

THE BUSINESS PLAN



A well-drawn up business plan should have the following qualities:

- it should look neat, clean and attractive;
- it should have all the necessary information, but not be unnecessarily wordy;
- the information should be clear and easy to read;
- the information should be well organised and logically presented;
- the information must be supported by facts and evidence as far as possible.



Once you have carefully considered all the above information and you have made decisions around your product, done the necessary market research and completed all the financial planning, you have to complete a Business Plan to keep you on track and ensure that you work towards the goals that you have identified.

Your business plan states your business objectives. It is an important document because banks and financial institutions will want to read it before agreeing to give you a loan.

It also helps as a reference document for yourself as an entrepreneur because it gets you to clarify your thoughts regarding your business objectives, and gives you a reference guide to keep you on track with your future plans.

Drawing up a business plan is not a quick and easy process – it takes a lot of time, research and planning. But with a good business plan you have a much better chance of getting a loan and of succeeding in your business.

1. The components of a business plan

1.1 Cover page

Design a smart-looking, professional cover page with the second page giving the contents of your business plan. It is important for your cover page and your whole business plan to show how serious you are about starting your own business.

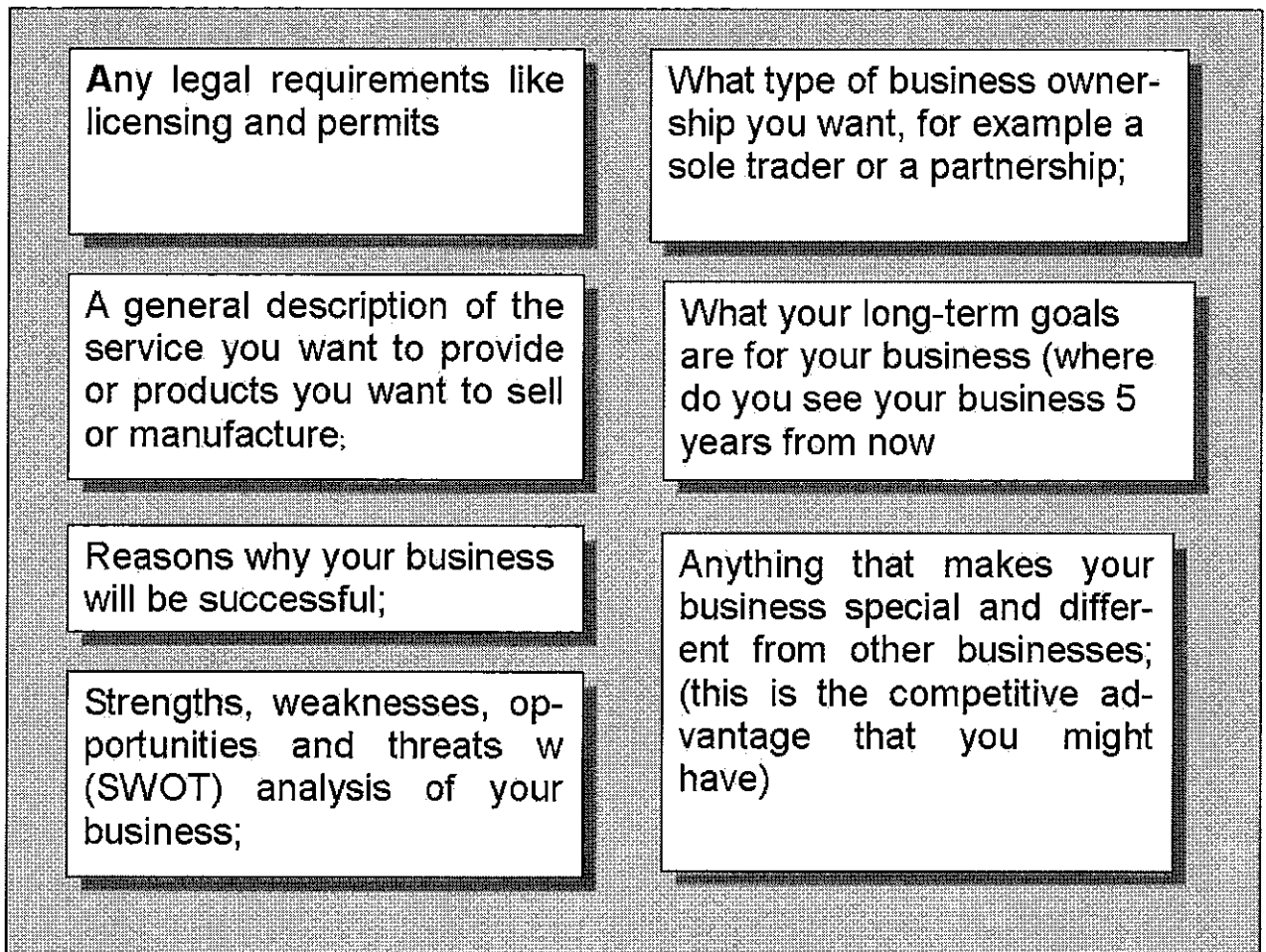


Your cover page must have:

- the name of the business;
- the entrepreneur's name;
- the entrepreneur's addresses and
- telephone numbers;
- the logo or emblem of your business.

1.2 Description of your business

The next part of your business plan involves giving a full description of your business. In this description, you need to include information about:



1.3 A Summary of your business idea

Your summary should be short, clear and focus on the main points of your business plan. It should make the reader want to continue to read the rest of the document and should explain the following:

- the reason for your financial request;
- how much money your need;
- how you will use the money
- how you will repay the loan.

1.3 The management plan of your business

Your management plan should include the following information:

- the type of ownership (sole trader, partnership, Closed Corporation, private company)
