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Corporate Finance

The business plan.

Our guide to writing a successful
business plan

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Preface

Many companies spend weeks preparing a sales presentation to a customer, but overlook the necessity of taking the same care when dealing with their bank manager or a potential investor. Banks and investors look for detailed information to accompany an application for funds. Therefore management need to be able to write an effective business plan in order to raise money.

In this booklet we show you how to go about writing a successful business plan not only for these external purposes but also as an important management tool for internal purposes.

Most of the comments in this booklet apply equally to manufacturing and service companies. For convenience, however, we have tended to refer only to manufacturing and products rather than to service and services. It will be readily apparent which comments apply to both types of industry and which refer to manufacturing alone.

If you require any further information regarding the matters dealt with in this guide, please contact your local Deloitte office. A list is given at the back of this booklet.

1. Introduction

What is a business plan?

In simple terms a business plan is a document which:

- sets out your company's plans;
- shows how those plans can be achieved; and
- demonstrates that the planned outcome meets the requirements of the reader.

The business plan should describe your company and project concisely and accurately. However, a business plan is also a selling document and the description should therefore also be attractive.

Whilst the business plan should recognise that your project will not be a stationary target, it should show the current status, current needs and future prospects of the project. The plan should also emphasise the strengths of your company but at the same time be realistic about its problems – and how you propose to overcome or minimise them.

What purpose does a business plan serve?

Any fund raising application will almost certainly require the submission of a business plan. This applies equally to banks for overdrafts and loans, government departments for grants, and venture capital investors for loans or equity.

Many parent companies also require subsidiaries to submit a business plan every year.

However, business plans are not just for external purposes. They are also an important planning document for a company's own management.

In this chapter we briefly discuss what each of these potential readers of a business plan will want to see covered in order to assess whether their own particular requirements have been satisfied.

What do readers want to see?

Every reader will want to be attracted by the potential of your company or project but at the same time satisfied with the risks involved. But what are their own particular criteria?

Grants

Any fund raising should make maximum use of what is in effect "free money". Financial assistance is available from the UK Government and the European Union through numerous schemes.

Although the topic of grants is outside the scope of this booklet, any office of Deloitte will be able to advise which schemes are appropriate to your company or project and what pre-conditions need to be satisfied.

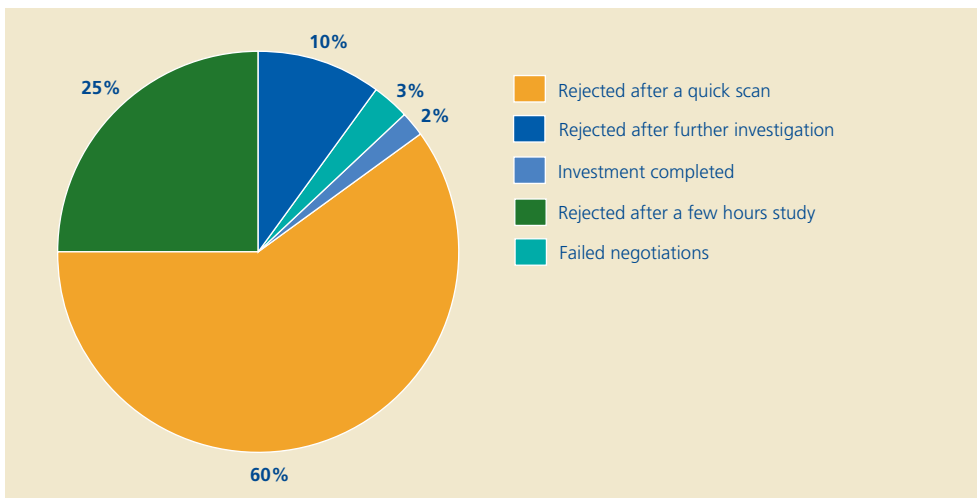
Banks

Any lender will want to know:

- how much do you want to borrow?
- what do you want the money for?
- when will you be able to repay the borrowing?
- will you be able to pay the interest?
- could your company survive a setback in its plans? and
- what security, if required is available for the lending.

