



Solution Guide

FROM NATIONAL BANK BUSINESS BANKING

How to write a simple business plan

A business plan provides an essential map to get you to your business destination. This guide outlines the benefits of having a business plan, the key elements, and how you can prepare a simple but effective plan that will function as an 'action template' for your business.

Can you prepare a plan yourself?

This guide aims to show how everyone can prepare an effective business plan. The secret is to keep the plan short and simple - some people use bullet points to compress everything into just a few A4 pages. Long, complex business plans too often end up gathering dust on a shelf. Aim instead for a short, practical plan that you can implement, because the only thing worse than acting without any plan is planning without then taking action.

Of course the nature of your business and indeed the market will change with time, which is why any business plan needs to be revisited and updated at least once a year. This is another good reason for brevity: you'll be more inclined to update your plan if it is four pages rather than 100 pages long.

Sharing and brainstorming

It is always better to include your staff in the business planning process rather than impose a plan upon them. Aim for consensus and 'buy in' to the final plan. As well, it makes good sense to brainstorm ideas with your staff. Set time aside for the purpose (perhaps at a different venue) where you can work undisturbed by the distractions of everyday business. If everyone agrees on strategy and targets, the chances of success are heightened.

Benefits of a business plan

A business plan serves as a road map to guide your business towards your business objectives and vision. The six main benefits of completing a plan are:

1. It encourages you to think through your ideas and exposes possible shortcomings

(such as lack of sufficient market research) that you need to address.

2. It gives your business a sense of direction and action timelines to reach desired targets.
3. It helps build commitment because you have publicly announced your objectives.
4. It allows you and your staff to measure progress towards targets, which leads to a shared sense of achievement (and makes recruiting more good staff easier).
5. It builds credibility and convinces others (including lenders) that you know what you're doing and where the business is heading.
6. It enables you to perform better than you would without a plan. Research shows that businesses that undertake **regular business planning** have higher profit margins than those that do not.

So a business plan can be an effective competitive advantage that enables you to outperform similar businesses without a plan.

A developing document

Many business people write a business plan when they first start a business or when they need to raise funds. However, it's a mistake to limit the business plan to these two functions. It gains its maximum effect when you treat it as a **template for action**. This means thinking of the business plan as a continuously developing document or process. It's the vehicle for your business

vision and directs everything you and your staff need to do to reach that vision.

Aiming for clarity of direction

Your business plan is the first step towards bringing your dreams to reality. Many businesses fail because they don't know what they're doing and have no plan or clearly focused direction. Imagine a business that simply chases every apparent opportunity that arises - some of which may be profitable, others may prove dead ends. Such a business will never be attractive to lenders because it can never be certain of having enough cash to meet its commitments. By contrast, a good business plan focuses on building a solid foundation of core sustainable revenues. This focus ensures that your business will have the income streams to pay bills and expand. In addition, most businesses have only limited resources of time and cash. This is all the more reason for you to focus these resources to maximum effect and a business plan helps you to do just that. Completing the details of a business plan helps you to:

- Prioritise which opportunities you will pursue for the maximum long-term benefit of the business.
- Develop a clear vision of where you want your business to go.
- Think through how you will convince others by communicating this vision.

Key elements of a business plan

There is no one set formula for writing a business plan. But whatever else the business plan includes, it must provide clear and concise answers to three simple questions:

- **Objectives: where** do you want the business to go?
- **Tactics: how** does it get there?
- **Budget: what** will it cost?

Objectives

Keep your objectives S M A R T, that is:

- Specific
- Measurable
- Achievable
- Relevant
- Time framed

By making **all** your objectives **specific**, you can **measure** progress towards them. Thus ‘increase exports this year by 15%’ and turnover by \$150,000’ is far better than just ‘increase exports and turnover’. Make sure all this happens by the **time frame** set for the objectives.

Your business plan will probably have a number of objectives, such as:

- **Financial objectives:** for example, ‘to achieve turnover of \$x and profits of y% by the year-end’.

- **Strategic objectives:** for example, ‘to gain two corporate customers by the end of the year.’
- **Operational objectives:** for example, ‘to increase productivity by 20% by the end of the second year’.
- **Marketing objectives:** for example, ‘to increase e-commerce sales from \$x to \$y by 1 June next year’.

The various objectives should complement each other and you will likely have to decide on an order of priority.

Tactics

In your **objectives** you outlined your strategy: where you want to go. Your **tactics** detail how you achieve that strategy. Tactics often have to be flexible, because conditions change and tactics must be adapted accordingly. If you know where you want to go your tactics simply involve working out the most practical, simplest or cheapest route from where you are at present to your strategic objectives.