- how many people you will employ, the type of training they need, their salaries or wages that will have to be paid;
- an organisational structure (This shows the positions of people in the business, for example, a managing director, an operations manager, an administration manager, a secretary.);
- your plan of how you will run your business (operating plan);
- a description of your administration system or system of how you record information about the business;
- names of suppliers you want to use.

Organise and Manage

A business must be well organised in order to be successful. A disorganised business results in chaos and frustrated customers. The following aspects need careful consideration:

- **Planning**

Planning is one of the most important skills of any manager. Drawing up job descriptions, goals, objectives and timeframes is all part of planning and will ensure that everyone in the business know exactly what to do, why they are doing it and by when it must be done.

- **Organise**

Organisational skills will be as important to any business, once the plan is in place the actual work needs to be done. Raw materials must be bought, products must be manufactured and the business must start making money.



Organising a business means that the correct structures must be put in place in order for the plans to happen. A good organiser will also ensure that there is a “Plan B” in place, in case something goes wrong, for example a back up sales person or temporary staff members.

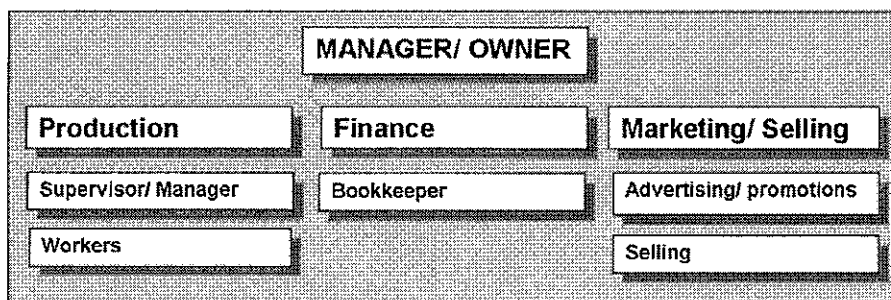
- **Control**

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Any business will always require a certain degree of control. From the production phase right up to the selling to customers, controls must be put in place to make sure that everything happens according to plan.

Quality control of the raw materials will happen when the delivery by the supplier takes place, during the production process there will also be quality checks to make sure that the final product meets the requirements of the customer. Controlling the finances will include drawing up budgets and working within these budgets as well as making sure that nobody runs away with the cash.

It is always a good idea to have everything in writing, from the planning stage all notes must be put in writing as it serves as guidance and easy reference. A visual organisational chart will help everybody to understand the lines of communication and see an overall picture of the different functions within the business.