Venture capital and development capital

Venture capitalists are often the most critical readers of a business plan since, by definition, they generally invest in riskier situations but also because they usually have a limited background knowledge of your company. The following statistics quoted by one venture capitalist are typical of the industry and show what happened to a sample of 100 business plans received.



Only 2 per cent of the applications were successful – not very good odds. A well prepared business plan is the first step to improving your odds.

In addition to “how much?” and “what for?”, what do venture capitalists want to see?

- **a substantial return.** This is usually between 25 per cent and 60 per cent per annum compound, depending on the risk of a project. In other words, taking a 35 per cent return requirement, the venture capitalists would want to earn approximately four and a half times their original investment, before inflation, over a five year period;

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- **they usually want an “exit route”**. In other words they wish to know how they will get their money back, and when. This could be by way of a listing on the Stock Exchange, acquisition by a larger company or a management buy-back. A typical period for an exit will be between three and seven years.

Venture capitalists will wish to assess their exposure to risk by, amongst other things, examining the following:

The track record of:

- the company;
- the management; and
- the market.

The forecasts:

- are they achievable?
- what can go wrong?

The critical factor:

- management.

Accordingly the venture capitalists will wish to see that the company satisfies the needs of both the market and the investors.

- why will the customer buy? and
- how will the investors make an adequate return?

Venture capitalists often consider they invest in people not projects. It is a commonly heard cliché that the three most important issues in any investment are “Management, Management and Management”.

Your business plan is often the first opportunity the venture capitalists have of studying your proposals in detail. It is your opportunity to impress and to show that your project is special and worthy of further investigation.

Internal use

We have discussed above the investor’s viewpoint, but a business plan need not be solely for raising finance. It is an important management tool. It enables management to plan, in a structured way, the growth of their company and to anticipate any changes that might be needed.

To prepare a business plan, management must think through their business in detail and set their objectives. Preparation of a business plan will also enable benchmarks to be set against which the company’s future performance can be monitored.

Preparing a business plan will also highlight the resources needed for the company to achieve its plans. These resources will not only be financial but could also include, for example, additional management, skilled labour or production capacity, product development needs or marketing drives.

A business plan should not be viewed as an occasional document. It should be updated every year. An analysis of the variances in actual results compared with previous plans is a rewarding exercise in itself and a good starting point for future plans.

Parent company

Often a parent company will wish to see a subsidiary company's business plan to ensure that planning is being effectively carried out and that the outcome meets the parent company's target rates of return.

Summary

Every reader is going to have a different use for your business plan and it is important to tailor the plan to meet those particular needs. However, in overall terms your business plan should show:

- where you are;
- where you are going;
- how you propose to get there; and
- is it worthwhile?

2. The financial forecasts

The financial forecasts are the core of most business plans and usually the starting point in their preparation. The forecasts express your intentions in terms of profit and cash. To prepare the forecasts you will have to make certain assumptions about what will happen to your company in the future which cannot be substantiated at present. It will also be necessary to have a clear picture of your company's present position in order to define the starting point.

The following forecasts should be included:

- profit and loss account;
- receipts and payments;
- cash flow statement;
- balance sheets; and
- a statement of the assumptions underlying the forecasts.

A profit forecast without accompanying cash and balance sheet forecasts will not normally be acceptable as it would give only part of the picture. Specimen layouts of these forecasts are included in Appendices 1-5 respectively.

“I can't forecast that far ahead”

Except perhaps for the case of a small increase to an existing overdraft, where one year forecasts might suffice, it is usual to include forecasts for three years in a business plan. Where, however, the project being undertaken is significant, it might be necessary to prepare five year forecasts.

Management's reactions are sometimes typified by the following quote:

“I have no idea where we will be in five months, let alone five years!”

Imagine the effect of this comment on a potential lender who wants to be sure that he is not throwing his money away and that he is going to get a return on this investment.

