

GUIDE TO WRITE A BUSINESS PLAN

A BUSINESS PLAN is a written document that:

- Summarises a business opportunity (*i.e. why the opportunity exist and why the management team has what it takes to execute the plan*); and
- Defines and articulates how the management team expect to seize and execute the opportunity identified

Why a business plan is needed

A business plan is used primarily:

- For raising capital (that is to convince investors of the financial viability of the business); and
- As a planning document for the first growth years of the business (*that is to determine whether the business is viable, how much capital is needed, and how fast should the business grow*)

For these reasons, the Free State Development Corporation (FDC) requires a comprehensive and well-motivated business plan from which a thorough understanding of your existing or proposed business, your own goals and objectives and your financing requirements can be obtained.

Specific attention should be given to the following four key areas:

- The business itself
- The management of the business (the entrepreneurs involved)
- The market and competition in which the business operates
- The financial management and planning – the risk and rewards associated with the total investment in the business

All the submitted business plans should comprise the following sections:

Cover page

Executive summary

Business overview

- Business profile
- The product or service

Management

- The entrepreneurs
- The management structure

The market

- Industry analysis
- Market analysis

Sales and marketing strategy

Financial Plan

Legal and regulatory environment

Swot analysis and risk/rewards assessment

Appendices and supporting documentation

COVER PAGE

The cover page must include information such as the name of the company, its trading address, contact numbers and date, as well as the list of proposed and offered collateral if any.

EXECUTIVE SUMMARY

A concise and short summary, articulating what the opportunity conditions are and why they exist. It must also indicate who will execute the opportunity and why they are capable of doing so, how the company will gain entry and market penetration.

The summary is the MOST vital part of the business plan – it has to sell your business strategy and also be appealing and compelling to the investor.

It is an overview of the entire plan and must contain the highlights of the business plan and summaries of each section. Therefore although it is at the beginning of the document, it is usually written the last to capture the essence of the plan.

The summary stands alone and should not refer to other parts of your document.

BUSINESS OVERVIEW

1. Write a business profile, including the following:

- Information on the background and history of the business
- Provide the nature of the proposed or existing business
- Indicate the business form (proprietorship, Close Corporation or Company)
- Is it a new business, take over, expansion, franchise?
- The mission, and the company's long and short term objectives in terms of business growth and development, as well possible exit strategies (for example: buy out investors, sell to larger company, go public, etc)

2. The product or service

- Describe in full the product or services offered by the business, innovative features of these products and services and the competitive edge they afford the business over rivals in the market
- The expected product life cycle where applicable
- Include descriptions of key technologies employed and current and future research and development

3. Location, premises and — where applicable — production facilities

- Describe the planned geographical location of the business. Include any location analysis, and so on, that you have done
- Discuss any advantages or disadvantages of the site location in terms of such factors as labour (including labour availability, whether workers are unionized, and wage rates), closeness to customers and/or suppliers, access to transportation etc
- Describe the production process, raw materials required and whether it will be sourced locally or imported

4. Production and technology

- Describe production processes and capacity, identifying any existing constraints and possible problem areas
- Include a detailed analysis of the process of installing and commissioning any new technologies and production processes
- Include information on quality assurance systems and procedures, and certification
- Details of suppliers and sub-contractors, and any contractual arrangements governing the supply of key inputs

5. Elaborate on the business and entrepreneur's past achievements and strengths and past problems and weaknesses, and critical success factors

COMPANY MANAGEMENT

1. The entrepreneurs

- Include a description of the names, age, qualifications, background, skills and experience of the entrepreneurs covering the key areas of technology and product development, production, sales, marketing, finance and administration
- Describe the position and the specific functions and responsibilities of each entrepreneur and/or manager
- Describe past successes and failures of each entrepreneur and/or manager
- Attach a detailed curriculum vitae of each entrepreneur
- Indicate the financial contribution of each entrepreneur to the business, and the current shareholding structure.