1.4 The marketing plan of your business

Your marketing plan should include the following:

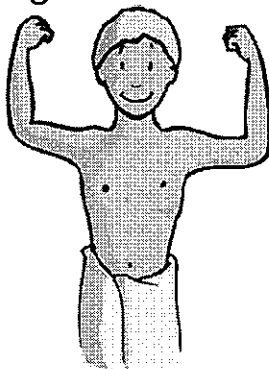
- a description of your target market;
- sales forecasts for the first year of your business;
- a description of your main customers;
- a description of your potential competitors, their marketing strategies, and how they can influence the success your business;
- a description of the 4Ps

Market share

The percentage of total sales that a business can claim in a specific area, whether the area is the immediate community, regionally, nationally or globally is known as the market share.

- **SWOT analysis**

An examination of the Strengths and Weaknesses of your product or service and a careful study of the Opportunities and Threats which face your proposed business, will enable you to upfront make plans around the weaknesses and threats and concentrate on those areas where the strengths of the business lie as well as the possible opportunities that might arise.



- **Viability study**

Research into whether you are able to produce and sell enough of your new product or service to make a profit. If the product or service is viable it means that it “can be done” and make enough money ongoingly to warrant the time and effort that went into the production and selling of the product.

- **Market research**

A planned, organised effort to get new facts and knowledge that will help you to make better decisions about the marketing of your product or service is known as market research. Market research enables you to establish exactly what the customer wants.

- **Competitor analysis**

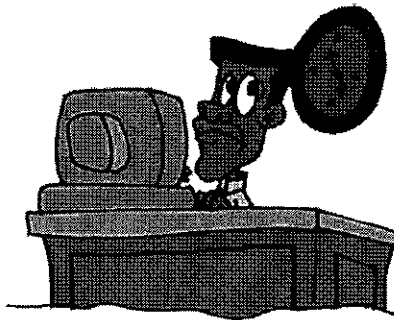
A detailed examination of the competition which includes the quality and price of the products and services as well as any other strategy, that they have in place that might put their business in a better position.



Let us take a look at some of the components in more detail:

- **Market research**

Market research is the research that is done to find out about your potential market. It includes finding out who is buying this type of product or service, how much of this type of product or service is being sold and whether there is a need for your specific product or service. Generally market research can be obtained from two sources, namely primary sources and secondary sources. Primary sources include all those people that you interview speak to, observe or that filled in questionnaires.



The information obtained in such a way, comes directly from the potential customer. Secondary sources include information obtained from all other places, except from the potential customer, such as facts and figures from the library, the local chamber of commerce, the internet, or the local businesses.

Popular methods to do market research:

- **Observations**

Going to a shopping mall or a flea market to observe customers and see how they behave and what they buy.



- **Focus groups**

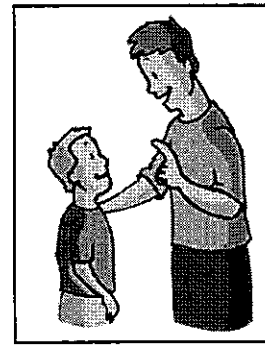
To form a sample group of people to discuss certain questions specific to the product.

- **Mail surveys through questionnaires**

This method involves getting people to fill in the answers to questions about the product or service. This method is also popular on the internet. (It is customary to include an incentive to get people to return the completed questionnaire.)

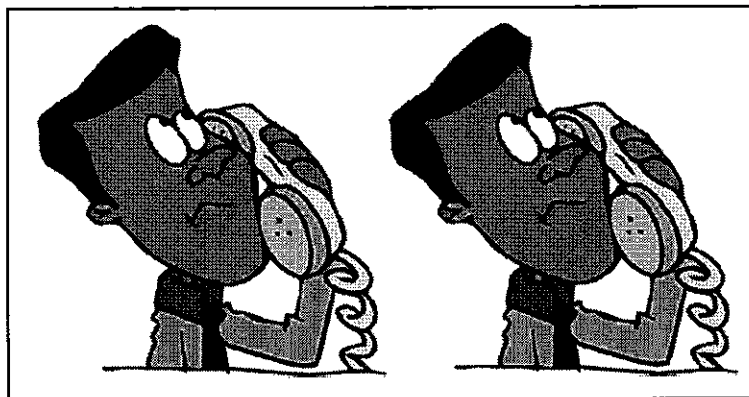
- **Personal interviews**

Personal interviews can be conducted in different formats, such as stopping people at a shopping centre or market and asking a few quick questions or getting them to participate in a formal meeting/tasting/testing of a product or service.



