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WRITING A BUSINESS PLAN

Dubai Business Guide

Operations

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Introduction

Business planning is an important process in setting up a business. Entrepreneurs must have a clear idea of what they want to do, how and when they will act upon it. A business plan allows an entrepreneur to think through a new business in terms of the product and/or service to be offered, the managerial and organizational structure, marketing, the competition, financing and risks.

A business plan is important because it summarizes both your vision for the company and your blueprint for the company's operating success. A business plan assists in putting things in perspective by answering basic questions. For example, money is the important factor of your business. Therefore, a business plan should address how much money you will need to start your business; what will be the sources of your startup money; how your enterprise will make money and for how long your proposed business would be profitable; who would be your target market and why would your target market buy from you; and finally, how would you reach your target market.

This guide sets out a step-wise approach to carry out a business plan through the use of various sources.

Background

A business plan describes the internal and external factors and influences involved in starting a new business by examining where the business is today, where it is going, and how it is to get there.

A business plan can help you navigate and manage your company while also helping potential investors, partners, lenders, and others understand your business strategy and your chances at success. A business plan can be a vital tool for running a business, setting out sales forecasts, marketing plans, and cash flow statements that can be revisited and updated every month.

An entrepreneur needs a business plan. However, before doing this, he must focus on defining the goals of the new business as these set the framework of production, business and financial plans. A quick feasibility requires information on customers as well as operational and financial information. A business plan begins by focusing on two questions:

- Is the total market for the venture's product or service large, rapidly growing, or both?
- Is the industry now, or can it become, structurally attractive?

Often the answers to these questions reveal possible threats to the business.

Components of a Business Plan

A business plan should be comprehensive, providing a full and complete portrayal of the business. The different components of a business plan are described below.

1. *Introduction*

In an executive summary form, the new business idea is presented, offering a short description of the business plan contents, such as the name and address of the new business, name of the investor, phone and facsimile numbers, e-mail and website (if applicable). Furthermore, a short description of the nature of the business is presented along with the financing needs to start and keep the business going and a confidentiality statement of the report.

2. *Executive Summary*

An essential part of the business plan, the executive summary typically puts forward the key points of the business plan in a concise and persuasive way, highlighting the essential and crucial issues of the new business venture. It covers such things as sales growth, profitability and strategic focus. Typically, it would provide the nature and/or purpose of the business venture, success factors, strategic focus and three year projections.

3. *Description of Business*

The entrepreneur describes the product and/or service offering, along with the size and scope of the business operations. This section focuses on the management team, company's technical capability, products, infrastructure, offices, transport, strengths and weaknesses and strategic objectives. A mission statement is presented describing what the new venture attempts to achieve, reasons for establishing the new business and its likely success should be discussed, by providing a description of the product or service. The location of the new business, its accessibility to traffic and parking facilities, business premises, their conditions and their legal status should be considered. Finally, the utilities available at the premises such as electricity, water and sewage, the personnel and purchased or leased office equipment, and the experience of the investor are all significant for the success of the business.

4. *Industry Analysis*

The business plan offers a description and assessment of the external business environment covering macro, external factors of the business environment, such as the economy, technology, laws, regulations and culture. It more specifically centers on economic, technological, legal, and cultural issues at the national economic level, products and services of the industry, industry sales over the last three to five years, industry expected growth in the foreseeable future covering assumptions and growth percentage, entry of other companies into the industry over the last 3 to 5 years. Finally, the competition's strengths and weaknesses, the competition's sales growth, market trends in the local market of the new business and a profiling of the customers of the new business and the competitors is constructed.

5. *Marketing and Sales Plan*

The sales plan indicates how a product and/or service is promoted, priced and distributed. It describes the market, its geographical area, consumers' behavior and market segmentation, actual demand, potential demand and future demand. It focuses on critical issues such as market and product and/or service descriptions. In this section the customers are segmented by a series of factors, such as consumer demographics and psychographics. Competitors are identified with their strengths and weaknesses are assessed, while marketing strategies are analyzed. The marketing objectives and goals are laid out here along with the marketing strategy and action programs. The budgets and controls for the marketing strategy and action programs, is presented. In this section the entrepreneur focuses on the 4Ps, namely the product, price, place and promotion. The 4P's indicate respectively the benefits of the product and/or service to the customers, how the price is set, aspects of getting the product/service to consumers and how the product and or service is promoted.