It is important to understand why an investor might ask for forecasts of between three and five years:

- he needs to understand in financial terms the long term plans of your intentions for your company;
- he will need to form an opinion as to whether the targeted growth is within the management's capacity;
- he will wish to judge the effects of exceeding or failing to reach the sales or gross profit forecasts;

- he will wish to assess the time between making the investment and income being derived through sales, and be convinced that every link is in place from development to production, distribution and payment; and
- he will wish to ensure that enough money is being asked for.

How to forecast

Generally speaking it is best to start with the sales forecast:

- how many will be sold and when?
- what will the price be? and
- when will you be paid by your customers?

Once the sales forecast has been completed you will need to go through a similar thought process to plan your production levels, direct costs of production and overhead levels.

To arrive at each of these figures numerous assumptions will have to be made. Whilst it is not possible to produce an exhaustive list, Appendix 5 contains a list of typical assumptions that will have to be addressed in the preparation of the forecasts. It is important that the assumptions you make are based on carefully researched information and/or historical evidence in your business or industry.

It is normal to prepare the forecast for each of the first three years on a monthly basis and for year four onwards either quarterly or annually depending on the nature of the proposal.

“How conservative/optimistic should I be?”

The answer to this question is “be realistic”, it is important to strike a balance:

- do not undersell yourself. Investors will usually discount your forecasts anyway and if they are too conservative the proposal may be unattractive; and
- do not be too optimistic because, if you are, your application will lack credibility and this will result in it being rejected.

Bear in mind that any investor or lender will be basing his assessment of his risk and required return on the forecasts you are presenting to him. The outcome of this assessment will be the price charged for the funds you are seeking. It is therefore important to be as accurate as possible.

Sensitivity

You should accept that your forecasts are not “gospel”. There may also be genuine reasons why it is not possible to prepare a realistic forecast three years ahead. How do you show this in your business plan?

There are two possible solutions. First, include separate “realistic” and “conservative” forecasts based on different assumptions. Alternatively, prepare “what if” sensitivity analyses showing, for example, the effect of a 10 per cent reduction in sales or the effect of introducing a new product three months later than planned. As will be discussed later in this booklet, it is important to identify the risks associated with your company or project and you should show the effect on the financial forecasts of each of the material risks. As part of these analyses, the break-even turnover should be identified.

Alternative options

It is possible that you will have recognised that sometime in the future, your company will be faced with alternative options depending on the outcome of certain events in the early stages of your forecast. If this should be the case you should include details of the alternatives and comment on their relative effects.

“How do I treat financing costs and taxation?”

Since many plans are written to raise finance, the costs of this finance, (interest, dividends and fees), and the consequent tax charge, are often both complex and variable. The financier will wish to evaluate the plan using a number of different financing structures. To facilitate this the trading forecast before all financing costs and tax should be clearly and separately presented.

Illustrative finance costs should then be separately superimposed. This can be a highly complex specialist area and you should consult your advisers regarding the structure.

“How do I treat inflation?”

There are two options:

- ignore inflation and show all figures at current prices. This may distort the calculation of future returns; and
- assume an inflation rate and apply this to your forecasts. The drawback here is that it is difficult to predict accurately what will happen to the rate of inflation in, say, three years time.

Either option is acceptable but in times of low inflation the first alternative is probably preferable.

Contingency

However thoroughly you carry out your planning and forecasting it is not possible to predict all eventualities. It is therefore prudent to provide in your costs a certain sum for contingencies. This figure can be based, for example, on a certain percentage of turnover. However, you should not include too high a figure otherwise the credibility of management to prepare realistic forecasts might be called into question.

3. The narrative

Although the financial forecasts may be the core of the business plan, the reader's perception of their achievability depends on the detailed plans set out in the narrative. It is important that the narrative and the figures are consistent and support each other. They are both equally important since on their own neither tells the whole story.

The narrative provides the opportunity to argue your case and to justify the assumptions you have made in arriving at the forecasts.

When writing any report it is essential to plan in advance what it will look like. We discuss in the next chapter headed "Practical Hints" how to go about doing this.

