PS’ FORMULA TO ENHANCE YOUR MESSAGE

Position

Begin by explaining the current situation (or ‘where we are now’).

Problem

Introduce the idea that there are issues that need solving (‘why we can’t stay here’).

Possibilities

State your answer – or answers – to the problem (‘where we could go’). The reader will perceive you as an expert because you have a ready-made way of fixing things.

Proposal

Suggest what the preferred answer is (‘where we should go’), and say what action the reader can or should take. Offer a viewpoint that is new and intriguing.

Use this format for both the summary and the main body of the report.

Putting it into practice

Keep this article to hand next time you sit down to write a business plan, and work through the different stages. Changing your method may seem time-consuming at first, but as it develops into a habit, your writing will become more efficient and effective. Then, sit back and observe as your persuasive prose takes effect.

BOX 1: QUESTIONS TO ASK YOURSELF

Five questions to ask yourself before writing:

- For whom are you writing?
- How deep is their knowledge of the subject?
- What do they absolutely need to know?
- What are the most important numbers?
- Would some of the information be clearer in a graph or table?

And five to ask before sending:

- Is there any jargon that the reader may not understand?
- Is there any superfluous information?
- Are there any over-wordy sentences or paragraphs?
- Is it clear what action the reader should take?
- Is there a colleague available to proofread it?

BOX 2: USING BOXES

Like graphics, boxes are likely to be read before the main text, and are a vital entry point to the document.

Make sure, therefore, that the information within them can be understood without reading the main text. A different font from the main text will help the box stand out, as will surrounding it with white space. And always give boxes titles.

BOX 3: SIGNPOSTS

Signposts – such as the title, subheads, straplines and contents list (for long documents) – are critical, because they provide your reader with an immediate overview of your argument.

In fact, subheads (or crossheads) can even tell the story on their own. A word of warning though: you need to work out a system of subheads before you start writing, for consistency’s sake.

BEWARE OF USING INFOGRAPHICS: THE EMPEROR'S NEW CLOTHES

You want to make an impact with your business plan, whether it is for internal or external consumption, but here **Jon Moon** warns against trying to be too 'arty'.

First, define terms. I'm not talking about stuff like the London Tube map. Rather, I refer to arty ways to show information, crammed with paraphernalia – funky images, icons, fonts, etc.

For example, one London council showed its 2012/13 budget as orbiting planets. Such infographics are popular, they appear in newspapers, posters, and more. So, people surmise, perhaps we should do them at work in our reports, packs and plans.

Don't. Here are six reasons to eschew infographics in your documents.

- They distract – frippery and fact compete for attention, and frippery wins. Funky images attract us to the page, but distract us from the content.
- They distort – for instance, because of how they're sized, the council's planets make big numbers look bigger and small numbers look smaller.
- They're hard to read – *arty fonts* make life tough. Also, writing is sometimes *uᴉɹoꝥ ǝpısdn* forcing readers to crane necks to read it.
- They fragment information and hinder comparability – with stuff splattered around the page, readers struggle to make comparisons and join dots in the data.
- They patronise – apparently, we're so innumerate and uninterested in detail, we understand and pay attention only if we see pictures. It's like colouring books for the illiterate.
- They're costly – planets don't come cheap.

I want a squirrel, daddy

Infographics are popular though, and that's because they seem new (albeit they're not – read the wonderful *Diagrams* by Lockwood, published 1969). People like novelty, we all want the latest toy. Also, marketeers fear missing out on the 'next big thing'. To convince us infographics are great, we're bombarded with lazy soundbites and false arguments spouted by 'infographicistas' (my word for lovers of infographics).

'Infographics', we're told, 'are better than 100 pages of dense text' – but you can justify anything if you compare it to a sufficiently bad alternative. Or: 'Imagine IKEA instructions without diagrams' – which is as nuts as saying: 'Imagine a fictional book without words'. Or: 'People engage with infographics' – no, many of us don't, we glance at them.



