

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

Do you want to write business plan for your start up business or business idea, but you feel overwhelmed and don't know where to start? In this guide we are providing you with guidance and practical steps on how to write an effective business plan.

Why is it important to write a business plan?

- The process of writing your plan will help you focus, clarify your ideas and identify priorities, saving both time and effort.
- A business plan is crucial if you are raising finance from a bank or outside investors as potential investors.

The biggest tip we can give is just to start. Even if you do not have all the information readily available, start by writing down everything you do know, and then you can go ahead and do research to fill in the blanks.

The goal of a business plan is to firstly convince yourself, and secondly potential investors, that you have a viable idea that can turn into a sustainable business that can create value. This will enable you to make an informed go/no-go decision!

Step 1: Verify your market

Before you start your business, the first thing to do is prove there is sustainable demand for your product or service. If there is no demand, your business will never succeed.

Often we ask friends and family what they think, but this isn't a true test of demand. Will someone you don't know buy from you, at the price point you've selected?

Conducting market research allows you to form a clearer picture. Can you prove that people will want what you are offering? This is not always easy, but there are some things you can do to determine this.

TAKE ACTION

Estimate the size of the market

- Do this by researching statistics on your market through industry associations, Chambers of Commerce or any group that may have some data on possible market size.
- Talk to potential customers and get direct feedback.
- It can be as easy as talking to people one to one, sending a questionnaire, or even sending out a survey via email (use the free service from Survey Monkey). The best questions to ask: (1) What do you like about what I'm doing? (2) What could be improved?

Run a focus group

- Often it can be useful to get a group of potential customers together by running a 'focus group'. You get 5-10 people in a room who then discuss your business (or try your products).

Find international examples

- If there are no other businesses doing the same thing, are there any international examples you can use to prove your idea could work?

Use marketing consultants and agencies

- If you need help, there are marketing consultants and agencies that can conduct research on your behalf. You'll need a budget to cover this cost, but it will be

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

independent. Ask your colleagues or business network for a tried and tested provider.

Trust your intuition and gut feel

- Lastly, if you have a very new idea or just can't find any evidence, use your intuition and gut feel if you believe the idea will work. Still document in your business plan why you believe it will be successful.

Step 2: Identify any capacity and delivery issues

You need to be sure that you can actually provide what you are offering. So it's important to do your due diligence here – show that you are able to make the product you're offering, or deliver the service you're advertising.

TAKE ACTION

Ensure suppliers will sell to you

- What you're looking to do here is to review and confirm the deals you have in place with your suppliers. Outline the contracts and provide detail on any discounts you've negotiated. Provide detail on the payment terms and how you negotiated them. Have you obtained a liability insurance certificate? In other words, have your suppliers provided proof that they have insurance if their products fail? Outline what your suppliers' return policies are.

Outline how you will handle production

- Outline how you will handle production if your orders from suppliers are late or don't show up. What are your contingency plans? Have you arranged discounts from your suppliers in this event? It's important that your relationship with your supplier be mutually agreeable, so outline how you've taken steps to make sure you're on good terms with your suppliers.

Prove that you can provide what you're offering

- You need to demonstrate that you have the ability and capacity to manufacture your products or provide your service. Do you have the necessary skills, knowledge and experience? Or do you already have a team in place with the necessary skills, knowledge and experience?
- If you haven't developed a prototype of your product, now's the time to get busy. All the market research in the world confirming a huge demand won't help if you can't actually make it.

Outline the customs process, duties and fees as well as potential issues

- Clearing your imported goods through customs can sometimes cause delays, and there are often fees involved before you'll be allowed to collect your goods. So it's important that you're aware of what these obligations are, and how you plan to meet them, especially if you think they'll impact your own customer delivery. Outline what import duties or processing fees you'll have to pay, and provide details of how you intend to handle any delays in processing your goods.

Step 3: Analyze financial feasibility

What you're looking to do here is prove that you can make money with your idea, and that you've planned what you'll need to start up, and to grow. This is where you take a look at all aspects of your financial situation.

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

Performing a break-even analysis is a vital first step, because that tells you if your business has the potential to be profitable. Cash flow forecasts are also an important tool to make sure you've more money coming in than going out.

TAKE ACTION

Outline why you think your idea is financially feasible

- Show that you understand the difference between a good idea and a commercial idea. Often the best ideas are simple ones, such as identifying a gap in the market or adapting and improving an existing idea. Outline the main selling points of your business idea, including what differentiates it from others on the market. Include the size of your target market and highlight the main points of your pricing strategy. Provide detail on the sales you need to make.