In this chapter we will assume that the business plan is for an existing manufacturing company seeking venture capital funds to expand.

A typical index for such a business plan would be:

Section 1 Summary

Section 2 Background and History

Section 3 Product

Section 4 Management and Personnel

Section 5 Markets and Marketing

Section 6 Manufacturing Process

Section 7 Financial Information

Section 8 Risk Factors and Rewards

Section 9 Timescales and Benchmarks

Appendices

It is important to tailor every business plan to the particular circumstances of the company. Much will depend on how well your proposed reader already knows your company and, if the business plan is being used to support a fundraising application, how much is being asked for and for what purpose. It will not always be necessary to include each of the suggested sections, and some could be combined. Alternatively, new sections may be needed.

We discuss what should be included in each of the suggested sections and show what a prospective investor wants to know.

Section 1: Summary

Although preferably written last, the summary should appear at the front of the business plan and should provide a concise overview of your proposals. The summary should indicate why this application is different – “the success ingredient”. Ideally it should be one or two pages long and never more than three.

Do not forget that you are trying to attract the attention of a busy reader and convince him that he should take the time to read the rest of your business plan.

The summary should include:

- the purpose of writing the business plan;
- how much money is required and what for;
- a brief description of your products and markets highlighting the benefit to your customers;
- management experience and relevance to the proposal; and
- details of proposed exit routes.

Section 2: Background and history

Here you should state the date of formation of the company and a brief history of subsequent years giving not only financial details, but also a commentary highlighting significant successes of your business in the past and their relevance to the future.

You should set out the present financing of the company including details of its present shareholders and any security given to lenders.

Finally, in this section you should introduce the project. If it is a new venture for your company, you should also set out your reasons for making the decision to proceed.

Section 3: Product

You should normally cover the following topics under this heading:

- description of the main products and services stating in layman's language precisely what is to be sold and for what purpose it is used;
- the advantages of your product:
 - is it cheaper?
 - is it better quality?
 - what unique features does it have?
 - what advantages do your customers derive from using it?
 - does it have any disadvantages?

- what is the current status of the product? For example, is it still in the research and development stage or is it already established on the market?
- what is the likely lifespan of your product?
- what new products will your competitors be introducing and when?
- what protection do you have for your product? For example, do you hold any patents and what proposals do you have for obtaining any in the future?
- does your product require any government approvals and does it have them? Are there any industry standards to be met?
- what are your future product plans including the timescales for their introduction?
- what are your research and development policies? Are there any competing technologies? and
- what is the profitability of each product or service?

It is important to remember that the credibility of your sales forecast is often dependent upon the investor's perception of the product for sale.

Section 4: Management and personnel

As already mentioned, an investor's assessment of management's capability is an important factor in any decision making. A comment often heard is:

"It is better to back good management with a bad product than a good product with bad management".

Overall the business plan must communicate management's capabilities and demonstrate that they can achieve the objectives they have set.

In this section, the following should be included:

- a summary of key managers showing:
 - their roles, demonstrating you have a balanced team;
 - their age, experience and expertise;
 - their past track records and achievements and their relevance to the future plans. Past track records are important: include size of previous companies and tasks undertaken;
 - detailed CVs should not be included here but attached as one of the appendices;
- you should discuss the relationship between ownership and management and the long term aims and objectives of key individuals;
- what are the remuneration policies? How many of the key managers have performance related packages? How many have service contracts?

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- you should include in the appendices an organisation chart showing the position now and that proposed for, say, three years time. The chart should show the number of people each manager is responsible for;
- do you have any non executive directors and what are their roles?
- will you need additional management in the future? How will you select them?
- be honest:
 - identify vacant positions or weaknesses in your team and set out your plans to rectify the situation;
 - admit to previous mistakes. It is a strength to show that you have learnt from these; and
- what are the present management information systems and what changes are planned for the future?

In this section you should also include brief details of the other managers and employees along the following lines:

- analysis of their roles and skills in tabular form;
- remuneration policies;
- union recognition;
- future requirements; and
- recruitment and training policies.