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'Apparently, we're so innumerate and uninterested in detail, we understand and pay attention only if we see pictures. It's like colouring books for the illiterate'

Such sophistry is never-ending. 'Visuals are instantly understood, they simplify and are memorable; also, people aren't good with numbers or tables, etc.' There isn't room to deal with it all here, but I will address one particularly apposite argument espoused by infographicistas: 'Would you read your management accounts pack if you stumbled across it when browsing a magazine or the internet?' After all, not everyone finds numbers thrilling, and sometimes as authors, we must stimulate interest, and infographics surely do just that.

It sounds compelling but it's flawed. At work, reading packs is a duty. At home though, we have choices: browse internet, read paper, watch TV, visit pub, kick ball, etc. So broadsheet journalists compete for our spare time by luring us in with infographics. Tabloid journalists rarely, if ever, do infographics though, but instead lure us in with skimpy pictures and salacious stories. Infographics aren't much more than lurid pictures for broadsheet readers.

Don't do as I do

To conclude, most arguments are flawed. However, don't just take my word for it. Look at what infographicistas themselves do; ironically, they rarely use them themselves to communicate.

Spam emails from designers tell me that infographics sell anything and solve everything ('so commission us to do one for you now!', they exhort), yet the spam emails don't have any themselves. An infographics' trainer showed delegates (including me) loads of infographics that people had done to convey their detailed messages to others, yet to convey his detailed messages to us, he showed just one in three hours – and take my word for it ... it was shown in irony.

Finally, I read an article that said infographics are the great new way to communicate – and to convey that to us, the article used words, not infographics. Also, somewhat surprisingly, it didn't show any.

There's a saying in Spain: 'In the blacksmith's house, there's a wooden knife.' So too with infographicistas: in their 'house', there are no infographics.



Skimmed milk masquerades as cream

Having said that, infographicistas parade before us arty stuff that gives fascinating analysis and brilliant insight. All is not what it seems though, for success has a thousand fathers.

When someone does good analysis, infographicistas loudly proclaim parental rights. If you do eye-popping analysis and then shove a visual on it, we're told it's the visual that's eye-popping. 'A great infographic', they purr. No. The analysis is eye-popping. As for the visual, it rarely helps – and often hinders.

Arguably the most touted 'infographic' is Hans Rosling's analysis of population, prosperity and lifespan. Check out his four-minute video on YouTube. It's superb, and, according to infographicistas, it proves the power of visualisation.

Except it doesn't. Hans himself says his stuff works not because of visualisation, but animation. Which makes sense – after all, watch the clip, but imagine it without all his moving circles but as a series of still images. Nowhere near as good.

Also, part of the reason it's so good is Hans himself. His enthusiasm, personality and comic timing. I know this because I've seen someone attempt a voiceover to Hans' clip, and it was awful. His work is great because both he and his data are animated.

The Emperor is naked

Don't get me wrong, I've tried to like infographics. I even attended an evening class on them – but I found I hated them even more. I learnt that infographics can cheat data if it better conveys messages, and that infographics are for journalists and graphic designers. Count me out on both of those.

The course did however inspire me to commission my own joke infographic. It's on my website (within the 'Fun Stuff') – and it shows that we now convey information no better than we did in the days of Benedictine monks.

To conclude, if you use infographics in reports at work, bosses will eventually tire of funky colours and fonts. You can fool some people some of the time, but in the end, people realise the Emperor has no clothes.

The proper use of infographics

However there are exceptions. Maybe use infographics in newsletters to staff, clients, markets, etc. Such

newsletters are optional reading, so authors must compete for our attention and lure us in. Given that skimpy pictures are inappropriate for newsletters, maybe try infographics.

Don't cheat data though – get caught cheating and you ruin your credibility. Also, realise that your infographics might backfire. There's a good chance they'll alienate as many as they impress.

As for when you see – and like – other people's infographics, ask yourself why? Are its facts and figures interesting? Does it give new insights that resonate or engage? Or that inspire, amaze, anger or incite? Or is it the colours, fonts and frippery that capture your brain and heart?

