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Shambhala Private Equity

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**GUIDE TO WRITING A SUCCESSFUL  
BUSINESS PLAN**

# Purpose of a Business Plan

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A business plan has three primary functions:

1. To serve as an Action Plan
2. To serve as a Road Map
3. To serve as a Sales Tool

**Action Plan.** A business plan can help to move you to action. You may have been thinking for years about starting a business or engaging in some venture, but the process may seem too daunting, too large and too complicated. A business plan will help you to pull apart the pieces of starting a business and examine each piece by itself. So instead of one large problem, you have a sequence of smaller problems. And by solving the small problems, the large problem is automatically solved. So writing a business plan can help to move you to action by breaking down a seemingly insurmountable task (starting a business) into many smaller, less intimidating tasks.

**Road Map.** Once you have started your business, a business plan can be an invaluable tool to help keep you on track and moving in the direction you want to go. In the hurley-burley of daily business, it is very easy to lose sight of your objectives and goals – a business plan can help to keep you focused. A business plan can also serve to help others to understand your vision, including suppliers, customers, employees, friends, and family.

**Sales Tool.** Perhaps most importantly, a business plan can serve as a sales tool. You will probably need outside financing to start your business, and a business plan is the tool you need to convince investors to come on board. You may also want and need concessions from suppliers or customers – a business plan can help you get them. Finally you may need to convince family members, or even yourself, that your ideas will bear fruit. A well-written business plan can serve to sell people close to you on the benefits of proceeding with your concept.

When writing the business plan, be sure to quantify everything possible and substantiate these claims. If you, as the entrepreneur who is supposed to know so much about this business, find it difficult to find and justify the numbers that describe your business, the investors are going to find it difficult to find and justify the numbers that describe their investment – i.e.: no money!

# Elements of the Business Plan

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Table of Contents (~1 page)

Executive Summary (~2 pages)

Company Overview (~1 page)

Products and Services (~1 page)

Industry and Market Analysis (~2 pages)

Marketing Strategy (~4 pages)

Operations (1-2 pages)

Development (1-2 pages)

Management (~1 page)

Financial Projections (~5 pages)

Offering (~1 page)

Appendices (no more than 15 pages)

# Executive Summary

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The Executive Summary of a Business Plan is a one or two page summary of your entire plan, and often is the last section to be written. It's objective is to capture the reader's interest, so that they want to read the entire plan. It is not a summary of the plan; rather it should be considered a chance to "sell" the reader on the business opportunity.

A first-time reader should be able to read the Summary by itself, and know what your plan is all about. The Summary should stand-alone and should not refer to other parts of your plan. Remember, most readers will never get any further than your Executive Summary, so make it count!

- **Opportunity:** What is the size of your market? What are the critical trends and how will your company exploit them?
- **Business concept:** Describe the solution (product or service) and what problem you are solving. Broad overview of your strategies.
- **Competitive Advantage:** What is unique about your product or service and the benefits?
- **Target market, Positioning and projections:** What segment of the market are you addressing and how will customers perceive the product or service?
- **Management:** Who are the key managers and what is their experience?
- **Financial:** What revenues will be achieved in year 3 or 4 and when will the company breakeven? What are the economics and profitability of the business? How much funding is required? What is the exit strategy?

# Company Overview

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The Company Overview is a brief (one page) description of the company you have founded or want to found. How will it be organized? Will it be a sole proprietorship, partnership, close corporation or limited company? What are your ambitions for the company? Will it always be a small company, or do you want to grow it into an international giant? Upon reading this section, the reader should have a good idea of where you are and where you are going with your company. Note that the Company Overview is the reader's introduction to your plan.

## Introduction

In the introduction to the Company Overview, answer the following questions in a single paragraph:

- What is the name of our company?
- Does your company currently exist, or will it be forming?
- Where is it located? Where will we grow?
- How is our company organized (e.g., sole proprietorship, partnership, close corporation or limited company)?

### **Mission Statement**

Your mission statement is a short (one sentence to one short paragraph) inspirational statement of the vision and goals you have for your company. Too many mission statements are vacuous exercises in ambiguity e.g., “employees are our most valuable assets”. Be sure that your mission statement is succinct and content rich, and excites your readers.

### **History and Current Status**

Briefly outline the history and current status of your company. When was it established? What are the historic revenues, profitability and net asset values? What special relationships or partnerships do you have? Technology agreements? License or royalty agreements? Exclusive access to particular markets?