Budget

You now need to put figures to your strategy. This is the part of the plan that finance people will read with the greatest attention. A twelve-month cashflow forecast and profit forecast with an estimated two-year projection is probably the safe option. Anything beyond that is speculative.

Break down your budgets into monthly figures. For example, if you need to hire an IT expert as part of your e-commerce plan, divide the salary by 12 to show the financial impact of the person on the business month by month. Provide monthly estimates of cashflow, broken down between the main areas of expenditure and income. Cashflow is particularly important for seasonal businesses and new ventures developing new products or services. Be realistic. Wildly overoptimistic sales forecasts erode the reader's confidence in your plans. Slow, steady growth is always more convincing than 'get rich quick' predictions. Research costs as thoroughly as you can and get quotes where possible. Remember things often cost more than planned, so include contingencies in every area of expenditure as well as a solid contingency reserve. The best advice about budgets is 'be pessimistic – then double your expenditure and halve your sales forecasts'.

Completing your business plan

Start your business plan with a brief

Business Profile:

- A description of your business and the products and services you offer.
- The make-up of the business: the number of employees, locations, turnover, and profit margins.
- Your growth to date.

- Your geographic scope and the markets you serve.
- Your competitors and your competitive advantages.

Then work through the **three key elements** (where do you want the business to go, how is it going to get there, what will it cost?) discussed in this guide. Your aim is to outline how you plan to move your business from where it is now (Business Profile) to where you want it to be. For example, you might be planning to expand your markets through an export drive and/or by expanding your e-commerce trade.

Importance of market research

Lack of market research is the weak link in many business plans. It is vital that you do market research on:

- Potential customers and competitors
- Economic and market conditions
- The way trade is usually done in your industry
- Who the suppliers are
- Staff and technology you require.

Make sure you indicate in your business plan that you have done this research.

Trends and emerging technology

Pay particular attention to trends and emerging technologies. For instance, there's little point in entering a declining market. On the other hand, the Internet may be transforming your current market and you need to detail how you will take advantage of emerging opportunities.

Condense a SWOT analysis

A good way to summarise your research is to conduct a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) and then boil down all your research and analysis into answering these three questions:

- Who will buy from me?
- Why should they buy from me?
- How will I provide what they buy?

Your competitive advantage

Above all, you must ask: 'what makes me different?' Why should people give you money that they do not give to anyone else? Is your product new or unique? Is it cheaper than competitors? Is the quality better in some way? Is your business located conveniently or the only one in the area? The answers to all this will help you formulate your point of difference or unique selling proposition (USP). This is the key to your strategy and should underpin everything you do.

Action plan

Finally, remember that the best business plan is a practical roadmap that directs your actions. Therefore make one page of your business plan a summary **Action plan grid**, where you list:

- Specific targets.
- Specific tactics to achieve these targets.
- A budget for each tactic
- A timeline to achieve them
- A list of who is responsible for actioning each item.

When you revise and update your business plan, you can measure progress towards your business goals with the help of this action summary.

Further information:

To talk to someone about your business banking needs call 0800 16 88 88 and we will put you in touch with the Business Banking Manager nearest you or visit www.nationalbank.co.nz/business

DISCLAIMER: THIS MATERIAL IS PROVIDED AS A COMPLIMENTARY SERVICE OF THE NATIONAL BANK OF NEW ZEALAND, PART OF ANZ NATIONAL BANK LIMITED ("BANK"). IT IS PREPARED BASED ON INFORMATION AND SOURCES THE BANK BELIEVES TO BE RELIABLE. ITS CONTENT IS FOR INFORMATION ONLY, IS SUBJECT TO CHANGE AND IS NOT A SUBSTITUTE FOR COMMERCIAL JUDGEMENT OR PROFESSIONAL ADVICE, WHICH SHOULD BE SOUGHT PRIOR TO ACTING IN RELIANCE ON IT. TO THE EXTENT PERMITTED BY LAW THE BANK DISCLAIMS LIABILITY OR RESPONSIBILITY TO ANY PERSON FOR ANY DIRECT OR INDIRECT LOSS OR DAMAGE THAT MAY RESULT FROM ANY ACT OR OMISSION BY ANY PERSON IN RELATION TO THE MATERIAL.

© 2004 THE NATIONAL BANK OF NEW ZEALAND, PART OF ANZ NATIONAL BANK LIMITED. ALL RIGHTS RESERVED.