2. The management structure of the business

- Show company ownership structure, business units and subsidiaries where applicable
- Attach an organisation chart showing the functions and responsibilities of directors, key management and staff
- Formulate remuneration, incentives, share options, and conditions of employment of key management and directors
- Analyse any deficiencies in management and how these positions are to be filled
- Comment on current and future employment levels, labour relations and union membership
- Include details of systems to be implemented: information technology, accounting, administration, management information and stock control systems
- Include details of auditors, attorneys, bankers and professional advisers

3. Franchise information (where applicable)

If the business is a franchise, include what is covered in the management package the franchisor provides in this section

THE MARKET

1. Industry analysis

Summarise the industry in which you will compete. Find most of the facts from government statistics and trade organisations. Discuss topics such as:

- Current trends and developments in the industry
- Large and important players in the industry
- How the industry is segmented
- Problems the industry might be experiencing
- National or global events influencing the industry
- National and global growth forecasts
- How legislation affects the industry (for example, how the law limiting smoking in a restaurant affects the industry)

2. Market analysis

- Describe the existing market and its potential for growth
- Include a detailed analysis of the size and maturity of the market, trends and seasonality exhibited by the market, and the business's current and expected market share together with an analysis of the time, resources and actions required to achieve this desired market share
- List existing and potential customers, supported by letters of intent, orders on hand, contracts, where applicable
- Include a detailed analysis of competitors, the price and quality of their products, service and delivery, and their expected reaction to your activities
- Highlight and discuss your competitive advantage

SALES AND MARKETING STRATEGY

1. Elaborate on current and planned sales and marketing strategies and promotional activities (advertising, exhibitions, promotions, public relations, etc.)
2. Describe your distribution strategy and channels
3. Formulate sales staffing, recruitment, remuneration and commission structures
4. Include a detailed motivation and substantiation of sales projections (in monetary and physical terms) with a comprehensive analysis of the lead time expected to reach sales targets and milestones (e.g. break-even point)
5. Elaborate on your pricing strategy and how it compares with your competition
6. Where the business is a franchise, include the full marketing strategy of the franchisor

FINANCIAL PLAN

The financial plan is a basic to the evaluation of an investment opportunity and needs to represent your best estimates of financial requirements.

1. Include only a summary of the financial statements and projections in the body of the business plan — attached detailed analysis as an appendix
2. Include operating budgets, **cash flow projections**, pro forma **income statements** and **balance sheets** for at least three years (recommended five years). Provide monthly projected figures for the first and second year, quarterly figures for years three and four and annual projections thereafter.
3. Where applicable, provide:
 - Historical financial performance as shown by at least the last three sets of audited annual financial statements and up to date management accounts comprising income statements (monthly and year-to-date), balance sheets, and debtors and creditors age analysis
 - Costing methodology employed, or to be employed, and detailed costing giving a full analysis of cost of sales
 - Pricing policies giving a full analysis of theoretical and actual mark up and gross profit percentages
 - Rebates, discount structures and terms offered to and received from costumers and suppliers respectively
 - Break-even and sensitivity analysis
 - Details of overdraft and factoring facilities (bank, limit, security and interest rate) and medium and long term loans
 - Determine the need for and timing of additional financing and indicate peak requirements for working capital; and indicate how it will be obtained
4. Ensure that your financial projections agree with any other statements in the business plan (for example, costs involved in your proposed marketing strategy)
5. Formulate and motivate your capital requirements

LEGAL AND REGULATORY ENVIRONMENT

Include:

- Details of any licences, copyrights, trademarks and patents registered (or in the process of being registered)
- Details of any legislation and regulations governing the industry, product and production processes
- Proof of compliance with tax and labour legislation (VAT, PAYE, RSC, UIF, COIDA, Employment Equity Act, Skills Development Act, etc) where applicable
- Details of duties and tariffs to which inputs or products are subject if the business is a regular importer or exporter

SWOT ANALYSIS AND RISK/REWARD ASSESSMENT

1. Discuss definite and possible strengths, weaknesses, opportunities and threats
2. Give an honest assessment of the risks faced by the business, entrepreneurs and investors in relation to the potential for growth, profitability, and capital appreciation
3. Discuss strategies that can be implemented to address the risk factors highlighted

APPENDICES AND SUPPORTING DOCUMENTATION

The following supporting documentation, inter alia, should be included where applicable:

- Newspaper clippings, promotional literature, product brochures, market research, trade and industry publications
- Partnership, association or shareholders' agreements
- Offers to purchase or signed sale agreements
- Contracts, orders, letters of intent
- Memoranda of understanding, lease, franchise, agency or distribution agreements
- Documentation relating to licences, copyrights, trademarks and patents
- Quotations or pro-forma invoices for capital items to be purchased
- Detailed personal balance sheets of the entrepreneurs
- Copies of identity documents and marriage certificates of the entrepreneurs
- Schedules of life assurance and endowment policies of the entrepreneurs
- Copies of company or close corporation certificates and registration documents
- Drawings, work flow charts, plans, factory layouts, maps, etc
- A list of persons to whom reference can be made regarding creditworthiness, product and service quality, and the skills, abilities and integrity of the entrepreneurs