Section 5: Markets and marketing

In many investors' eyes this section is second only in importance to their assessment of management's capabilities and it is often the hardest section to write.

Usually it is the sales figure that is the most difficult to forecast accurately and as a result is the most important to justify.

Too often business plans are written from the viewpoint of the producer (namely the company). Too often a company is very enthusiastic about a product but does not say why or how a customer will purchase it, expecting an investor to recognise immediately the market's need for the product.

It would not normally be good enough to estimate simply that your company will achieve x per cent of the market. You must justify it and show that you understand your market and your role and position in it. The investor will want to know whether your company has a lead over its competitors and whether you can maintain that lead.

How do we go about achieving this? Marketing has been defined as the art of identifying a need and planning how to satisfy it.

Market

- Description
 - you should describe your market generally and its future prospects, setting out for example the market size and the anticipated growth;
 - more importantly you should clearly define your particular niche in that market in terms of product, territories, customers, etc; and
 - you should include summaries of such statistical information as is available on your particular niche market. You should also set out your justification for being in that niche and what the particular prospects of that niche are in comparison with the market generally. It may be necessary to commission a market research study to obtain this information.
- **Customers**
 - who are they?
 - where are they?
 - why do they buy?
 - when do they buy?
 - do they buy by order or tender?
 - who makes the decision to buy?
 - what is the typical order size?
 - what are the requirements of each customer? For example, 80 per cent of your particular niche may be dominated by only 20 per cent of your prospective customers. You should show you have recognised this.
 - who are the ultimate customers and what influences on their purchasing habits are beyond your control?
- **Competition**
 - who are they?
 - where are they?
 - what is their size and potential?
 - how much of the market do they enjoy?
 - what are their strengths and weaknesses?
 - why will you compete successfully against them?

- what will be the likely response by competitors to your plans? and
- be realistic. An honest appraisal of your competition adds credibility to your business plan.

• **Marketing**

- what are your territorial objectives? For example particular parts of the UK, the whole of the UK, Europe or USA?
- what is your pricing policy? Is it cost or demand based? How do you expect prices to move in the future? You should show that the pricing policy will allow penetration of the market, an increase in market share and make a profit;
- what are your support and after sales service and warranty arrangements?
- what will be your minimum order size and your credit terms?
- what are your proposals for advertising and promotion?
 - public relations;
 - advertising;
 - trade shows;
 - sales incentives;
 - promotional literature;
 - what percentage of turnover does the cost represent?
 - when will the cost be incurred and the benefit derived?

• How will you distribute your product? For example:

Own sales force

- number of salesmen, location and coverage;
- remuneration policy;
- productivity (orders per call, average order size).

Distributors

- how selected;
- how remunerated.

Retail

- size and location of shops and their staffing.

Export

- which countries?
- distribution arrangements.

Delivery of goods

- how effected;
 - costs.
- What is the state of your present order book and enquiries on hand?
 - In connection with new products, are you able to provide endorsements from potential customers? If so, is it that they just like the idea or have they seen a prototype?

These items are crucial to the accuracy of the sales forecast and require substantial thought and effort to complete. The company must show a market need for its product, that it understands the customers' needs and that its product meets these needs.

In writing this section you should try to look at your company and product from the viewpoint of your customer.

Section 6: Manufacturing process

In this section you need to set out how you propose to manufacture your product both now and in the future, detailing the facilities available to you and the resources that will be required. In particular you should address the following:

- a brief step by step description of the production process;
- the facilities available (property and plant);
- production capacity:
 - now;
 - future;
 - steps to expand;
- what is the percentage yield and waste? What are the factors affecting the outcome and how are they to be controlled and monitored?
- security of raw material supply and alternative sources;
- availability of skilled labour;
- make or buy decisions;
- any production advantage you have over your competitors;

- quality control procedures;
- what are the costs at different volumes of production? and
- if a new product, you should carefully describe the transition from prototype to volume production and discuss the areas where delays may occur.

