

# **ABC COMPANY LIMITED**

## **BUSINESS PLAN**

**Strictly Private & Confidential**

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## Guidance Notes to writing a business plan

Just as each business is different, so is each business plan. There is no single exact format for a good business plan.

This template outline provides an overview of the points that need to be discussed in a business plan, but your plan should not be a carbon copy of it. Depending on the type of business and stage of development, some sections will need more attention than others, while some might be merged, rearranged or even excluded. The information you include will also depend on the stage of your business; at a very early stage, some information may not exist yet. You might also choose to change the order of the sections according to relevance.

Writing a business plan is not a linear process. You will have to adapt and revise the sections depending on the information you collect over time. It is important that the different elements of your plan fit together coherently.

The major challenge is selecting the information that needs to be included and skipping redundant information. For every table or paragraph you include, think carefully whether it contributes significantly to showing that your idea is a real business opportunity.

If you provide a deluge of information, the most crucial details will get lost, and the reader or potential investor may miss the most essential information.

Therefore, take the time to make your business plan sharp and concise. For details which you think are important but which are too wordy and long for the main text you can refer the reader to an Appendix.

### What to do for a negative business case

If your research leads you to believe that the project is not feasible, you will make a negative business case at the end of your course. In this instance, you are writing as if you are a consultant making a recommendation to an investment board or to the management of a company that is considering investing resources in a new idea.

To do this, you can use the same basic format as for a business plan; with sections that discuss the same areas such as the potential markets you investigated, industry/competition, appropriability, business model possibilities, financial projections, risks and so on.

In addition, you will add a concluding section at the end, drawing on the factors discussed in the previous sections to explain why you would not recommend investing in this project or opportunity.

### Format and Design

This template is purposely neutral in design and appearance. We encourage you to add your own branding and design ideas to convey the 'look and feel' qualities of your business. This will give your business plan a distinctive character compared to the other ones sitting on the investor's desk and signals your vision and commitment to the idea.

## Executive Summary

The executive summary is the most important part of the business plan. Many investors will only read this to decide whether they are interested. The summary in itself will not secure an investor; however, it can lose them.

Quality - the quality of the summary must therefore be outstanding and you should pay particular attention to it. It should be the last section you write, and you should get critical feedback from others on your drafts.

Stand-alone - it is also used as a stand-alone document when introducing the project to others so it must be able to capture interest and entice the reader to take the next step and request more information - and secure a meeting.

Style – keep it brief, simple and to the point, organized as a series of bulleted paragraphs, each dealing with one key area. No waffle.

Length - one page.

Content - it should:

- Introduce the project in terms of what area it operates in, the **opportunity** it addresses, and what the business is trying to do: what problem are you solving? What need or desire are you addressing?
- Highlight the main **market** characteristics, including size and growth, and specify the target market segment that you are addressing
- State the central **competitive advantages** of your products and/or processes, how they are distinct from the competition, and how these differences are important to customers
- Describe the **stage** the project has reached, particularly in terms of "readiness for market" of its offering, and outline any **intellectual property**, such as patents, that may support the products
- Briefly describe the key **individuals and advisors** involved
- Include any "**evidence of success**" - this may be working prototypes, market tests, trade reviews, analyst comments, sales or partnership agreements, , etc. which make the project more tangible and raise confidence in the project
- Summarize the objectives of the company in the short and long term, and quantify these with specific numbers. Outline the key **strategies** you will use to achieve them.
- State your **finance requirements**, the timescale for this finance, (see Financial Structure), and the planned exit strategy for the investor - i.e. how the investor will realize their return from the project.
- Highlight any other key issues that should be noted

### REMEMBER:

**Keep the points short and pithy. You will provide further detail elsewhere in this document.**

**THE EXEC SUMMARY SHOULD NOT EXCEED ONE SIDE OF A4.**

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**Note:** there is no specific rule about the order or title of the sections in a business plan, but the content should flow logically. This particular template is mostly geared toward a ‘market-pull’ business opportunity for novice entrepreneurs, but you might adjust the format for other types of situation.

**For instance,** if you are an existing company that is already trading, or a seed stage company with a highly experienced management team of serial entrepreneurs, you may want to start with a section that introduces the Company and its Management.