I hope not, otherwise it's like admiring the frame around the Mona Lisa. Except worse – the frame doesn't detract from Mona's beauty, whereas frippery detracts from analysis and hinders understanding. It's akin to 'improving' the London tube map by adorning it with cute icons of trains.

It's the insight, stupid

The final word on this topic – fittingly – starts in 2011 with an article in a Brazilian newspaper which reviewed the telephone expense claims of 513 civil servants and discovered the total amount reclaimed in eight months was \$7m (US dollars). Based on prevailing call charges, the \$7m was enough to speak non-stop for 298 years – so the newspaper printed its findings, alongside an infographic with the headline: '298 years of chatter'. The story was a sensation and caused uproar.

So far, so good. However, some time later, an infographicista wrote an article which looked at the layout of the earlier newspaper story and asked: 'Would [the newspaper's findings] have been as effective without the playful headline, pictograms and summaries? I doubt it.'

I disagree. Yes, the headline helps, but the \$7m phone scandal is such a great story, it doesn't need pictograms and more to be effective. It's fascinating without them – I hope you liked it ... even though I didn't show you the '298 years' infographic. And – cue more irony – the infographicista's article didn't show the infographic either. Maybe he felt the story was effective without it. Once again, in the blacksmith's house, there's a wooden knife.

A BLUEPRINT FOR WRITING A SUCCESSFUL BUSINESS PLAN

This three-page guide to writing a business plan, contributed by **Start Up Donut** (www.startupdonut.co.uk) sets out the essential points that need to be addressed as you seek support from your bank, investors and other vital stakeholders.

Many potential start-up businesses are daunted by the prospect of writing a business plan. But it is not a difficult process – and a good business plan focuses the mind as well as helping to secure finance and support.

The business plan will clarify your business idea and define your long-term objectives. It provides a blueprint for running the business and a series of benchmarks to check your progress against. It is also vital for convincing your bank – and possibly key customers and suppliers – to support you.

1 Executive summary

The executive summary outlines your business proposal. Although it is the last section to be written, it goes on the first page of the plan. It will be read by people unfamiliar with your business, so avoid jargon.

- ☐ The executive summary highlights the most important points and should sum up six areas:
- your product or service and its advantages;
 - your opportunity in the market;
 - your management team;
 - your track record to date;
 - financial projections; and
 - funding requirements and expected returns.

When deciding whether to back a start-up, bank managers and investors often make provisional judgements based on the executive summary.

The main body of the business plan (see sections 2 to 9, below) is then read to confirm the initial decision. The appendices at the back of the plan (see section 10) carry detailed information to support the main text.

2 The business

- ☐ Explain the background to your business idea, including:
- the length of time you have been developing the business idea in its present form;
 - work carried out to date;
 - any related experience you have; and
 - the proposed ownership structure of the business.
- ☐ Explain, in plain English, what your product or service is. Make it clear how:
- it will stand out as different from other products or services;
 - your customers will gain through buying your product or service; and
 - the business can be developed to meet customers' changing needs in the future.

It is important to cover any disadvantages or weak points you feel the business may have. Be frank about these – it inspires confidence.

THE BUSINESS PLAN

The key sections of the business plan, which are explained in further detail below, are as follows.

1. Executive summary.
2. The business.
3. Markets and competitors.
4. Sales and marketing.
5. Management.
6. Operations.
7. Financial forecasts.
8. Financial requirements.
9. Assessing the risks.
10. Appendices.
11. Presenting the plan.

Each start-up will have its different priorities, so these sections can be adapted at will. We have provided checkboxes for you to test your own plan against this blueprint.

- ☐ Explain any key features of the industry (eg, special regulations, effective cartels or major changes in technology).