Section 7: Financial information

The appendices should include the latest audited accounts and management accounts, thus setting out your company's present position. We have already discussed in Chapter 2 the financial forecasts to be included in the business plan. These detailed forecasts (normally for a three year period) should be included in the appendices. However, you should include a summary of the important figures in the body of the business plan. This can be shown in tabular form and for each year might include the following:

- sales;
- gross profit margin;
- net profit before tax;
- retained earnings;
- cash generated/used; and
- capital expenditure.

You should also include a commentary on the forecasts to explain in layman's terms what the numbers mean. This commentary should, if appropriate, comment on any early losses suffered by the project and the transition to profit. It should also relate the timing of the investment from initial outlays to sales being achieved to profits being earned through to cash being generated. It should also comment on the strength of the balance sheet and draw attention to any off balance sheet assets (e.g. intellectual property rights) or liabilities (e.g. performance bonds) which might affect a valuation.

Included with the forecasts in the appendices will be a statement of the assumptions underlying the forecasts. You should highlight in the narrative the key assumptions and justify them by reference to the other sections of the business plan. For example, the sales forecast should be clearly justifiable by reference to Section 5 – Markets and Marketing.

You should also state here how much funding you are looking for and when it will be required, including likely additional requirements in the future. You should also give a broad outline of the type of finance you are seeking although it is best not to be too specific initially.

Finally, in this section you should discuss the proposed exit route for the venture capital investor.

Section 8: Risk factors and rewards

“Although I expect to run risks when I invest, I also expect to know what the risks are that I am running.”

Do not hide the problems! Remember that you and the investor have common aims and concerns. You are both risking money on the same project.

Highlighting the risks adds credibility to your business plan. It shows that you have seen the risks in advance and have given thought to how you propose to overcome them or at least minimise their effect.

You should state the risks inherent in each part of your business plan and your opinion of the likelihood of their occurrence. You should also show what steps you propose to take to minimise any impact these risks might have on performance.

You should also include an analysis of the effect on both profit and cash of their occurrence. The best method of demonstrating this is by carrying out a sensitivity analysis as referred to in Chapter 2, and by including a summary of the results. No investor will want to look through reams of computer print out prepared on numerous and varying assumptions! It is important to include your comments on what is shown.

However, do not be all doom and gloom. As with any selling document you should keep a sense of proportion in discussing the risks. Do not put the investor off, merely demonstrating how you have planned to overcome the particular risks of your business.

A useful way of balancing the risks is to include them as part of a “SWOT” analysis:

S Strengths

W Weaknesses

O Opportunities

T Threats.

You should deal with any other criteria that the particular investor might have and demonstrate how your plans meet them.

If you are seeking a package of funds from different sources you should demonstrate that each of the criteria of the varying sources has been satisfied by your plan.

Section 9: Timescales and benchmarks

This section sets out in summary form the company's objectives. These will not all be financial. For example, in increasing production capacity it might be necessary to take on additional skilled workers.

(A business plan being prepared for management's own internal use might deal with this section in far more detail than a business plan being presented to an outside body. It would probably also deal with the sub-objectives to be achieved on the way to the main objectives.)

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You should set out:

- the objectives by department; and
- the timescale of major events and the resources needed to achieve them. It is often helpful to represent this information graphically.

Stating your timescales and benchmarks not only shows that you have carefully planned the steps of your proposal but also helps with any subsequent monitoring.

Appendices

The following would be typical items to include in the appendices to your business plan:

- glossary of terms used;
- product literature and technical specifications;
- organisation charts;
- CVs of key managers;
- market surveys;
- patent details;
- financial forecasts – profit and loss;
- cash/funding;
- balance sheets;
- assumptions;
- latest audited accounts;
- latest management accounts; and
- third party confirmations, where available.

4. Practical hints

In this chapter we discuss several problems commonly encountered by people writing business plans for the first time and suggest ways of dealing with them.

Who should write the business plan?

If the business is to be effectively managed it is important for the management to know thoroughly the plans for the future.