- **Telephone interviews**

- A telephone interview involves a quick call where you ask people for a few moments of their time to answer a few questions.



The following components make up the feasibility study:

- **Customer profile**

A customer profile allows you to have a clear picture of the customer and will include aspects such as, age, sex, income group, occupation and culture.



The more you know about your customer the easier it will be to identify the products that they will spend money on, as well as how to approach them when trying to sell your product or service to them.

- **Target market**

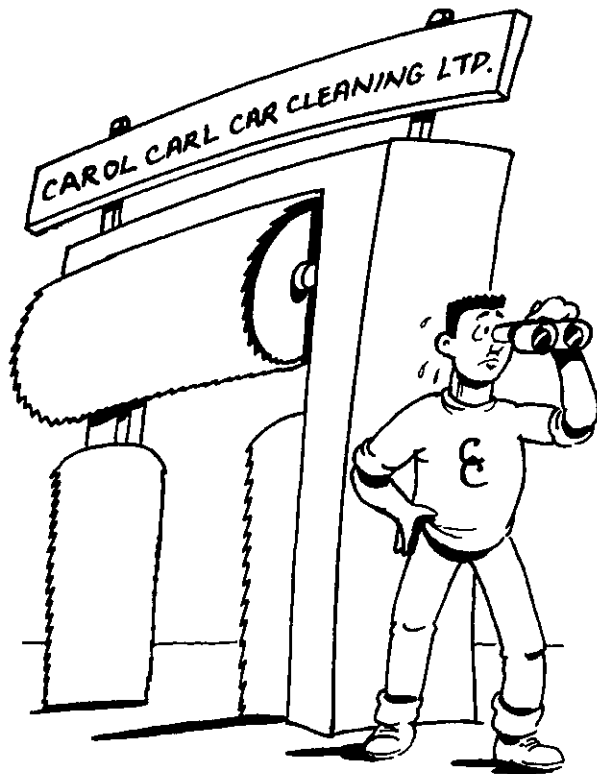
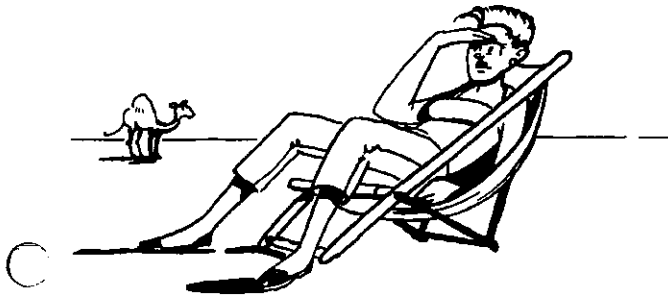
The target market includes all the potential buyers of a product or service. These are the customers who have a need for your product or service and who can afford to buy the product.

1.5 The Production Plan

WHERE TO WORK

Deciding where to work is very important
You'd look silly setting up a car-cleaning
service in the middle of the Sahara!

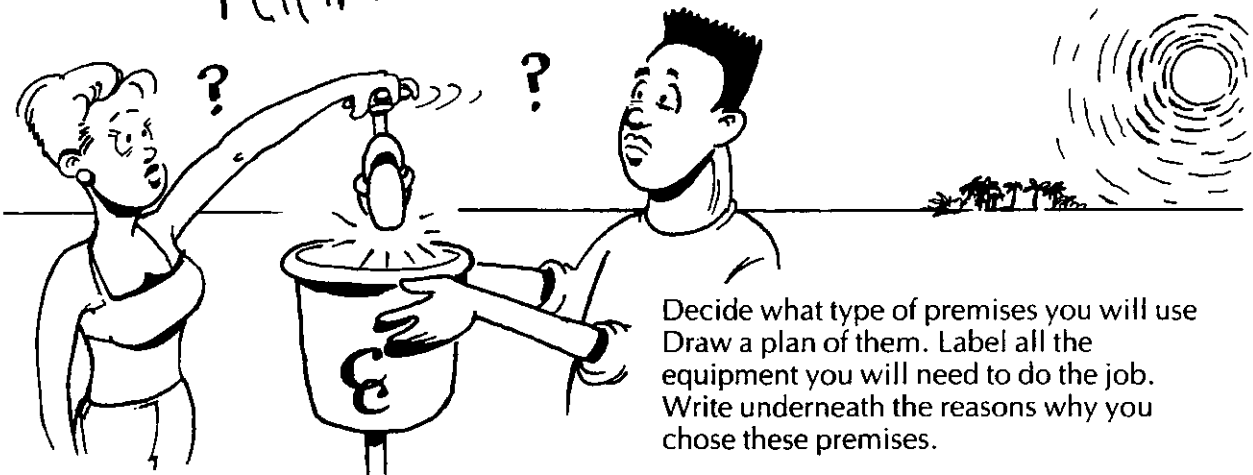
You need to think of general questions like
these. For example, how big will your
business be?