3 Markets and competitors

- ☐ Focus on the segments of the market you plan to target – for example, local customers or a particular age group.
- Indicate how large each market segment is and whether it is growing or declining.
 - Illustrate the important trends – and the reasons behind them.
 - Outline the key characteristics of buyers in each segment (eg, age, sex or income).
 - Mention customers you have already lined up and any sales you have already achieved.
- ☐ What are the competing products and who supplies them?
- List the advantages and disadvantages of all your competitors and their products.
 - Explain why people will desert established competitors and buy from you instead.
 - Show you understand your competitors' reaction to losing business and demonstrate how you will respond to it.

Unless there is a viable market and you know how you are going to beat the competition, your business will be vulnerable.

You must show you have done the market research needed to justify what you say in the plan.

‘ People reading the business plan need to be given an idea of why they should have faith in the management ’

4 Sales and marketing

This section is crucial. It often gives a good indication of the business’ chances of success.

- ☐ How will your product or service meet your customers’ specific needs?
- ☐ How will you position your product?
 - This is where you show how your price, quality, response time and after-sales service will compare with competitors.
 - Quote minimum order figures, if appropriate.
- ☐ How will you sell to customers? For example, by phone, through your website, face to face or through an agent.
 - Show how long you predict each sale will take. Many new businesses underestimate the time involved in winning each order. In year one you may spend up to 80% of your time making contacts and selling.
 - Will you be able to make repeat sales? If not, it will be hard to build up volume.
- ☐ Who will your first customers be?
 - Show which customers have expressed an interest or promised to buy from you and the sales they represent.
 - How will you identify potential customers? Unless you can demonstrate that you have a clearly defined pool of potential customers, starting your business is likely to be a struggle.
- ☐ How will you promote your product? For example, using advertising, PR, direct mail or via email and a website.
- ☐ What contribution to profit will each part of your business make?
 - Most businesses need more than one product, more than one type of customer and more than one distribution channel.
 - Look at each in turn. Examine your likely sales, gross profit margins and costs.
 - Identify where you expect to make your profits and where there may be scope to increase either margins or sales.

Services and intangible products (eg, computer software) are more difficult to market. Start-ups in these areas must pay special attention to marketing in their business plans.

5 Management

People reading the business plan need to be given an idea of why they should have faith in the management of your start-up.

- ☐ Outline the management skills within your team:
 - define each management role and who will fill it;
 - show your strengths and outline how you will cope with any weaknesses;

- describe the background and experience of each team member;
- clarify how you intend to cover the key areas of production, sales, marketing, finance and administration;
- management information systems and procedures should be outlined, eg, management accounts, sales, stock control and quality control; and
- show how many ‘mentors’ and other supporters you will have access to.

- ☐ How committed are you? Banks and any other potential investors will want to be sure you are committed to the business. Show how much time and money each of the management team will contribute, and your salaries and benefits.

6 Operations

Explain what facilities the business will have and how it will deliver the product or service to the customer.

- ☐ Show the pros and cons of the location.
- ☐ Indicate the facilities you will need to start (eg, equipment and machinery). Some start-up businesses only need a desk and a phone. Consider any potential limits to production capacity. If you are going to manufacture or distribute products, show how and where you are going to warehouse them and for how long.
- ☐ Provide a list of employee roles you need to fill and the skills required to fill them.
- ☐ Show how you selected your suppliers.

Keep it real. Sales forecasts produced for start-up businesses are often over-optimistic. Here are some important reality checks.

- How soon can you start selling? Will potential customers hold off for a year before they take you seriously and place an order?
- How often will you be able to sell? How many days can you spend selling? How long will each lead take to line up? What percentage of leads will turn into sales?
- How much will you be able to sell? What will the average sale value be? Will most people give repeat orders, or must you find new customers each time?
- How long after a sale will it be before you can collect payment? How much income can you realistically expect each month?

7 Financial forecasts

Your financial forecasts translate what you have already said about your business into numbers.

- ☐ A realistic sales forecast forms the basis for all your other figures. Break the total sales figure down into its components (eg, different types of products or sales to different types of buyer).