Investors want to know what the management are like, not their advisers – management's flair is not readily apparent from an accountant's word processor! The plan needs to put across your enthusiasm and determination.

We therefore consider that it should be the management's plan and that they should write it. There are, however, many areas in which Deloitte can assist and we discuss these in the next chapter.

How long should it be?

The simple answer is: As short as possible.

However it will depend on the stage of the company's development and the purpose of the plan. It must be sufficiently comprehensive for the reader but not overly laboured.

Remember your proposed reader is likely to be a busy person and you will need to retain his attention whilst reading it. Any supporting detail should be relegated to an Appendix.

Planning the plan

If your business plan is to be a success it is important that the writing of it should be carefully planned. The main steps in the planning process are:

- read Chapter 3 and understand what information should be included in your business plan;
- decide on the section headings for your plan and prepare an index;
- decide who is to co-ordinate and write the plan;
- agree who is to provide the necessary information:
 - management; or
 - advisers;
- gather information for each topic and jot down ideas;
- organise the information logically;
- start writing;

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- challenge the assumptions; and
- expect revisions. Business plans are not written, they are re-written.

Do not use jargon

Your proposed reader may know very little about your particular product or your market. Your business plan should wherever possible be written in layman's terms avoiding the use of jargon. Should this prove to be impossible, because of the nature of your business, a glossary of the terms used should be included as one of the Appendices.

Do not repeat yourself

In order to keep your business plan as concise as possible try not to repeat yourself. For example do not repeat what you have said in the product section in the section dealing with marketing.

Support your claims

Where you have made claims in your business plan or have made assumptions which may not be readily accepted by your proposed reader, include copies of any third party confirmations that you may have. It also helps if you are able to include copies of product endorsements by your customers and confirmations of the availability of other parts of the funding package.

Worried about confidentiality?

You may be concerned that sending your business plan to a potential lender or investor might result in your company's trade secrets becoming known to your competitors. However, provided you are dealing with reputable organisations there should be no need for worry. Such lenders and investors see details of companies' secrets daily and are used to keeping confidences.

However, if you are not prepared to reveal your secrets at an early stage, one option is to first of all just send the summary to your potential investor or lender and only disclose the remainder to your plan if serious interest is expressed.

You should in any event mark your business plan "Confidential".

Do not be selective

You should ensure that all risks are discussed and that you do not just select those for which you have a ready answer. If, subsequently your reader were to discover other risks your proposal would suffer a serious loss of credibility.

A second opinion

It is important to have your plan objectively reviewed before submitting it to your potential investor. After all you would not want to waste four or five weeks preparing the plan and have it rejected after a 20 minute scan by the investor.

Suitable people to review your plan would include your accountant, your solicitor or a trusted business colleague. We would suggest that, if possible, at least two people, not directly involved with your company, are involved in the review.

The role of the reviewer is to put himself in the place of the investor, to ensure that the business plan is credible and that it meets the known criteria of the proposed reader.

First appearances count

A reader should be attracted by the appearance of the plan. A scruffy looking document is hardly likely to whet his appetite for the contents. The business plan should therefore look good.

We would suggest some form of loose leaf or spiral binding which in addition would allow any subsequent updating.

Four Dos and one Don't:

- do provide an index;
- do provide a summary;
- do number each copy;
- do show who the business plan is submitted by. It is surprising how many do not!
- don't produce too many copies. If an investor were to receive a copy numbered say 65 he might consider that your plan had already been rejected by 64 others or that 64 other parties were currently looking at your plan. In either case he is unlikely to give it much attention.

5. How Deloitte can help

Although it is best for a business plan to be written by a company's own management, Deloitte can play an important part in helping you prepare your plan.

We can help you in the following areas:

- planning the plan and advising on the format and content;
- assisting with the preparation of the forecasts and sensitivity analyses;
- challenging your assumptions and generally acting as a sounding board for your proposals;
- arranging for word processing and printing of the plan; and
- reviewing the completed business plan.