Defining the target market of the new business product and/or service is important in the quest to determine the size of the market and the business' market goals. A target market may be defined on such variables as income and education levels, geographical location, environmental and demographic factors. In addition, local industry trends, local competition, strengths and weaknesses are important in segmentation and market positioning so that market objectives and goals are quantifiable and measurable.

6. *Production Plan*

A production plan must cover the business processes and business model of the business including any innovations. A production plan lays out the manufacturing/production process of the product and/or service. This plan should include descriptions of the following:

- Tools and equipment
    - Costs and suppliers
- Raw materials
    - Costs and suppliers
- Costs of subcontracting
    - Sub-contractors
    - Details and product/service costs

For example a retail trading business should be thinking of the goods to be purchased, of an inventory control system, storage space, space of the business transaction, flow of goods to customers and customer service, etc.

7. *Organizational Plan*

The new business is described in terms of ownership, authority and responsibilities, covering issues like the legal form of the new business, whether it is a proprietorship, partnership, joint stock or limited liability company. In addition, details are included as to the number of employees, managers, organizational structure, job descriptions and responsibilities for key employees. This can be illustrated in an organizational chart delineating the authority lines and who is responsible for what and how employees interact in the carrying out of their duties.

8. *Operations Plan*

This section covers the flow of a product or service from the producer or provider to the customers including product or service delivery and customer support services, the steps involved to finalize a business transaction, role of technology and service delivery quality in the transaction process.

Operational information needed include the locale, in order to consider accessibility to customers, suppliers, and distributors. The operations should identify the production technologies needed and what is subcontracted. In terms of raw materials, a business must consider sourcing, costs and supplier information. Furthermore, it is important that a business considers the equipment to be purchased, leased and their costs, the labor skills, their sourcing, and acquisition costs, the space size to be rented or purchased, and the overhead to support the activity.

9. *Financial Plan*

A financial plan describes in detail the financial projections of the new business and its financial and economic feasibility. It indicates the financial commitment of the investor and typically is a three year to five year projection. Three financial statements need to be prepared: the *pro forma income statement* (profit & loss account), pro forma cash flow statement and the pro forma balance sheet.

The *income statement* shows the net income/profit as projected revenues minus projected costs. It typically, is made up of i) sales revenues (inflows from company operations); ii) costs of goods sold (direct costs of goods produced or services provided); iii) expenses (costs incurred in the business operations such as the administrative and selling costs); iv) net income (expressed as the net outcome of revenues minus any costs and expenses).

The *cash flow statement* or the budget indicates the projected cash available, which is the projected cash inflow minus the projected cash outflow or disbursements. It is comprised of four sections 1) the beginning cash balance (cash available to the business at the start of operations, which may be the cash in hand or in bank accounts); 2) the cash inflows (cash from sales, collection of accounts receivable, loans proceeds and any other cash received); 3) the cash outflows (payment to suppliers and employees, capital expenditures, loans repayments and any other cash dispersed); 4) the ending cash balance (beginning cash balance plus cash inflows minus cash outflows).

The *pro forma balance sheet*, shows the financial position and describes the projected assets, liabilities and net worth respectively. The assets constitute the resources of the business operations. The liabilities are the claims by outsiders on the business resources and the owner's equity. The owner's equity is what remains of the business resources when the liabilities are subtracted from the assets.

When a business plan is prepared with the intention of getting funding, then the sources and uses of funds statement is imperative. This statement shows the sources of funds, revenues from operations, increase in debt, sales of assets, equity contribution, and any other sources of money. The uses of funds shows debt re-payment, purchase of equipment, land and buildings, operation expenses and any other expenses incurred by the business. Finally, it portrays the changes in financial position, the difference between the inflows and outflows of funds. Furthermore, in drawing up the financial plan the assumptions of the projections along with fixed and variable cost projections are required in addition to sales projections, projected cash flows, projected income statements and the projected balance sheets, including any initial capital outlays and future investment capital needs. All these requirements should cover a period of 3 to 5 years.

The entrepreneur needs to prepare a budget that indicates possible first year expenditures and revenues, where expenditures cover such things as capital expenditures, direct operations costs and other expenses. Using market data, revenues can be forecasted, by taking into consideration industry benchmarks to prepare pro forma financial statements, and an estimate of costs.