‘ The more solid information you can gather for your own use, the better the business plan will be ’

- ☐ Your cash flow forecast shows how much money you expect to be flowing into and out of your bank account and when. You must show that your business will have access to enough money to survive.
 - Demonstrate that you have considered the key factors affecting cash flow – eg, level and timing of sales revenue, wages.
 - Show when there will be more money coming in than going out (‘cash-positive’).
- ☐ Your profit and loss (P&L) forecast gives a clear indication of how the business will move forward. Summarise the annual P&L forecast for each of the first two or three years of trading.
- ☐ If you are launching a larger start-up, you will also need projected balance sheets.

These will show you the financial state of your business on day one and at year end, perhaps for the first two or three years.

- ☐ Do not get too protective about your forecasts. You may need to revise them.

For every forecast, list all your key assumptions (eg, prices, sales volume, timing). Small business advisers at banks and your local business support organisation will often help you put together your forecasts free of charge.

8 Financial requirements

The cash flow forecast will show how much finance the business needs. Your assessment of the risks will determine whether or not you need to arrange contingency financing.

- ☐ Say how much finance you will want, when and in what forms. For example, you might want a fixed-interest loan and an overdraft facility.
- ☐ State what the finance will be used for. Show how much will be for buying equipment and how much for working capital (financing stock and debtors).
- ☐ Confirm that you will be able to afford it.

9 Assessing the risks

- ☐ Look at the business plan and isolate areas where something could go wrong (eg, if your main supplier closes down). What would you do if it actually happens?

- ☐ Consider a range of what-if scenarios (eg, what happens to your cash flow if sales are 20% lower or 15% higher than forecast). If there are serious risks:
 - you can arrange contingency funding to cover the finance you may need; and
 - you may decide that the business is too risky and abandon the whole project.

Assessing risk will help you minimise problems and help build up your credibility with any investor or bank.

10 Appendices

- ☐ Detailed financial forecasts (monthly sales, monthly cash flow, P&L) should usually be put in an appendix. Include a detailed list of assumptions. For example, the profit margin on each product, debtor collection period, creditor payment period, stock turn, interest and exchange rates, equipment purchases.
- ☐ You may want to give other relevant information:
 - detailed CVs of key personnel (essential if you are seeking outside funding);
 - market research data;
 - product literature or technical specs;
 - names of target customers; and
 - a list of external data sources used in your research which will add credibility to the information.

11 Presenting the plan

The more solid information you can gather for your own use, the better the business plan will be. But a banker or other outsider will not have time to read through all the details.

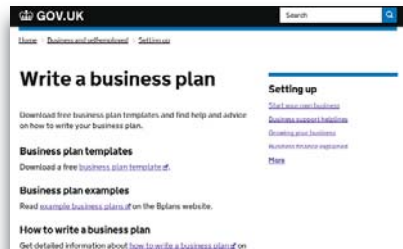
- ☐ Keep your business plan short. Most business plans are too long. Focus on what the reader needs to know.
- ☐ Make it professional:
 - put a cover on the business plan and give it a title; and
 - include a contents page.
- ☐ Test it:
 - re-read it yourself. Would reading your plan give an outsider a good feel for your business and a grasp of the key issues? and
 - show the plan to friends and expert advisers and ask them for comments.

Reproduced with permission. For more information, see www.startupdonut.co.uk

FINDING THE BEST SOURCES ON THE INTERNET

The websites on these two pages offer anyone interested in developing a business plan access to key information and advice – plus a number of case studies, where you can learn from the experience of others.

THE UK GOVERNMENT



www.gov.uk/write-business-plan

This is a key UK Government site for those looking for official guidance on writing a business plan. There are several resources, including links to where you can download free business plan templates and find help and advice on how to write your business plan. The site explains that a business plan helps you to clarify your business idea, spot potential problems, set out your goals and measure your progress.

For start-ups, you will need a business plan if you want to secure investment or a loan from a bank – it can also help to convince customers, suppliers and potential employees to support you.

When you have set up your new business, there are useful tips elsewhere on the government website to help the growth of your company.