Once the plan is completed we can produce a preliminary financing structure showing how investors and banks will probably look at the proposal. We can then introduce you to the investors who are most appropriate to your needs and aid in the detailed finance raising exercise.

Appendices

1. Proforma forecast profit and loss account

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Year 1	Total Year 2	Total Year 3
Sales															
Cost of sales															
– Materials															
– Labour															
Gross profit															
Gross profit percent															
Overheads															
– Production															
– Establishment															
– Marketing															
– Finance costs															
Operating profit															

2. Proforma forecast receipts and payments

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Year 1	Total Year 2	Total Year 3	
Receipts																
Cash sales																
From debtors																
Other sources																
Total (A)																
Payments trading																
Cash purchases																
To creditors																
Wages and salaries																
Other payments																
Overheads																
Rent, rates, water																
Insurance																
Light, heat, power																
Repairs and renewals																
HP and leasing payments																
Bank charges and interest																
Telephone and postage																
Other payments																
Other items																
Purchase of fixed assets																
Dividends																
Tax payments																
Drawings, fees																
Loan repayments																
Other payments																
Total (B)																
Net inflow (A-B)/ outflow (B-A)																
Balance brought forward																
Balance																

3. Proforma forecast cash flow statement

		Year 1	Year 2	Year 3
Operating Income (before interest and tax)				
Add				
– Loss on disposals of fixed assets				
– Depreciation and amortisation				
Funds From Operations	1			
Change in working capital				
Stock				
Trade debtors				
Trade creditors				
Other creditors				
(Increase)/decrease in working capital	2			
Operating Cashflow	(1+2)			
Pre-incorporation expenses				
Taxation paid				
Capital expenditure				
Proceeds of disposal of assets				
Total Cashflow				
Sources of Finance				
Asset finance (e.g. HP)				
Debt finance				
Grant				
Equity				
Available for debt servicing				
Asset finance – capital repayments				
Debt finance – capital repayments				
Interest				
Dividends				
Net cashflow				
Balance b/f				
Balance c/f				

4. Proforma forecast balance sheets

	Opening position	End Year 1	End Year 2	End Year 3
Fixed assets				
Cost				
Less: Accumulated depreciation				
Current assets				
Stock and work in progress				
Debtors				
Investments				
Cash at bank and in hand				
Creditors: amounts falling due within one year				
Bank loans and overdrafts				
Trade creditors				
Other creditors				
Other creditors including taxation and Social Security				
Net current assets				
Total assets less current liabilities				
Creditors: amounts falling due after more than one year				
Capital and reserves				
Called up share capital				
Profit and loss account				

5. Proforma assumptions underlying the financial forecasts

It is not practicable to supply an exhaustive list but the following are the principal assumptions you must decide on to prepare your forecast.

1. Inflation rates and foreign exchange rates
 - impact on sale and purchases
 - impact on assets and liabilities
2. Sales and marketing
 - level and timing of demand
 - UK and export
 - pricing strategy
 - trade and early payment discounts
 - advertising and promotion costs
 - warranty costs
3. Cash collection
 - credit taken by customers
 - bad debt experience
4. Distribution
 - commissions
 - freight costs
5. Research and development
 - time taken
 - cost incurred (labour and materials)
 - debugging of product
 - receipt of government or other approval
6. Production
 - availability of components and quantity required
 - availability of labour and relevant skill level
 - wage, salary and NI contributions
 - returns due to product failure
 - repair costs
 - yield rate of saleable product
 - other costs
7. Fixed assets
 - requirements
 - costs
 - method of financing the purchase
8. Purchasing
 - stock and work in progress levels
 - credit taken from suppliers
 - availability of discounts

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9. Taxation
 - corporation tax
 - VAT
10. Lead times
 - from development to cash receipts and all stages in between
11. Other expenses
 - interest rates
 - establishment and administrative overhead rates
12. Depreciation
 - methods
 - rates
13. Grants
 - timing
 - accounting treatment
14. Funding
 - type
 - availability and timing
 - terms

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Designed and produced by The Creative Studio at Deloitte, London.

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