### **Market and Products**

In one or two paragraphs, answer the following questions:

- What market(s) needs will our company address?
- Who are our target customer’s?
- What products and services will our company sell?
- How are our products unique and how will we protect that uniqueness?
- What are our current sales and current products (if any)?
- What are the boundaries of our business?

### **Entry and Growth Strategies**

Briefly describe your strategies for entering and growing in the market.

### **Objectives**

In this subsection, spell out the objectives of your company in a single paragraph:

- Where are we going with our company?

- What are our goals for the company (keep it small, grow it big, franchise it, etc.)?
- What is our exit strategy for ourselves and for our investors (sell to larger company, go public, buy out investors, etc.)?

## **Products and Services Description**

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The Product and Services section is a detailed description of the products and/or services you will be selling. You should not assume that the reader is familiar with your product/services, so be sure to explain and describe it carefully. Begin to sell your idea here by generating some excitement about your product/service. Be factual, but be enthusiastic. When readers have finished learning about your product or service, they should be primed to wade into the marketing and financial details of your venture.

### **Introduction**

Write a one-paragraph description that evocatively describes the experience of customers dealing with your company as they purchase your product. Try to capture the total concept or essence of the business.

### **Description**

Briefly describe the product or service

- What exactly is our product or service? What isn't it?
- Who will purchase it? Why?
- What is unique about our product/service?
- What are its features or attributes and benefits? (Emotional / financial benefits) What problem are you solving?
- How will it be priced? What is your pricing strategy?

### **Market Comparison**

In one or two paragraphs, position your product or service in its marketplace:

- Who are our principal competitors?
- What are their products?
- Why is our product/service superior to the competition, and how is it different?

### Proprietary Rights and Intellectual Capital

What proprietary rights do we have to the product/service? (For many products, there are no proprietary rights and this subsection can be deleted).

- Patents, copyrights, trade secrets, non-compete agreements?
- Other proprietary knowledge or skills?

### Stage of Development

Briefly describe the current status of your product or service:

- Where is the product in its lifecycle (early, growing, mature, declining)?
- Is it ready for the market, or is it in development?
- If in development, how far along is it?
- What obstacles remain?

### Strengths and Weaknesses

Briefly describe the current strings and weakness of the product / service.

## Industry and Marketplace Analysis

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The Industry and Marketplace Analysis section dispassionately describes and outlines the industry (broad) and the marketplace (focused / your niche) in which you will compete. The focus in this section is on the industry and marketplace as it currently exists – you may not even mention your business here, unless it is already a part of the industry. When finished with this section, you and your readers should understand the dynamics, problems, and opportunities driving your industry and marketplace. Be objective, but demonstrate the need.

### Introduction

Write a brief introduction summarizing your industry and marketplace analysis.

### Industry Analysis

In this section, summarize the industry in which you will compete. Most of the research you do for this subsection will probably be in a library, the Internet and will come from government statistics and trade organizations. Other great sources of information about an industry are suppliers who sell to the industry,

equipment manufacturers, and brokerage firm analysts. Upon completion, your analysis will provide a “big picture” overview of the size and scope of your industry.

- How do we define our industry?
- How is the industry segmented? How are the segments defined?
- What are current trends and important developments? Understand how these trends lead to your concept.
- Who are the largest and most important players?
- What problems and opportunities is the industry experiencing?
- What national and international events are influencing our industry?
- What are growth forecasts?
- How important is black economic empowerment in the industry and what form has it taken? Are there any industry charters?

### Marketplace Analysis

In your Market Analysis subsection, layout and describe the specific market in which you will be competing. Your market will probably be smaller than the entire industry defined above. For example, if you are opening a restaurant, your marketplace will be limited to the city, and perhaps a specific neighbourhood, where you will be located. This is not the place to present your ideas and concepts, but to carefully and analytically describe the larger environment in which you will be participating. Much of the research you do for this subsection will be or talking with experts in the marketplace, including buyers, suppliers, sales representatives, wholesalers, distributors, and retailers. Be sure to identify voids in the market which are currently not served, and which you presumably will fill.

Marketplace Analyst checklist:

- How do we define our marketplace?
- How large is it and how fast is it growing?
- How is our marketplace segmented?
- What companies currently service this market?
- What trends are important in our marketplace?

### Marketplace Buyer Analysis

In this section, identify and segment the current buyers (customers) in your marketplace. Consult industry publications, articles, and trade groups to understand how the industry defines, identifies, and segments its customers.