Perform a break-even analysis

- What you're looking to do is make sure you can generate enough sales to cover all your costs. Ideally, you want to reach this point as soon as possible so that you can then begin to see a profit. There are fixed costs that you have to pay each month. They include things like rent, rates and power costs. You'll also have variable costs, such as raw materials and shipping costs. Make a list of all of your fixed and variable costs. The goal is to identify how long it will take before your sales match your costs – this is known as the break even point.

Describe how you intend to handle debts owed to you

- It's important to make sure you're taking in the cash that's owed to you faster than you have to spend it. If you don't have good practises in place for collecting what you're owed, you could face a cash-flow crisis. Outline the methods you've put in place to offer credit and collect money. Describe why you believe they'll be an effective way to make sure you get paid on time. If you've already had some experience in managing debt, provide examples and outline how they show that your methods are effective.

Prepare a cash flow forecast

- It's essential to forecast and monitor your business's cash flow. By utilising a cash flow forecast you'll be able to plan ahead for the good times and the bad. Try to be as accurate as possible with your figures. It's worth putting some time and careful thought into getting these figures right as this forecast is usually the focus for banks and anyone reviewing your business financials.

Step 4: Show you can compete

Here's where you need to research your competition and show that you have a competitive advantage. Study your competition for their strengths and weaknesses. This is called a SWOT analysis, and it's important that you conduct one for your own business as well. This involves doing your research – their website, social media pages and advertising are the best places to start.

What you're looking to do is show that your competitors won't drive you out of business. So you need to demonstrate what it is that you do better than anyone else – your competitive advantage. You should also illustrate what your unique selling points are.

TAKE ACTION

Perform a SWOT analysis on your competition

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

- Evaluating the success of your competition is important because it gives you an idea of demand and how you'll fit into the market and build your market share. You'll also become aware of any market saturation and whether or not you can succeed in a highly competitive market.

Perform a SWOT analysis on yourself

- This will help fine-tune your business strategy by examining internal and external factors that may help or hinder your business. Identifying and understanding the strengths, weaknesses, opportunities, and threats – that's what SWOT stands for – allows you to address them and make smarter decisions moving forward.

Outline your competitive advantage

- This is what you're doing better than anyone else – your unique value proposition. To get customers to switch to you, you need to know what your strengths are. It's important to convince people that paying you money is of benefit to them – that they're getting something from you they can't get anywhere else. Identifying your key strengths in comparison to competitors will show you what to focus on.

Describe your key competitors and what differentiates you from them

- Outline how your market research has identified your key competitors, and provide details on who they are. Describe why you think they are your closest competition. Then outline how your competitive advantage will lure customers from them to you. Focus on what differentiates you in the marketplace and provide examples from your research that demonstrate why you believe that differentiation will increase your market share.
- Show how the strengths and weaknesses of your competitors have provided you with methods to steal their customers. Provide details on what you plan to do to improve your product or service based on what you learned, and what weak points you've picked up on that have helped you spot a gap in the market.

Step 5: Outline your pricing and margins

You will have to prove that your business model will work, and you can make a sustainable profit as well as generate the funds to grow. So you need to outline your pricing strategy, your market position and share, and how you've determined what people will pay. Show that your pricing is accurate so that you can justify your financial projections. State your pricing goals – that you're covering your costs, getting a reasonable return, and that it bears some relationship to what the competition's charging.

TAKE ACTION

Understand the factors that impact your cost and what the total costs come to

- It's important to include all costs when pricing your product or service. There are two types of costs: the fixed costs of keeping your business running each month, and the variable costs that change each month. Describe what you're selling and all the costs involved in its production. Is it a product, a service, or a combination of both? It's important to take all your costs into account, so make sure you include your overheads and all other fixed costs. Include all the costs you can think of that you have no control over, such as suppliers increasing their prices.
- Consider the costs of all the factors involved in manufacturing your product or delivering your service. Provide details on costs of supply, staff salaries or

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

consultants' fees and any outsourcing you expect to use. Then describe your plans for meeting these costs and how you expect them to impact your profit margin.

Consider the market you're about to enter

- What's your position in the market and how will it affect your pricing? Consider the market you're about to enter. Have you decided where your position will be? In other words, are you offering something that'll be seen as high-quality, high-cost? Or are you offering a budget product or service? If you're having trouble deciding your market position, just remember that it's all about aligning yourself with your competitive advantage. If you want to position yourself as a market leader for a premium product or service, then you need to identify what it is about your product or service that justifies a premium price.