If instead you are a pre-seed or seed stage company with less experienced entrepreneurs, it makes more sense to start the business plan by outlining the compelling opportunity (the problem you will solve or demand you will meet), the attractiveness of the market, and the business strategy, and then introduce the team.

Alternatively, if your aim is to commercialise a new platform technology rather than producing and selling end products, you might start by outlining the technology and its capabilities, the possible areas of application, and then move on to discuss target market opportunities and potential buyers of the technology and the expert team who will execute the plan.

**It isn’t possible to write a one-size-fits-all ‘template’ for a business plan. Use your judgement and think about the investors’ perspective – who is the intended reader of the plan and what will they want to see? – and the strengths you want to highlight.**

**[It’s prudent to include the text below at the beginning of a business plan in the UK, or whatever is applicable in your country:]**

*Important Information: This document does not constitute a public offer or prospectus or invitation to the public. Only those who fall under the FSA definition of “High Net Worth Individuals”, or “Sophisticated Investors” should review the plan. It will not be circulated to more than 50 such individuals. Investments in unquoted securities are highly speculative, carrying high risk as well as the potential for high rewards. There is no ready market for the realization of that investment, or its valuation, or the risks to which an investment is exposed. The figures stated are purely illustrative and do not constitute a forecast. Before investing in a project readers are strongly advised to verify all material facts and information for themselves and seek advice from a person authorized under the Financial Services Act.*

## The Opportunity and the Market

This section should describe

1. the opportunity you are addressing, e.g.: what is the problem that needs solving; what is the unmet need or desire that you intend to satisfy? Is there a growing market or industry trend that you intend to tap into?

2. the market you will be operating in – generally and specifically in terms of which sectors you will be targeting, the size of each segment, and the main current products being offered to that sector.

- Market Overview – what market do you intend to operate in?
- Market size and segmentation. What is the size of the market and how can this be segmented or grouped into sectors? Which segments, or sectors, will you specifically be targeting and why?
- Market growth trends.
- Other key market characteristics, particularly those that impact your product/service offering, such as qualitative traits about customer preferences.
- Main competitors / products currently targeting these segments.
- Outline any primary market research you have undertaken either with expert witnesses or potential customers. Your market estimates should be based on your own bottom-up research compared against any desktop (top-down) reports.

## The Product/Service

- Describe your products / services in clear and simple terms
- What customer need is being satisfied by these products but is not being satisfied by others?
- Explain any performance advantages / value advantages over rival products
- List any other unique features
- Describe briefly and simply any specific technology or design concept behind the product.
- Intellectual property – are any patents or trademarks involved or required?
- Price and pricing strategy – what price will your products sell at and what is the pricing strategy behind this decision. How does this compare with rivals?
- State the costs of production and distribution, and so the resulting margins on sale
- Describe any wholesaler or retailer margins involved and how this compares with rivals
- Communicate any further planned products / development and when you expect them to reach market / bear fruit.

Include any background information relevant to the products or services.

### Example text, Medical Instruments:

#### The MelanoScanner

We have developed a medical instrument device for the detection of melanoma (skin cancers): the MelanoScanner, which has just been awarded the Queen's prize for innovation.



The MelanoScanner detects potential melanoma by measuring tiny temperature differences, caused by increased blood flow, between normal skin and a malignant melanoma.

It is a small, hand held portable device, between 15 to 25 centimetres wide that looks much like a hand held barcode reader as found connects, much like a mouse, to a computer with the company's simple diagnostic software.

Any computer can be used and the programme is small in size.

#### The Need being Served

Melanoma is the most common form of cancer in the UK and the death toll from the disease is rapidly rising even though it can be successfully and easily treated if detected early.

The MelanoScanner allows for the first time for practical screening to be undertaken in a GP's surgery to a high degree of accuracy (over 95%) without the need to refer the patient to an expert dermatological surgeon for screening – which is not practical as they are scarce.

#### Pricing Strategy

As there are no direct product comparisons we relied on same-type products to determine our pricing strategy and policy.

GP's have a number of instruments that they use and have been adopted almost universally by every GP in the country and around the western world. These instruments typically range between £5,000 and £12,000 per unit and this has been shown to be an affordable price within their specific budget for instruments.

In addition to this reference, we carried out a basic telephone survey of 300 GPs to ask them directly if they would buy such a product if available, and whether they would be willing to pay in this price range. 98% of our sample said they would buy it and had the resources currently to pay for it – they were willing to pay between £3,000 and £5,000 for it.