- Who are the traditional customers in this market?
- How is the market segmented?
- What motivates buying decisions?
- How are buying decisions made? How do we win orders?

- What channels of distribution are used? What channels are being ignored? Are there privileged relationships?
- In what ways are customers dissatisfied with current offerings in the marketplace?
- What customer needs are currently unmet by the market?
- What emerging customer groups are being ignored?
- Who has the power in the relationship?
- What role does BEE play in the buying decision? Are there BEE procurement targets? Who are the key people to know in the organizations?
- How important is it to develop relationships with key decision makers in the procurement structure?

### Marketplace Competitor Analysis

In this section, identify potential direct and indirect competitors in your industry and marketplace. Research can be done on the Internet, trade associations or from the competitors themselves (sales people love to talk!).

- Which are direct competitors? Which are indirect?
- What are the attributes and characteristics of these competitors and their products/services? How do they differentiate themselves?
- What are their sizes, location, target markets, and other important characteristics?
- For each competitor's products or services, identify price, quality, features, distribution, and other important attributes.
- What problems and concerns do buyers have with these competitors?
- What are the key success factors in the industry and what core competencies do each of the competitors have?
- Who are the main suppliers to the competitors and who has the power in these relationships?

### Marketing Plan

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The Marketing and Sales section of your plan will make or break the prospects for your venture. A great idea is meaningless if you cannot find customers. Carefully drafted and logical financial projections are irrelevant if nobody buys your product. In this Marketing Strategy section you must convince first yourself, and then the reader, that there is indeed an eager market for your product. The Marketing Strategy section is where you show how you are going to fit into the market structure you just finished describing. What are unmet needs in the marketplace and how are you going to fill them? How will you differentiate your product or service from your competitors? What unique features, benefits, or capabilities will you bring to the marketplace? Who are our customers? Research you do for this subsection will be with

customers and potential customers. It is imperative that you do sufficient customer research to convince potential investors (and yourself) that customers will indeed come flocking to buy your product or service. Customer research can include simply talking with potential customers to get reactions to your product idea, conducting focus groups, undertaking walk-up or mailed surveys, putting up a mock demonstration of your concept and soliciting customer feedback, and so on. Be creative in finding ways to get honest customer input about your product or service. And finally, don't inadvertently cook the books here. You are undoubtedly enthused about your concepts. Customers will pick up on your enthusiasm and often reflect it back to you, leading to erroneous conclusions about customer acceptance. So be neutral and factual as you collect data.

### Introduction

Create a seven-sentence marketing strategy statement:

1. The first sentence tells the purpose of the marketing strategy.
2. The second tells how you'll achieve this purpose, focusing upon your benefits.
3. The third tells your target market – or markets.
4. The fourth, the longest sentence, tells the marketing weapons you'll employ.
5. The fifth tells your niche.
6. The sixth tells your identity. Your core competence.
7. The seventh tells your budget, expressed as a percentage of your projected gross revenues.

### Target Market Strategy

Explain your strategy for defining your target market (demographics and psychographics – attitudes and beliefs). Describe the unmet needs of your target customers that your product/service fulfils or the problems that it solves.

- What segment of the market are we targeting?
- What characteristics define our target customers?
- How big is our target market? What share of the market will we capture?
- Who are our customers? End users? OEM's? Distributors? Retailers?
- What needs does our product fulfil with our target market?
- What problems are we solving for these customers?
- What evidence do we have that potential customers want our product?
- How will we position our product or service with our customers?
- What evidence do we have that our target market wants our product? Where possible, list the company's customer base and

record of sales to each customer per month and year and proportion of sales to each customer per year.

### **Product/Service Strategy**

Describe how your product has been designed and tailored to meet the needs of your target customer, and how it will compete in your target market:

- What specific product/service design characteristics meet the needs of your customers?
- What differentiates our product in our target market?
- How does it differ from that of our competitors?
- What are the strengths of our product/service? Weaknesses?
- Why will customers in our target market buy our product rather than the competitions?
- How will we differentiate ourselves from our competitors?
- Why will customers switch to or select us?
- How quickly and how effectively can your competitors respond to our business?
- What is the company's strategy to grow its market share?

### **Pricing Strategy**

Explain your pricing strategy and why it will be effective with your target customer in your marketplace.

- What is our pricing strategy? Cost plus; Industry mark-up; competitive; value added; etc. Why?
- How does our pricing strategy compare with our competition?
- What evidence do we have that our target market will accept our price?
- What experience do you have at pricing models? What alternatives have been tried and what were the success rates?
- Are settlement discounts offered for early payment?
- Do key customers levy penalties for poor performance?

