

ACTIVE PRACTICE UPDATES

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Chartered Accountants
and Business Advisors

HOW TO BUILD AN EFFECTIVE BUSINESS PLAN

Methods to identify risks ahead of time.

Businesses at any stage in their life cycle can benefit heavily from creating and implementing a business plan.

Not only is a business plan there to map out your goals and aspirations, but also to identify any financial risks and operational challenges you may encounter.

According to research conducted by Fundsquire, 20% of small businesses fail in the first year, and around 60% fail within the first three years of trading, while CB Insights discovered:

- 29% fail because they ran out of cash
- 18% fail because of pricing and cost issues
- 17% fail due to a lack of a business model
- 14% fail because of poor marketing.

A business plan will usually outline strategies to avoid all of these issues – that's why it's important to create a thorough plan as early as possible in your business journey.

Here are some things you should include and what your business plan can do for you.

WHY MIGHT YOU NEED A BUSINESS PLAN?

A business plan has a number of advantages, including helping communicate your business goals, market knowledge, and financial understanding to potential shareholders and investors.

A business plan is also instrumental in accessing funding. If you want a lender to take you seriously, you'll need to prove that you understand how you'll use their money to grow your business and give them a return on their investment.

It's not just startups that can use a business plan to secure further funding. Existing businesses looking to expand will also be able to use their business plan as supportive evidence towards a loan or investment.

Business plans are not only for expansion, however; they are also a form of contingency.

With businesses currently facing rising energy costs and a 2023 recession looming, it's never been more important to look ahead and prepare for every eventuality.

According to the Centre for Retail Research, the total number of closures over the last year was 50% higher than in 2021.

To avoid the risk of closing prematurely, your business plan should account for any threats you may face and how you would overcome these obstacles. Cashflow forecasting can play a big role in this process, especially for existing businesses.

Looking at previous sales data may also help you predict trade patterns, which can be especially useful for seasonal businesses. If you identify that business is usually slow at a certain time of year, you'll know that you'll have to save through this period.

WHAT TO INCLUDE IN YOUR PLAN

Usually, it's best practice to keep your business plan reasonably short. If you're expecting others to read it, the last thing you should do is present them with a 300-page plan that makes them lose interest before they get to the important details.

That said, there are a few things you must include if you want your plan to be comprehensive and a solid representation of what you're expecting of your business.

Basic business information and research

First, you'll need to clearly explain your business in the simplest terms possible. This includes what services you'll offer, who your target market is, and your business structure.

You'll also need to show any market research you've carried out on your competition. It's important to demonstrate that you understand current trends and how to adapt to any market changes that may occur.

Finances

Your financial planning will make up a large part of your business plan, including cashflow forecasting, an income statement and a balance sheet.

Your cashflow forecast will take into account any income or funding you've received or are due to receive as well as any expenses you're likely to incur. You can also include sales forecasts based on previous trade data.

When creating forecasts, you should be as realistic as possible. If you overestimate your costs and expenses, it could result in cashflow issues further down the line, and you could end up not being able to cover essential costs of your business operations.

It's also important to include any plans for funding or investment. You should explain how much you need to reach your business milestones and how you'll use the money to develop your business.

Marketing

Your marketing strategy will also be an essential element of your business plan, requiring you to consider how you'll stand out from your competition and determine the most cost-friendly and efficient ways to sell yourself to your target audience.

Your sales strategies will intertwine with your marketing strategy, and you'll need to ask yourself a number of questions to make sure you're taking the right approach. For instance, is your business better suited to trading online or in person? Could you sell through retailers or agents?

Management and operations

Any effective business plan should contain information on your management and personnel structure as well as your business operations.

In this section, address the strengths and responsibilities of each team member. By identifying potential weaknesses, you'll be able to put measures in place to cover those gaps.

Training and development plans should also be present in your plan, alongside the costs associated with recruiting new staff.

Again, being realistic is essential. You should discuss your expected staffing costs and how they might grow over time, as well as how your business would continue to run if you were to lose a key member of the team.

As your business premises are a key part of your operations, they should also be part of your plan. You'll need to identify the size of your premises to start with, making sure you discuss how you'll fully utilise the space, how much it will cost and how long it will be viable for.

If you think you may need to relocate further down the line, include this. Investors will need to know how you are preparing for expansion and how you plan to afford to scale up.

Business equipment, maintenance and general upkeep will factor into your future costs as well as your operational plan. Alongside inventory control, you'll be able to show others how you plan to meet demand and adapt to both the busiest and slowest trading periods.

If your systems are outdated or unsuitable, investors will likely be more sceptical about supporting your business from the outset.

Even though the business landscape looks somewhat uncertain right now, a bit of careful planning and confidence can help prospective business owners make their latest venture a success.

Although you might not consider an accountant to be the first port of call for help when building your business plan, a keen financial eye is the most useful tool to have when you're assessing your business's position now and in the future.

📩 Contact us to discuss the best ways to build and implement a business plan.