Once you have made this decision, you can
begin to look for premises – the place where
you work



You also need to think about things which
only apply to your particular business. What
sort of things will you have to think about for
your business?

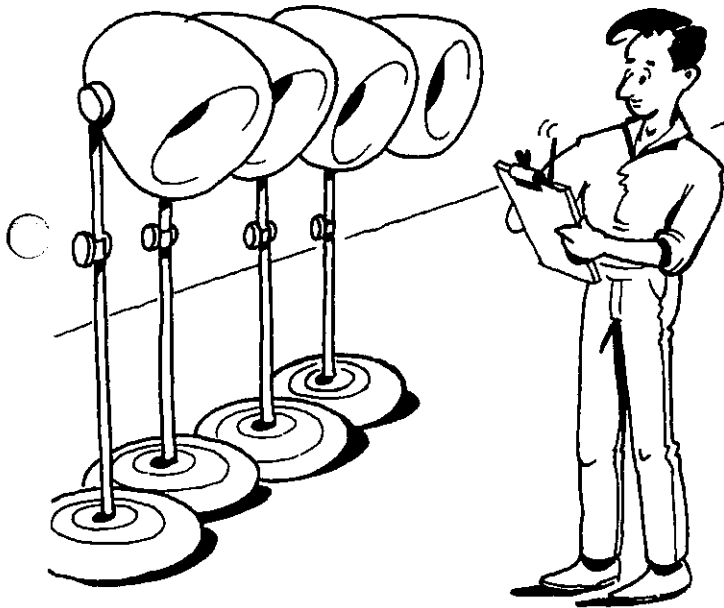


Decide what type of premises you will use
Draw a plan of them. Label all the
equipment you will need to do the job.
Write underneath the reasons why you
chose these premises.

WHAT EQUIPMENT?

Before setting up any business, you need to think about equipment and supplies

Equipment – items you don't buy very often
They may be large or small



Supplies – items you have to buy frequently



Make a list of all the equipment and supplies you will need for your business.

FINDING SUPPLIERS

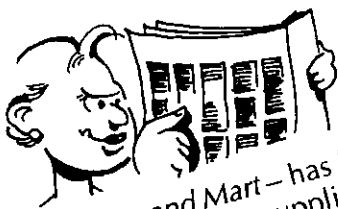
To buy equipment and supplies for your business, you must look in various places

It's not enough to rush out and buy the first piece of equipment you see advertised. You must compare prices and make sure that you get value for money

You can find equipment and supplies in the following ways



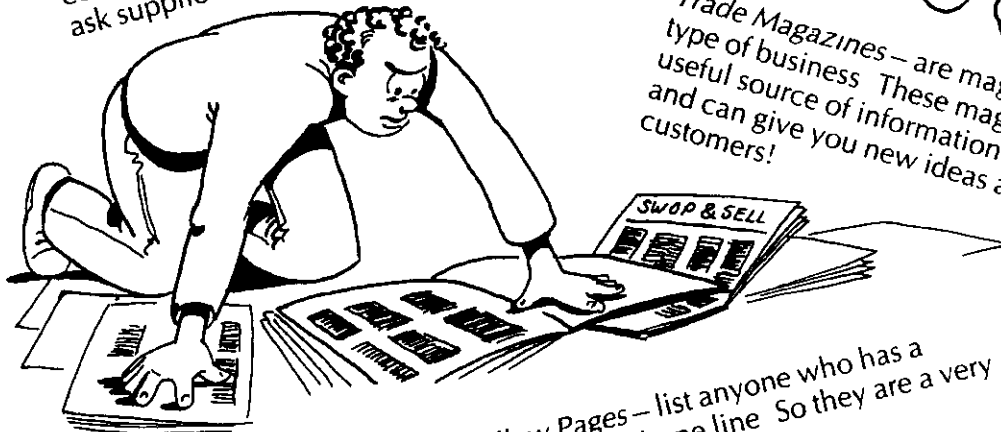
Friends – or people in the same line of business as you, may tell you where to buy things. You may even be able to borrow what you need