### **Distribution Strategy**

Describe your distribution strategy and explain why it is the best for your marketplace.

- How will we distribute our product or service?
- What distribution channels will we use? Why?
- How will we gain access to these channels?

### **Advertising, Communication and Promotion Strategy**

Explain your advertising and promotion strategy. It is critical that you inform your target market about the availability of your product or service, and that you continue to communicate your benefits to that market.

- How will we advertise and promote our product or service?
- How will we communicate with our customers? Advertising? Public relations? Personal selling? Printed materials? Other means of promotion?
- Why will this strategy be effective in reaching our target customer?

### **Sales Strategy**

Depending on your business, sales may be a critical component of your success. Remember, "Nothing happens until the sale is made". An effective sales strategy is critically important for most manufacturers, publishers, software firms, and many service providers. Don't overlook the importance of formulating an effective sales strategy!

- How will our product or service be sold? Personal selling? TV infomercials? Direct mail? Direct Marketing? Customer Relationship Marketing?
- Who will do the selling? An internal sales force? Manufacturer's representatives? Telephone solicitors?
- How will we recruit, train, and compensate our sales force?
- How will we support our sales effort? (e.g. internal staff, service operations, etc.)

### **After Sales Service and Support Strategy**

How will you support your customers after sale? What service will you offer?

## **Operations Plan**

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The Operations section outlines how you will run your business and deliver value to your customers. Operations is defined as the processes used to deliver your products and services to the marketplace and can include manufacturing, transportation, logistics, travel, printing, consulting, after-sales service, and so on. In all likelihood, about 80% of your expenses will be for operations, 80% of your employees will be working in operations, and 80% of your time will be spent worrying about operating problems and opportunities. Be sure that you carefully link the design of your operations to your marketing plan. For example, if high quality will be one of your comparative advantages in the marketplace, then design your operations to deliver high quality, not low costs. Remember that you will probably have to make trade-offs with your

operations. It is impossible to have the lowest costs, highest quality, best on-time performance, and most flexibility in your industry all at the same time. Often, higher quality means higher costs, lower costs means less variety and less flexibility. Be careful how you make these trade-offs so that you can deliver products to the market in accordance with your marketing plan!

### **Introduction**

Write a brief introduction to the operations section. This can also be a good place to include a more colourful and evocative description of how you will use operations to add value for your customers.

### **Operations Strategy**

In this subsection, describe how you will fulfil your marketing strategy using operations:

- How will we use operations to add value for customers in our target market?
- How will we win in the marketplace on the dimensions of cost, quality, timeliness, and flexibility?
- Which dimensions will we stress and which will we de-emphasize?
- What comparative advantages do we have with our operation design?

### **Scope of Operations**

Describe the scope of your operations. Include details in an appendix, as necessary.

- What is the quality / condition of the plant or machinery to perform operations?
- What is the maximum and historic / present capacity and utilization of the operations? What expansion possibilities are there and the likely cost of this?
- What will we do in-house and what will we purchase (make vs. buy?) Why does this make sense for our business?
- What will be our relationship with vendors, suppliers, partners, and associates? What is the level of purchasing, material handling and operations skills in general?
- What maintenance systems are required or in place?
- What kind of people will we need to hire?

### **Supplier Analysis**

- What are the highest input costs?

- Who are the major suppliers of these inputs?
- How reliable are these suppliers been in the past and what are the short to medium term prospects in this regard?
- Is the cost and quality of the suppliers competitive and is it likely to remain so?
- Are there suitable alternatives in the market? What are the costs of switching?
- Do you have preferred supplier status with any key suppliers? Are there any escalation clauses?

### **Ongoing Operations**

How will your company operate on an ongoing basis? Include detail in an appendix, as necessary.

## **Development**

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In this section, you will outline how you intend to ramp-up your business. This section is often woefully under-developed in many business plans. Assuming you have a dynamic marketing plan and customers do indeed come flocking for your product or service, you must be able to deliver it to them. The Development section is a road map of how you are going to get from where you are now to where you want to be in the future. If you are starting a business, what are all of the steps that you need to accomplish to get the business up and running? If you are expanding a business, what do you need to do to make it grow? These steps can be as routine as securing retail space, or as critical as applying for and getting a patent on key technology. Don't go into too much detail here. For example, the need to get business cards printed probably does not belong in a development plan. Use your judgment.