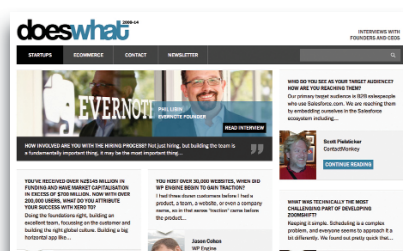
STARTUP DONUT – PAGANUM



tinyurl.com/SR47-Paganum

The Start Up Donut (www.startupdonut.co.uk) is one of a group of Donut websites which are aimed at helping businesses with information and resources to save business owners time and money. It also features case studies, including that of Paganum, a Yorkshire-based online farmers market start-up. In an interview titled 'How I put together my start-up business plan', Chris Wildman, founding director of Paganum, discusses how his business started, and the steps involved in creating a credible plan. In addition to providing an overview of the process, he offers tips to people starting out in business by themselves. Wildman says: 'Think of your business plan as being like a CV. You need to alter it to suit the needs of the person who will read it.'

DOESWHAT



doeswhat.com

doeswhat conducts interviews with business founders and CEOs – with a particular focus on recent start-ups and ecommerce companies.

Contained on the site are over 100 interviews with founders of some well-known companies such as Evernote and MailChimp, as well as a wealth of interviews with lesser-known company founders.

Typical interviews contain questions on inspirations, triumphs and difficulties as well as funding, aspirations and advice. Most interviews will be with the founder/co-founder, who has invested their time and expertise in the project from the start.

The interviews are an attempt to find out what they got right, but also what they got wrong and to find out about their ideas for the future.

ICAEW BUSINESS ADVICE



www.icaew.com/startingyourbusiness

The ICAEW website offers advice to start-ups, including practical steps on tax, legal issues, essential accounting records, insurance, business plans and more. It shows you how to find a chartered accountant participating in the ICAEW Business Advice Service – and receive an initial consultation at no charge.

Who do you need to notify about the new business? What legal status best suits your situation? You need to decide early because if you need stationery it affects letterheads, invoices, etc. What about HMRC? Do you need to be registered for VAT? What insurances are required? The answers are here.

‘ You will need a business plan to secure investment or a loan from a bank – it can also help to convince customers, suppliers and potential employees ’

DIY TOOLKIT



diytoolkit.org

DIY Toolkit is an initiative of Nesta, the UK-based innovation charity.

With a focus on global development, the website contains a selection of hand-picked business models which can be applied to various aspects of business growth.

The website is split into eight ‘I want to ...’ categories which are: look ahead, develop a clear plan, clarify my priorities, collect inputs from others, know the people I’m working with, generate new ideas, test and improve, and sustain and implement.

Each of these sections contains around four printable business models with a description and/or video on how to use it. These models can flag up questions which may otherwise get overlooked when starting out or planning ahead.

THE BLUEPRINT – VANHAWKS



tinyurl.com/SR47-Vanhawks

The Blueprint (theblueprint.com) describes itself as ‘an online retail destination and discovery platform for the next wave of consumer electronics’. It is based in Toronto. In an article on its website (linked above), it tells the story of Vanhawks, the makers of Valour, a smart-connected carbon fibre bicycle. The Canadian company launched on Kickstarter in Spring 2014 and raised its start-up funds target successfully. This interview with the founder, Ali Zahid, contains an assessment of the work involved to start and promote a company through a relatively new crowdfunding channel. Zahid discusses which areas the company excelled at and where they struggled. He also discusses areas in which outsourcing has been key to success.

INFORMATION AGE – TRAVIS PERKINS

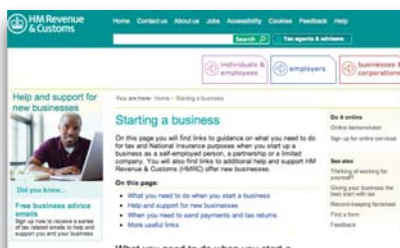


tinyurl.com/SR47-TravisPerkins

The website Information Age (www.information-age.com) highlights a case study ‘The story of Travis Perkins’s agile IT transformation’, which focuses on a three-year project to bring a long-established and well known company into a more modern era of technology. The focus of this case study is on updating legacy equipment while maintaining and improving business continuity.