Exchange and Mart – has lots of advertisements for supplies. You could find the supplier you need from here, or you could place an advertisement yourself and ask suppliers to contact you

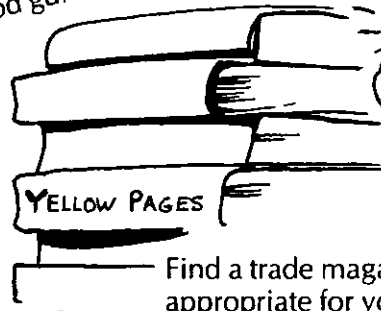


Trade Magazines – are magazines for each type of business. These magazines are a very useful source of information about suppliers, and can give you new ideas about customers!



Yellow Pages – list anyone who has a business telephone line. So they are a very good guide to suppliers

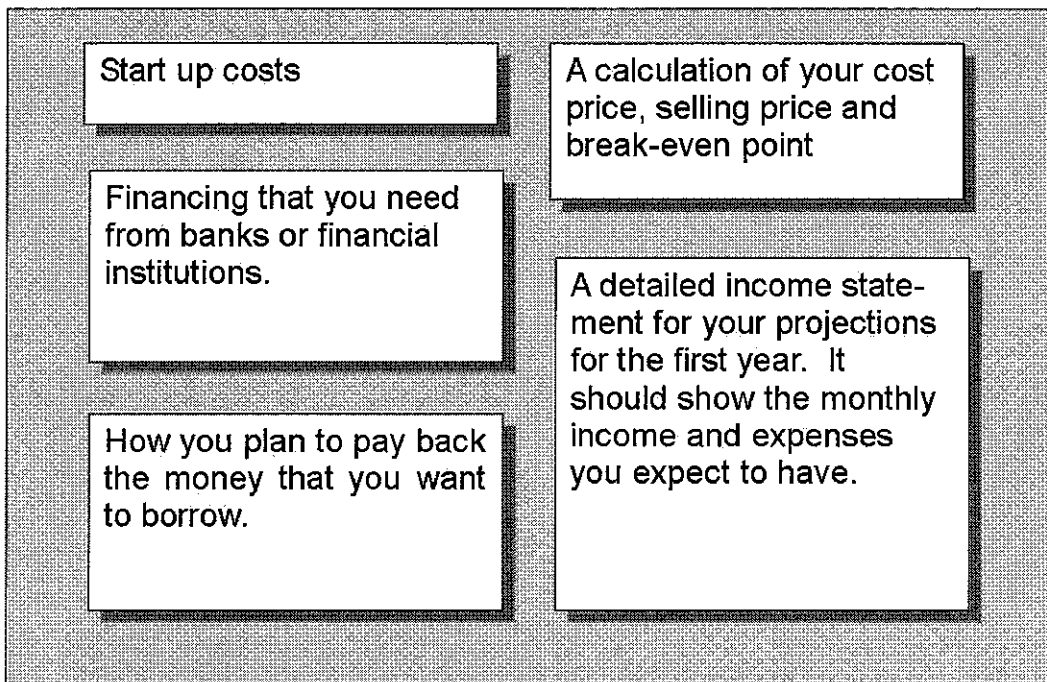
Thompson's Local Directories – are like telephone books, which list local firms. Some of these firms may be useful to you as suppliers



Find a trade magazine which would be appropriate for you. Decide on one item of equipment and look for it using the magazine and the other methods listed above. Once you have found a supplier, find out how much your piece of equipment would cost

1.6 The financial plan of your business

The financial plan of your business is very important and needs time and attention. This will be the main focus of every money lender before they make decisions about granting the loan.