The price has therefore been set at £4,500 (excluding VAT) to ensure we do not forsake profit, and to ensure that demand is a little slower so we can meet it. The price can easily be reduced if we needed but not readily increased.

## Production Costs and Gross Margins

Because the investment in our product is primarily in the technology, the physical cost of production is actually very low.

	<b>Cost</b>	<b>% of Sales Price</b>
Circuit board	45.00	
Plastic Mouldings	6.00	
CD with software	2.50	
Packaging Materials	3.00	
Assembly & Packing	1.00	
<b>Total Unit Production Cost</b>	<b>57.50</b>	<b>1.3%</b>
<b>Selling Price (ex VAT)</b>	<b>4,500.00</b>	<b>100%</b>
<b>Gross Margin per Unit</b>	<b>4442.50</b>	<b>98.7%</b>
Reseller Commission	90.00	2%
<b>Margin after Sales &amp; Dist.</b>	<b>4352.50</b>	<b>96.7%</b>

The reseller will control Warehousing and distribution, and will meet these costs from their fixed price per unit commission.

## Intellectual Property Rights

Our MelanoScanner has been patented internationally and the patent has been approved. The effective filing date was July 2002.

The MelanoScanner trademark has been filed and granted as a community trademark in Europe, the USA and Australia.

Research and development will continue as a major part of our business and we have budgeted accordingly in our financial plans.

## Competitive Business and Growth Strategy

How is the company going to compete in the market?

Briefly introduce the reader to the industry context of the business. This section should be brief and highlight the main facts and developments.

Present the current status and prospects for the industry in which the proposed business will operate.

- Where does the business intend to position itself in the industry environment (e.g. the value chain), and why have you chosen this position?
- Business model: Will the business compete on price, service, quality, convenience, new features and benefits, by targeting a very specific area of the market (niche), etc? How is this difference compelling to the target customer/buyer and/or to other key stakeholders?
- Protection: outline any intellectual property strategy or otherwise explain how the business will acquire and protect market share.
- Growth: How do you envision upscaling from your first target segment(s) to additional ones?
- Are there any strategic challenges posed by the industry, and how does the company intend to address them?
- Describe briefly any competing products, new entrants or exits, regulatory issues, trends or new developments that could affect the business either positively or negatively.

## Product Development and Production Strategy

### Development:

Describe the nature and extent of any design and development work and the time and money required before your product or service becomes marketable.

Design and development might be the engineering work necessary to convert a laboratory prototype to a finished product; the design of special tooling; the work of an industrial designer to make a product more attractive and sellable; or the identification and organization of employees, equipment, and special techniques, such as equipment, new computer software, and skills required for computerized credit checking, to implement a service business.

- Describe the current status of each product or service and explain what remains to be done to make it marketable.
- Describe briefly the competence or expertise that your company has or will require to complete this development.
- List any customers or end-users that are participating in the development, design, and/or testing of the product or service. Indicate results to date or when results are expected.
- Outline the budgeted costs of development work, including labour, materials, fees and so on.
- Identify any major anticipated design and development risks and define approaches to their solution.

### Production:

Explain what strategy you have adopted for production and describe the structures that will be involved and their state of readiness. The level of detail will depend on the stage of your business.

- Explain what your production strategy will be – will you build a production plant, contract a production plant, contract entire production out, or license the technology?
- Describe where production will take place and if contracting out, who will undertake this.
- Describe the physical production process.
- Explain all the costs of production, stating the costs of each major component, to arrive at total production costs per product unit.
- If you are using your own production facility, describe what the fixed costs of the facility will be and differentiate these from the variable costs of production (e.g. materials).
- If you are building a plant state how much capital investment is required.
- Describe any quality assurance procedures you have in place.
- State the production 'lead-time': how long it takes to make a product from scratch – including the time taken from ordering of any components, etc.
- Explain what policies you have towards stock holding and component reordering – this is important to ensure continuity of supply but also to ensure that stock does not consume too much working capital – and that sufficient working capital to fund inventory has been planned for.
- State what your production capacity will be: how many products can you make, per month or year.

## Marketing & Sales Plans

This section should explain the major marketing and sales activities that the company plans to undertake.

The document may well be directed towards broader strategy but even so should include major budgets.