Operating 17 businesses across more than 1,900 sites throughout the UK and Ireland, Travis Perkins is a main supplier to the UK’s construction market, as well as a leading home improvement retailer. A quote from the company says: ‘We needed transformational change to support a demanding agenda. The business is in shock but it certainly knows change is happening’.

HM REVENUE & CUSTOMS



www.hmrc.gov.uk/startingup

Here you will find guidance on what you need to do for tax and National Insurance purposes when you start up a business as a self-employed person, a partnership or a limited company. There is information on return filing and paying deadlines and what records you must keep. You will also find links to additional help and support which HM Revenue & Customs (HMRC) offers to new businesses.

There are free business advice emails and links to information about tax returns for partners and partnerships, limited companies, VAT, PAYE for employers, Construction Industry Scheme record-keeping, and the importing and exporting of goods and services.

BOOKS, JOURNAL ARTICLES AND MORE ...

The ICAEW Library and Information Service offers further resources on business planning. The selection below is available to ICAEW members – for further information, see icaew.com/library

Please note some online resources can only be accessed by members logged into the website.

Online resources

Subject gateways

- Business plans: icaew.com/en/library/subject-gateways/business-management/strategy-and-planning/business-plans
- Business performance: icaew.com/en/library/subject-gateways/business-management/performance-management
- Communication and presentation skills (report writing): icaew.com/en/library/subject-gateways/career-and-personal-development/communication-and-presentation-skills

Directors' briefings

icaew.com/directorsbriefings

Directors' briefings are four-page guides written for the busy practitioner, director and entrepreneur providing concise, practical advice on core business issues.

Writing a business plan:

icaew.com/~media/Files/Library/collections/online-resources/briefings/directors-briefings/ST6BUS.pdf

Key performance indicators (KPIs):

icaew.com/~media/Files/Library/collections/online-resources/briefings/directors-briefings/ST12KEYP.pdf

Online articles

Finance & Management

icaew.com/en/join-us/join-a-faculty/finance-and-management-faculty

'Abolishing the myths' – July/August 2013.

Aims to dispel myths surrounding performance management so as to improve the effectiveness of KPIs.

'Abandon ship?' – September 2013.

KPIs should be measures that link daily activities to the organisation's critical success factors, thus supporting an alignment of effort within the organisation. The author asks if it is time to adopt more radical measures.

Economia

<http://economia.icaew.com/>

'Performance art' – October 2013.

Advocates business performance management as a means of helping companies grow, emphasising accountants' importance in the process. It demonstrates the links between operations and finance while also encouraging more reliable decision-making.

eBooks

icaew.com/ebooks

- How to write a business plan: creating success (2013)
- How to write reports and proposals (2013)
- Effective business writing (2009)

Printed resources - books

Please email library@icaew.com for book details or to request a postal loan.

How to write a business plan: creating success. Finch, 2013. This book is designed to lead you through writing your own business plan. While there may be some elements of the finished document that will benefit from professional input you should write the main elements yourself.

Social enterprise: business planning and assessment. CIPFA, 2013.

This publication looks at the practicalities of business planning for social enterprises in the context of public service delivery. It considers differences between social enterprises and other enterprises, describes how these impact on the business plan, provides guidance on the contents of a business plan, and suggests questions that those assessing a business plan can ask.

How to write report and proposals. Forsyth, 2013.

This book provides practical advice on how to impress, convince and persuade your colleagues or clients.

Start your business in 7 days. James Caan, 2012.

Shows how to spend a maximum of seven days deciding if your idea is workable, and whether it is bankable.

The business plan workbook. Barrow, 2012.

Divides 26 assignments into seven phases: history and position to date; market research; competitive business strategy; staffing and operations; forecasting results; business controls; and writing up and presenting your business plan.