Costing and pricing

One of the most important goals of a business is to make money. If a business does not make money it is not a business anymore. Therefore all costs need to be carefully calculated and a market related profit added.

If there are too many costs, there will not be a profit. There may even be a loss. A business needs to cover all costs and make a profit if it is going to survive. To make sure that you know what you have to focus on, you have to understand the following components:



- **Costing**

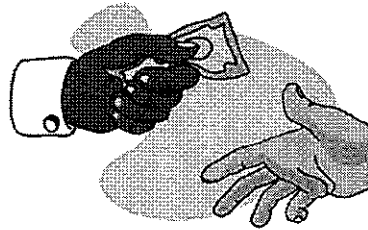
This refers to calculating exactly how much your product or service costs to produce. These costs must include all costs, not only the actual manufacturing costs, but also costs, such as rent, electricity and wages.

- **Pricing**

This means to work out how much to charge for the product or service so that a profit is made, yet at the same time the price is in line with the competition and what customers are prepared to pay.

- **Break even**

This is the point where all the costs of your product or service is covered by the sales. Once you are at break even, you know that you have made back all the money that you have spent and that all income now becomes profit.



- **Profit/Loss**

If you sell enough of your product to cover your costs and more, you have made a profit. If you do not sell enough to cover your costs, you have made a loss.

- **Cash Flow**

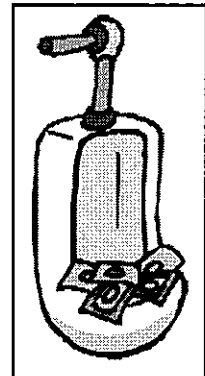
This is the flow of money (cash) into and out of your business. “Cash in” is the term used for all the money that come in from sales of the product and service. “Cash out” is the term used for cash amounts involved in producing, marketing and selling your product or service. If there is more cash going out than cash coming in, your business will eventually fail.

- **Start-up or Pre-operating expenses**

Start-up or pre-operating expenses are those expenses that are needed in order to plan and to prepare for the project. These include deposit on a stall, buying stationery, registration costs, etc.

Hidden costs

These are costs which are not immediately obvious or even unforeseen, hidden costs will include breakages and repairs that were not expected.

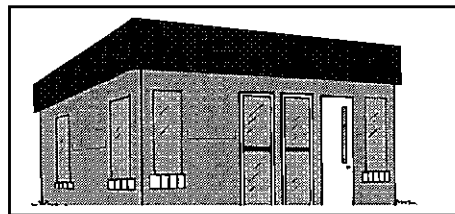


- **Interest**

The money that is paid to the bank or another money lender, when money is borrowed. Interest can also be received by the business if money is kept in the bank or another financial institution.

- **Capital**

Money or assets used to start a business. These assets could include buildings and machinery.

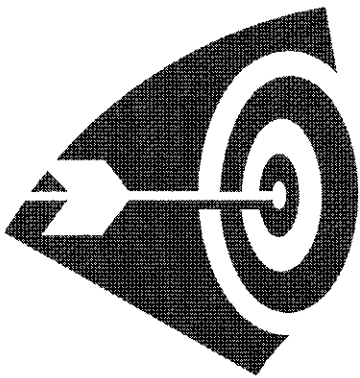


New businesses need to list all their start-up or pre-operating expenses. How much money will be needed to get the business going and to survive for the first few months. A business or project may not make any money at first; therefore it is important to know how much money should be borrowed to get going. Then you have to calculate exactly what the product or service will cost to produce.

1.7 Extra Information that could help you to get a loan

Include in your business plan the following information:

- a summary of why you believe your business will succeed;
- some information that motivates other people to believe your business will succeed;
- letters of reference from people in business or from people who are willing to give positive information about you;
- legal documents;
- copies of contracts or leases.



GOOD LUCK WITH YOUR BUSINESS VENTURE!

APPENDIX I

1. The Income Statement

The Income Statement shows whether the business made a profit or a loss for the period in which it operated. In order for you to draw up an Income Statement you have to keep a very accurate record of all the expenses and income of the business.