### **Development Strategy**

What work remains to launch our company and our products? What factors need to come together to make our concept work? What are we doing to bring them together?

### **Development Timeline**

What is our timetable for launching our company and our products? Consider adding a chart or table here?) Go out as far in the future as you have plans.

### Development Risks

Briefly describe the risks that are involved in the company's development as well as their probability and impact potential.

### Opportunity for Product Improvements and New Products

Briefly describe how the company can make improvements to the products. How the core competencies can be used to extend the product range?

## Management

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Venture capitalists often assert that there are three attributes important for a successful start-up business: management, management, and management. Many venture capitalist claim they will invest in a strong management team with a mediocre idea, but will decline to fund a weak management team with a great idea. The purpose of the Management section therefore is to convince the reader that you have a great management team to complement a great business concept. This is not the place for modesty or self-deprecation. Be honest, but highlight your accomplishments and your capabilities while mitigating any obvious shortcomings or weaknesses. For example, if you are young and inexperienced, accentuate your energy, capacity for hard work, and willingness to learn, while downplaying your lack of experience. When readers are finished with this section, you want them to be confident that your venture is in good hands and will be competently managed – by you!

### Company Organisation

Describe how your company will be organised.

- How will we be organized? What does our organization chart look like?
- What is the ownership structure of our company?
- Will we have a board of directions? Who will be on it? What will be their role?
- What are the employee demographics? i.e.: blacks at different management and salary levels?
- Describe the conditions of employment, in particular the policies around bonuses, allowances, salary in creases, annual leave, medical aid, retirement fund, sick leave, maternity leave, family responsibility leave, written termination notice.
- What is the quality of labour relations at the company? What is the staff turnover?
- What is the company's training needs and policies related to training? What is the cost of training?

- What staff are expected to be hired and when? What are the recruitment costs? What are the employee costs and growth rates?

### Management Team

Describe the founders and principal managers who will run your firm.

- Who are the key managers? (Include cv's in the Appendix)
  - What will be their duties and responsibilities?
  - How much experience do they have (education background and senior management / leadership positions)?
  - What unique skills do they bring to the venture?
  - How will they be compensated?
- What additions to the management team do we plan? When?
- Are there existing agreements with management and other stakeholders?

### Supporting Professional Advisors and Services

Who are the professional advisors and service providers? Consultants, book keepers, auditors, legal advisors?

## Financial Projections

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The Financial Projections section should be frosting on a cake. You've outlined a great business concept, demonstrated a real need in the marketplace, shown how you will execute your ideas, proven that your team is just right to manage the venture, and now you will show how much money everyone is going to make. Note, however, that if your business concept is weak, or there is not a market, or if your execution is poor, or if your management team is incompetent, then your financial plans are doomed to failure. If you haven't convinced your readers by now in the strength of your concepts, then they won't be convinced with your financials.

Having said this, it *is* important that you have strong, well-constructed financials. If you can't show that your great concept is going to make money, your readers will quickly lose interest. To construct your financials, we highly recommend that you start with your revenue projections and then consider the development and operations plan to create a schedule or timetable of development and operational activities. From these activities, you can then create *pro forma* income statements, balance sheets, and cash-flow projections, and for at least three years into the future, and sometimes five. As a rule of thumb, your financial projections should extend far enough into the future to the point where your business has achieved stable operations.

After you have prepared the annual projections, forecast the first year of your financial projections month-by-month, since cash flows are critical in the early stages of any start-up. The second and third year financial statements should be projected quarterly. Be sure that your financial projections are in congruence with the other sections of your plan. For example, if you say you will open 3 stores in Year 2 and your financials showing you opening 5 stores, readers will quickly lose confidence in your plan.

### **Financial Statements**

The income statement, balance sheet, and cash flow statement projections for the first three to five years should be placed here. All other financial information and assumptions, including monthly and quarterly cash flow estimates should be included in the appendix.

You may also wish to include in this section other financial documents such as a break-even analysis, if they are particularly relevant to explaining your plan.

### **Financial Assumptions**

What assumptions have you made in putting together your financial forecasts? Include critical assumptions regarding:

- Revenue forecasts (prices, volume, discounts, margins)
- Cost of Goods Sold (materials, labour)
- Sales and Marketing expenses (numbers of people, key salaries, customer acquisition costs, commissions, exhibitions)
- Development expenses (numbers of people, key salaries, subcontract)
- Administrative expenses (numbers of people, key salaries, profit sharing)
- Capital Expenditures (major expenditures)
- Working Capital (accounts receivable, inventory, payables)
- Funding (amount and timing of equity and debt)
- Other assumptions as needed

Include detail in an appendix, as required.