10. *Risk Assessment*

In this section of the business plan the potential risks and strategies undertaken in dealing with them are described. Potential risks may stem from competitors, production, marketing, managerial performance and new technology.

11. *Conclusion*

This last section should highlight the success of the venture by discussing the specific goals of the new business and their measurement units. An entrepreneurial commitment must be illustrated indicating prior experience in the field of the new business, depicting a sense of the potential risks and weaknesses and establishing the customer needs of the product and/or service. Furthermore, business success may depend on strong initial advertising, the ability to offer low prices, the quality of product and/or service, unique selling points and exclusive distribution channels and the capacity to innovate and modify the product and /or service selection.

12. *Appendix*

Information documents, which are not essential in the main body of the business plan, are included in the appendix. Examples would be permits, leases, contracts, agreements, market research data and other supporting materials.

Qualities of a Good Business Plan

A good business plan has certain qualities that make it stand out.

- It fits the business need
    - Does it achieve the business objective?
- It's realistic. It can be implemented.
    - A plan where the product cannot be built, lacks the management or has a deadly flaw is not a good business plan.
- It's specific. You can track results against plan.
    - Good planning should address the what, when, who, and how much.
- It clearly defines responsibilities for implementation
    - A task that doesn't have an owner most likely will not be implemented.
- It clearly identifies assumptions
    - When you change assumptions you ought to revise your plan.
- A business plan should include some numbers.
    - But those numbers should appear mainly in the form of a business model that shows the entrepreneurial team has thought through the key drivers of the venture's success or failure.

Conclusion

Irrespective of whether one is looking to open a new business or considering expansion, writing and following a business plan has many advantages. A business plan informs reviewers on where a company should be in the next 1-15 years. Considerations to take into account include how a company can cater to the needs of all customers, the kind of advantages it has over other businesses, how the name of the company will affect the business, the type of employees to be hired. These are critical concerns in creating an effective plan that will make a company successful. Ultimately, a business plan should help to develop a business, while helping to improve operations, services and future forecasts.

APPENDIX I

The Business Plan in Summary

1. Introduction
    - Name and address of the business
    - Names and addresses of principals
    - Nature of the business
    - Statement of financing needs
    - Statement of confidentiality of the report

2. Executive summary
    - Brief description of the new business
    - Opportunity (market, industry, competition, strategy)
    - Financials (projected sales and profits and growth potential)
    - People (persons involved in the new business)

3. Industry analysis
    - Future outlook and trends
    - Analysis of competitors
    - Market segmentation
    - Industry and market forecasts

4. Description of the business
    - Product/service
    - Size of business
    - Office equipment and personnel
    - Background of the investors

5. Production plan (assuming manufacturing facility)
    - Manufacturing process
    - Physical plant
    - Machinery and equipment
    - Names of suppliers of raw materials

6. Operational plan
    - Description of the business operation
    - Flow of orders for goods/services
    - Technology utilization

7. Marketing plan
- Pricing
- Distribution
- Promotion
- Product forecasts
- Controls

8. Organizational plan
- Form of ownership
- Identification of partners
- Authority of principals
- Management team background
- Roles and responsibilities of members of organization

9. Financial plan
- Pro forma income statement
- Cash flow projections
- Pro forma balance sheet
- Break-even analysis
- Sources and applications of funds

10. Assessment of risk
- Evaluate weakness of the business
- New technologies
- Contingency plans

11. Conclusion
- Highlighting main points that indicate the success of the business.
- Reasons that the investor will carry out the plan successfully.
- Be positive and confident without exaggeration.

12. Appendix
- Permits and licenses
- Leases/contracts
- Insurance documents
- Price lists from suppliers
- Market research data

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http://e145.stanford.edu/upload/articles/sahlman.pdf

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Suggestions for Further Reading

BusinessLink
www.businesslink.gov.uk

FundedPlans Inc.
http://www.fundedplans.com

International Finance Corporation
http://www.smetoolkit.org

PaloAltoSoftware
http://www.paloalto.com/ps/bp

PlanMagic Corporation
http://www.planmagic.com

PlanWare, Invest-Tech Limited
http://www.planware.org/guide.htm

Price Waterhouse Coopers
http://www.pwc.com

U. S. Small Business Administration
http://www.sba.gov