Expenses will not only include the actual production expenses of the product, but all the other overhead expenses, such as rent, wages, electricity, etc. The total income of the business will be the money that was received from the sales of the products or services. Look at the following example of an Income Statement:

Income Statement of Bling Designs for the three months ending June 2007

<i>Sales</i>	<i>2 000,00</i>
<i>Less Cost of goods sold*</i>	<i>(550,00)</i>
<i>Gross Profit</i>	<i>1 450,00</i>
<i>Less expenses</i>	<i>(950,00)</i>
<i>Advertising</i>	<i>200,00</i>
<i>Rent expense</i>	<i>30,000</i>
<i>Stationery</i>	<i>120,00</i>
<i>Packing material</i>	<i>180,00</i>
<i>Interest paid</i>	<i>70,00</i>
<i>Net profit</i>	<i>500,00</i>

* Calculation of Cost of goods sold:	Beads	R350,00
	Wire	R100,00
	Clasps	<u>R100,00</u>
		R550,00

From the Income Statement above we can establish the following:

- The total sales for the period is R2 000,00
- The cost of the jewellery that was sold is R550,00
- All other expenses amount to R950,00
- The net profit (which is what the owner is entitled to) is R500,00

From this we can make the following deductions:

- The percentage gross profit to sales is:

$$\frac{1450}{2000} \times 100$$

$$= \underline{72,5\%}$$

- The percentage net profit to sales is:

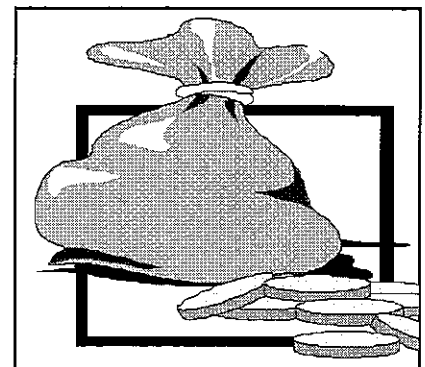
$$\frac{500}{2000} \times 100$$

$$= \underline{25\%}$$

- The percentage expenses to sales:

$$\frac{950}{2000} \times 100$$

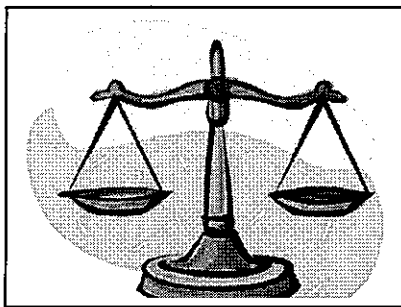
$$= \underline{47,5\%}$$



From the above information:

- it is clear that the gross profit percentage is very high, and the net profit percentage is much lower as a result of the high percentage rate for the expenses.
- What the owner should decide is whether R500,00 is enough profit for the hard work and effort that is required to make and sell the Bling jewellery.
- Another consideration could be to try to cut back on some of the expenses.
- Take note that there is no wage expense, which means the owner is doing all the work and not taking a wage or salary from the business.
- A possibility to consider is to grow the business, if the cost of sales to produce the jewellery is reasonably low and the overhead expenses, such as rent does not increase accordingly, then the net profit could increase.

2. The Balance Sheet



The Balance Sheet shows the financial position of the business at a particular date. It is a summary of the total assets (possessions), the total liabilities (the debts) and exactly what the owner is worth.

If the business sells all the assets and pays all the liabilities then the difference should be what the owner invested in the business plus the profit that has been made.

Look at the following example of a Balance Sheet:

Balance Sheet of Bling Designs as at 30 June 2007

ASSETS	
Non-current assets	3 000,00
Tools	1 200,00
Workbench	1 800,00
Current assets	700,00
Stock	200,00
Cash	500,00
TOTAL ASSETS	3 700,00
OWNER'S EQUITY AND LIABILITIES	
Owner's Equity	2 500,00
Capital	2 000,00
Plus Net Profit	500,00
LIABILITIES	
Non-current liabilities	1 200,00
Loan	1 200,00
TOTAL OWNER'S EQUITY AND LIABILITIES	3 700,00

From the Balance Sheet above we can establish the following:

- The total assets are worth R3 700,00 made up of R3 000,00 fixed assets and R700,00 worth of stock and cash.
- The total liabilities amount to R1 200,00, which is a loan, possibly taken out to start the business.
- The owner is worth R2 500,00 which is the start-capital, plus the profit made in the past 3 months.