### **Business Economics**

- What is the gross and operating margins?
- What is the profit potential and durability?
- What are the fixed, variable or semi-variable costs?
- Provide a break-even chart and calculations.
- What flexibility is there in the business to alter the business economics?

### Determining Funding Requirements.

From your cash flow statement, determine the required amount and timing of investments needed to execute your plan.

- Review the monthly cash flow profile of your business during its first year and the annual cash flow profile for the subsequent five years.
- Determine the amount and timing of cash infusions needed to prevent cash balances from going negative.
- Add a cash safety cushion to anticipated cash needs to protect against unexpected expenses or delayed income. A cushion of twenty-five percent is a good starting point in many situations.
- Develop a funding strategy that is consistent with your cash needs. For example, if you need cash in year one and again early in year two, it may make sense to seek funding in one lump sum in year one. Alternatively, if cash is needed in year one and again late in year two or year three, it may make better sense to seek funding in two tranches: the first in year one and a second in year two. Investors prefer staged financing because the risk is reduced for later rounds – i.e.: high risk associated with initial round financing means the costs of financing are high (the entrepreneur has to give away a significant portion of their business), but during later stages, the company will have had a chance to prove itself and reduce the cost of financing.

### Determine Type of Funding.

Determine the type of funding most suitable for your business: equity, debt, or non-traditional financing.

- **Equity funding** is appropriate for most start-up businesses with moderate to large cash needs.
- **Debt** may be appropriate for existing businesses with a financial track record and assets, or for start-up businesses with modest cash needs. In the latter case, credit card or other consumer debt may be appropriate.
- **Non-traditional financing** may be appropriate when customers or vendors are willing to participate in the business.

### Determine Source of Funding.

Determine the most appropriate source(s) for the type of funding you seek.

- Sources of **equity funding**
  - *Venture capitalists* – suitable for potentially large businesses with large cash needs, extraordinary growth potential, and a clear exit strategy (e.g., will go public or will be acquired).
  - *Angel investors* – suitable for moderately sized business with moderate cash needs, excellent growth potential, and a clear exit strategy.

- *Friends and family* – suitable for smaller businesses with modest cash needs, and that will eventually be able to pay dividends or buy back shares.
- Sources of **debt financing**
  - *Banks* – suitable for businesses with established credit records, ongoing operations, and/or physical assets to use as collateral.
  - *Credit cards, second mortgages, consumer debt* – may be suitable when cash requirements are small and the business will quickly begin to through off cash.
  - *Friends and family* – may be suitable for small businesses with modest cash needs, and with the ability to make loan payments on a timely basis.
- Sources of **non-traditional financing**
  - *Leases* – lease rather than purchase equipment; cash flow must permit regular lease payments.
  - *Customer advances* – customers pay for merchandise or service at time of order in order to assist business and secure needed product.
  - *Customer participation* – customers purchase an equity stake in the business to secure need product and reliable source of supply.
  - *Vendor participation* – vendors furnish equipment and/or supplies in return for an equity stake in the business to secure initial and follow-on sales.
  - *Other creative arrangements* – sources of non-traditional financing are limited only by the creativity and ambition of the entrepreneur.

### Ratio Analysis.

To help to validate your financials, compare critical financial ratios from your plan to those of your industry. Be able to explain and justify significant differences. Adjust financial statements if necessary.

- Compare Ratios, Profitability, and Returns figures for your industry with your figures.
- Understand where and why there are differences – differences are perfectly acceptable *if* they can be explained and justified.
- If you cannot justify significant differences, adjust your financial statements to bring them more into line with your industry.

### Business Risks

What are the risks to the successful implementation of our plans? Are they technological risks, e.g. we can't make our product work? Cost risks, e.g. it costs more than we figured? Competitive risks, e.g. are we pre-empted in the market by a competitor? How do you plan to minimize these risks? What is the worst-case scenario and how will you respond? Focus on risks that are

important and critical to your business, not the ordinary operating risks faced by any business. What is the probability and impact potential?

### **Exit Strategies**

What is our preferred exit strategy? How can investors realize a return on their investment? Go public? Sell out? Operate and grow? What is our exit strategy if the business does not develop as we hope?