Key performance indicators (KPI): the 75 measures every manager needs to know. Marr, 2012. Explains what key performance indicators are, gives you short overviews of each metric and describes how to use the measure effectively. There are worked examples throughout.

The Minto pyramid principle: logic in writing, thinking and problem solving. Minto, 2010.

In 1973 the author published a set of six booklets called 'The Pyramid Principle' that talked about a new way of tackling the problem of unclear report writing, particularly in consulting reports. It said that clear writing was easy to recognise because it had a clear pyramidal structure, while unclear writing always deviated from that structure.

Start it up: why running your own business is easier than you think. Johnson, 2011. Sets out to inspire – and guide – every budding entrepreneur to finding the right idea, sourcing funds and getting the best from the people you meet on the way – chiefly yourself.

PREVIOUS F&M FACULTY SPECIAL REPORTS

The faculty special reports summarised here were published over the past 15 months and, along with many others, are available to members at icaew.com/specialreports. They comprise a range of in-depth reports on a single topic, sometimes by a single author, sometimes by a range of experts. They are a vital source of expertise on a variety of subjects.

Growing your business

September 2014 (SR46)



GROWING YOUR BUSINESS

With the aim of providing a toolkit for those seeking to increase their businesses' activities, this report focuses on key aspects of growth. A section on finance covers exporting, venture capital and crowd-funding. Branding is detailed with articles from Helen Lazarus and Simon Black, and

Luan Wise analyses marketing strategy with the use of Ansoff's product-marketing matrix. Lawyers CM Murray consider employment law risk as companies expand, providing information on recently introduced laws. Paul Bagust offers a guide to commercial property, and Anita Monteith provides new information on taxation.

Risk and recovery

June 2014 (SR45)



RISK AND RECOVERY

With a focus on continuity planning and crisis management, this report details current threats businesses face today. Matthew Leitch discusses some of the key issues surrounding business continuity and provides advice for your company. Seth Berman highlights the increasing prevalence of cyber risk, and a

Freshfields survey titled 'Dealing with corporate disasters in the digital age' profiles the role that social media has in spreading rumours. Also presented in this report is management guru Jack Welch's 'The five stages of crisis management' where the New Orleans disaster is used as a metaphor for business recovery.

Change management and reorganisation

March 2014 (SR44)



CHANGE MANAGEMENT AND REORGANISATION

This topic can cover reallocating business roles to moving an entire organisation to another continent. The report features US management guru John Kotter's '8-step process for leading change', and articles on communicating change, keeping

stakeholders informed, developing better change leaders, financial and operational factors, and Morgan Witzel's 'Avoiding the perils of reorganisation'. There is also a technical article on redundancy legislation and the effects of TUPE, and a light-hearted piece on staying flexible when undergoing a change initiative.

21 Years – A celebration

December 2013 (SR43)



21 YEARS – A CELEBRATION

To celebrate the 21st birthday of the Finance and Management Faculty, this report selected a range of articles from the past two decades. These included contributions from expert writers on topics including public speaking, finance, business performance management, management

information systems, business improvement, finance and spirituality, and personal development. Articles were also provided by the ICAEW chief executive and some current and former faculty leaders. There was a list of long-standing faculty members, together with special messages from some of them about the value of membership.

Starting a business

September 2013 (SR42)



STARTING A BUSINESS

This report includes a wide range of articles on issues surrounding business start-ups – especially those that may be faced in the first year. Topics include a look at funding, networking, sales and marketing, research and analysis, technology, employment law, tax and regulation and developing 'the

business plan'. Experienced entrepreneurs from four different sectors provide tips to new businesses, while sharing some insights about their own business start-ups. Armed with this report, members thinking of setting up on their own should be well-prepared to take the first steps. The report includes links to web and other resources.

STAY AHEAD

Enjoyed this report, but not a faculty member?
Join now.

Membership of the Finance and Management Faculty places vital resources at your fingertips, taking the hard work out of keeping up to date and giving you more time to focus on the bigger picture.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 142,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

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www.charteredaccountantsworldwide.com

www.globalaccountingalliance.com

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