Research your competitors' pricing

- Outline your competitors' pricing and explain the impact on your pricing decisions. Describe what your research told you about the pricing of your competitors and their position in the market. Show how that research has influenced your pricing strategy. Remember that although their pricing is something to consider, don't feel you have to copy or match it. As mentioned before, your primary aim should be to cover your costs, plus generate enough profit for growth and development.

Step 6: Become business compliant

You're demonstrating here that there's nothing stopping you from starting up. So you need to take into account your intellectual property (IP) such as trademarks, patents and copyrights. Have you made sure you're protected? You also need to show how you're compliant with any regulations and licensing, and that you have all the relevant permissions you'll need.

TAKE ACTION

Outline how you've protected your IP

- Outline how you've made sure you're not breaching anyone else's IP (intellectual property). Although you thought it up, you might not be the first to do so. Finding out if you're stepping on someone else's toes is important, as it could help you avoid not only a delay in starting your business, but potentially a costly process. Outline the methods you've used to check you're not breaching anyone else's IP. Whether you've applied for and been granted a patent, established a copyright or secured a trademark, you need to be legally in the clear.

Describe how you intend to handle any environmental concerns

- Is there anything about your product that could be an environmental concern? For instance, are you producing something that involves chemicals? Are you providing a service that deals with waste management? It's important to find out if there's anything about your product or service that might require you to abide by environmental laws.

Research any legal restrictions on what you are doing

- Outline if there are any legal restrictions on what you are doing, and the steps you've taken to comply. It's important to find out if there are any legal barriers to starting your business. For instance, if you're running your business from home and you live in an area that's subject to community regulations, you need to find

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

out what these are. If you're going to be running a franchise, there'll be some clear standards you'll have to adhere to, and it's important that you fully understand what they are.

Plan for any Health and Safety issues that might prevent you from opening

- It's important to be aware of your Health and Safety responsibilities. It's an essential part of running a business, so you need to have a plan that's put into practice every day to reduce risks, keep your employees safe, and show your customers that you're trustworthy. What would the impact be if your business was affected by a natural disaster?
- Provide details of your disaster plan and recovery, and the steps you've taken to ensure the safety of your customers and staff.

Research and describe any relevant local regulations

- Are there any local regulations such as being too noisy or smelly that might prevent you from starting? If your business involves anything that makes a lot of noise, generates a nasty smell or is a general irritant to those around you, you will probably be subject to local regulations. Finding out what these are and how to comply with them is important – you don't want to be shut down a week after opening because of a negative neighbourhood response. Outline what aspects of your business might be noisy, smelly or irritating. Then provide details of how you identified what relevant regulations you'll need to comply with. Describe how these laws will impact your business, and how you intend to manage that impact.

Step 7: Create a marketing plan

A coordinated marketing plan enables you to increase your chances of success by strongly positioning your business in the marketplace. It helps you define your market, target customers and competition. Your plan should illustrate that you understand who your customers are, and what they want. It should also outline how you intend to boost awareness of your brand. It's also important to outline what methods you're going to use – social media, website, print media, radio or TV etc.

TAKE ACTION

State your methods for creating awareness around your new business and brand

- Describe what you've done to create awareness around your new business. Outline the methods you've used and why you think they were the most effective. Provide details on how successful you believe those methods have been. If you've attended trade shows, show what you learned there and if you managed to get any new customers. Have you done any other networking, such as attending events where your potential customers might be? Making the most of your friends and family is also a must – are they putting the word out?

Include your advertising strategy

- Provide details on each of its components – what combination of methods will you use, and why? Methods you can use include printing fliers and distributing them throughout the local community or using various social media platforms to create awareness around your brand. Describe what you're trying to achieve with your advertising strategy, what your goals and objectives are.

Outline your customer loyalty strategies

GUIDE: 7 STEPS TO AN EFFECTIVE BUSINESS PLAN

- Why do you think customers will stay with you? Outline your customer loyalty strategies and provide detail on how you developed them. What methods have you put in place to keep your customers coming back? For example, you may have implemented a customer loyalty program, or improved your communication methods. Describe how you plan to make sure your customers keep paying attention to you, and how you intend to use their loyalty to boost sales.
- How will you encourage referrals? Outline your strategy for customer focus and provide detail on what kind of feedback you've received from them. Highlight any key points – such as patterns you've identified that can help you improve your customer experience.

Conclusion

We hope you found our 7 steps to an effective business plan guide useful. If you'd like detailed help with your plan or any aspect of your business, we're here to help. Schedule a free consultation by clicking the link and we can be in touch to discuss how we can best support you.