### **Offering (Funding Request)**

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The Offering (or Funding Request) is where you make your pitch for money. If you have decided to seek equity capital, then you need to describe the type of security being offered (common, preferred, warrants, etc) to the investor and what share of your company they will receive for a specified investment. If you are seeking a loan, then you need to indicate to potential lender how the loan will be repaid and what is the interest rate. In either case, it is important that you clearly spell out the key terms of the proposal and sell the advantages to the investor/lender, and make it clear how they can get a satisfactory return. Also, it is important that you persuade investors that the deal you are offering is fair to them and is supported by the facts. Finally, remember that everything is open to negotiation, so don't give away the farm on the first round! Expect investors to negotiate hard! They don't give their money away for nothing.

### **Investment Requirements**

Using your cash flow analysis, what investments do we require to achieve our plans? What is the timing?

### **Valuation of Business**

What is the value of our company? How did you calculate this value?

### **Offer**

What is the structure of the deal we are offering or seeking? How much money do we want? How much of the company are we willing to give away? How much interest are we willing to pay? What collateral do we have for a loan? What is the planned exit strategy for investors? What is the anticipated return on investment for investors?

### Appendices

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The Appendices are where you should collect all of the documentation that supports the body of your business plan. As with the plan as a whole, it should be complete, but succinct. Include those documents that are required (e.g., financial projections), those that are helpful (e.g., results of marketing studies), and those that assist in selling your idea (e.g., letters of interest from potential customers). Don't include lots of tangential information such as newspaper clippings or tables of data unless they serve to bolster your plan. One way to deal with information that is voluminous and/or lengthy (such as a large market research study) is to summarize it, and note in the plan that the complete document is available upon request.

#### *Required items*

- Financial Statements
  - Financial assumptions
  - Monthly and Quarterly Cash Flow Statements
- Management CVs

#### *Optional items*

- Surveys and survey results
- Development timeline
- Operations layout
- Sample menus, web pages, advertisements, etc.
- Anything else that will help to illuminate and/or sell your plan

### Publish your Plan

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- A. Create a set of relevant appendices. Only include information that is necessary to understand your plan or significantly helps to sell your concept. Do not include tangential or marginal information.
- B. Organize the various parts of your plan as described above.
- C. Print, copy, and bind your plan with an attractive cover. Choose a binding (e.g., spiral or plastic teeth) that allows your plan to lay flat when opened.

### Present your Plan

**Presentation:** Prepare a compelling presentation of your plan

- Create a 20-minute presentation using overhead transparencies or computer projections.
- Your presentation should not have more than 20 slides (1 per minute maximum).
- Hit the high points – don't try to include all of the detail of your plan.

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- Use pictures and graphics on every slide to help hold the interest of your audience.
- Don't include tables with financial numbers – use graphs and charts instead.
- Be prepared with backup slides for questions from your audience.
- Be sure to introduce yourself and other speakers.

**Organization:** Consider using this organization for your presentation:

Topic	Time
Introductions	1
Product Description, Company Overview	3
Industry and Marketplace Analysis	3
Marketing Strategy	5
Operations and Development	3
Financial Projections	3
Offering	1
Conclusions and request for questions	1
	20 minutes

You will obviously need to modify this timetable to fit the specific requirements of your business.

## Due Diligence

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While not necessarily part of the business plan, expect investors to request the following information from you.

- ACCOUNTING, MANAGEMENT INFORMATION AND CONTROLS
  1. Accounting records and systems: Who does the company's bookkeeping and annual audit? What accounting system is utilized? How competently is this function being performed? What payroll system is being utilized? How competently is this function being performed? How is the company's administration department organized – personnel, reporting levels, competency.
  2. Management information: Are budgets prepared annually? Are monthly management accounts kept and reviewed, including comparison of actual and budget?
  3. Control environment: Is there a formal segregation of duties in the company and what reporting lines are in place? How are cheque signing powers apportioned? Has the company ever received an unfavourable audit report? Are its annual financials comprehensive and in order?
- HISTORIC FINANCIALS
  1. Fixed assets
    - Latest asset register
    - Agree significant assets to contracts and original supplier invoices.
    - Physically verify significant fixed assets.
    - Fixed asset fairly valued? Adjust?
      - What is their book value and replacement value?

- On what basis are they depreciated?
  - What is the quality/condition of plant and machinery and is it sufficient to perform operations efficiently?
  - What is maximum and historic/present capacity utilisation; what expansion possibilities are there and what are the likely costs thereof?
  - What maintenance systems are in place and do they ensure minimal downtime?
    - Are the fixed assets insured?
    - Check for any liens on the fixed assets.
    - Check for any leases outstanding on the fixed assets
      - Describe the type of lease agreement
      - Name of lessor
      - Amounts outstanding.
      - Lease schedule
2. Investments
- Check for any investments in other companies
    - Signed agreements
    - Investment terms
    - Investment value. Adjust?
3. Accounts receivable
- Latest debtors statement with names and contact details of buyers, terms (i.e. days) and early settlement discounts if any
  - Rank the significant debtors
  - Copy of invoice book for the past 2 months
  - Check debtor aging and discuss write off of any non-performing debtors.
  - Check for any liens over the debtors' book.
  - Has the debtors' book been factored in the past?
4. Inventory
- Obtain a list of the inventory.
  - Discuss the nature, age and condition of the inventory.
  - Physically examine the inventory and check to the inventory lists.
  - Consider if the inventory is fairly valued. Consider writing down old, damaged and slow moving inventory.
  - Is the inventory insured?
  - Check for any liens over the inventory.
5. Bank and cash
- Latest bank balances.
  - Details of banking facilities i.e. overdraft.
  - What bank accounts does the company have and what have average balances been for the past year?
  - Have cheques been returned?
6. Loans and long term debt and contingencies
- Obtain a list of all long term loans and debt.
  - Check the terms and contracts for each loan
    - Lender
    - Dates
    - Amount
    - Terms
    - Interest rate (check if complies with the Usury Act's maximum)
  - Discuss any possible contingencies.
7. Accounts Payable
- Latest creditors statement with names, contact details, amount outstanding and terms (i.e. days)

- Copies of any contract agreements e.g. leases, suretyships, mortgages and instalment plans
  - Check creditor ageing and discuss any slow/late payment.
  - Rank the significant creditors
8. Income Statement
- Obtain up to the last three years audited income statements
    - Perform an analysis of sales, other revenue, cost of sales, expenses and profit margins,
    - Look for trends and unusual items and changes. Follow up and discuss with management.
  - What is the company's effective rate of taxation.
    - Does it have any deferred taxes?
    - How effective has its tax management been?
  - Working capital management
    - How well has the company done in managing working capital given its cash flow levels under the review period?
- PROJECTED FINANCIALS
    1. What assumptions underlie the revenue forecasts and are they realistic?
    2. What gross margins have been assumed - consistent with the company's historic performance and industry standards?
    3. On what are the costs of sales and overhead costs based and are they realistic?
    4. How are the company's fixed assets depreciated?
    5. What interest and lease payments are projected?
    6. Have allowances been made for bad debt?
    7. What taxation rate has been assumed?
    8. What is the company valued at, who conducted the evaluation and how was it arrived at?
    9. What is the value of fixed assets?
      - How was this calculated?
    10. What plant and equipment investments are proposed?
      - Cost?
      - How will it be financed?
      - When is the expected payback period?
    11. What is the value of stock how was this number arrived at?
      - How was this calculated?
    12. What debtor and creditor terms are assumed?
    13. Have dividends been provided for - if so, what value?
    14. What is the proposed financial structure of the company – mix of equity and debt?
    15. What are the cash flow projections
      - Discuss with management – are they realistic?
    16. Analyse the projected financials using the following ratios:
      - Operating margin,
      - Net income margin,
      - Return on total capital employed,
      - Return on equity.

### COMPLIANCE WITH LEGAL AND TAX REGULATIONS

- Company's Act
  1. Documentation pertaining to incorporation of the company
    - Memos and articles of association and certificate of incorporation
    - Any shareholder's agreements or other legal agreement entered into between shareholders or between company and other company/s
  2. Minutes of meetings
    - Obtain all minutes of board meetings and review

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- South African Revenue Service
  1. If possible, a tax clearance certificate from SARS
  2. All latest tax returns for company tax, VAT, RSC, SDL
  3. Confirmation that all have been paid e.g. proof of cheque deposit or receipt from SARS
  
- Payroll-related tax issues
  1. Last 6 months PAYE returns and proof of payment e.g. proof of cheque deposit or receipt from SARS
  2. Latest payroll printout listing salaries, UIF, workman's compensation, and provident/pension fund payments and proof of payments having been made e.g. proof of cheque deposit or receipt from issuing authority
  
- Legal issues
  1. Who are the company's lawyers?
  2. Discuss with management and the company's lawyers:
    - Are there any legal actions pending?
    - What is the outcome of past legal actions?
  
- Environmental issues:
  1. Are there any environmental issues that concern the company?