### Marketing strategy:

- What is the core strategy for marketing your products?
- How are your target customers going to be made aware of your products? What mediums of communication will be used to reach your target consumer?
- Will there be any marketing effort aimed at any intermediaries you may have – such as wholesalers?
- Will you make substantial use of PR (public/press relations) in your marketing effort – are the products newsworthy or is another news story being created to support the products? (For example your company launching an educational website offering free advice to consumers on matters that have a relationship with your product)
- State how much this will cost and break down the costs between categories
- Introduce any agencies that will be used to assist you and confirm that they have been able to produce a practical action plan with the budget
- Explain what you expect the marketing effort to achieve and how you plan to monitor and control the effort to ensure it is effective

### Sales and Distribution:

This section explains the strategy, structures and processes you will use to sell your product to customers, and intermediaries, and how you will physically deliver the product to them.

- State to whom you are selling the products, state specific segments of the market
- Explain how are you going to make the product available to customers and sell the product to each of these segments – how are you going to make it convenient and accessible for your customers to buy your products?
- Describe the retailer and intermediary margin structures for each sales channel you use through to the final consumer – and compare this to rivals
- If you need a sales force, will you develop this in-house or have you identified a sales organization you can contract/partner with?
- Where will your products be warehoused? How will your products physically reach your customers? Will you employ a warehousing and distribution company, or will you contract with the Sales & Distribution outfit that offer the entire package?
- If you do enter a contract arrangement with sales & distribution, what are the terms of the agreement? Who will own the stock? Who will invoice and receive the funds?
- When and how will customer invoicing be done?
- What settlement terms are offered?

# The Company and its Management

Introduce the company and explain what it does / will do.

Describe concisely how the project came about and progressed to the present situation.

Explain who is involved, their positions, what relevant experience and qualifications they have. Include a one-paragraph biography on each (and full CV in the Appendix).

State what stage the business is at now. Highlight briefly the most salient features and consequent benefits of the company's products and services – their competitive advantage.

Explain any "evidence of success" you may have – from customer orders, market testing, working prototypes, expressions of interest, industry recognition, etc. Outline any other factors that have increased the likelihood of success.

Do you have any Non-Executive Directors or Mentors who add value to the Board, and will give potential investors more confidence through their expertise, be they sector experts or generally experienced business people? List them with a brief biography highlighting achievements and relevant experience.

**Outline any skill gaps you still need to fill, and how you intend to do so.** If you do not recognize the skills gaps, the investors will, and may feel your plans are unrealistic.

List your business advisors, if necessary with a brief description highlighting relevance.

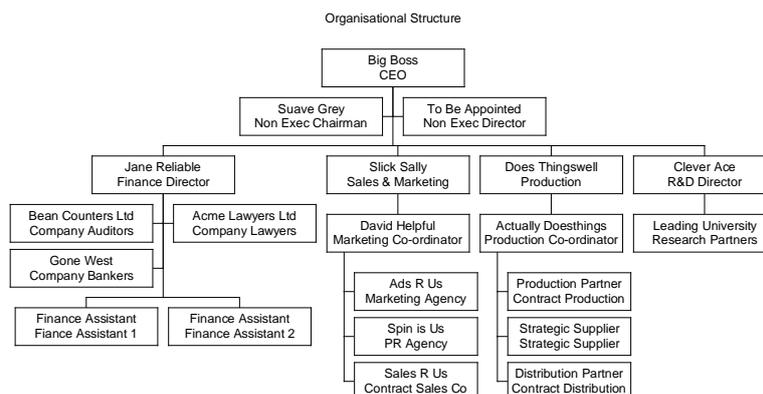
Do you have any major alliances with other organizations? If so, how do they add value / contribute to the business in outline terms. What is the basic nature of the relationship?

What is your organisational structure? (Include an organisation chart if appropriate).

Outline where you want to go from here - what you want to achieve. What are the company's main aims and objectives? Quantify these. What are the next key stages and milestones?

## Organisational Structure Chart (Double-Click to Edit)

**Note:** for an early stage start-up, you would have fewer people covering multiple roles, or some roles may not need to be activated yet. The diagram gives you an overall idea of areas you might need to cover (or add as the company develops).



## Roadmap and milestones

This section shows the timing and interrelationship of the major events necessary to launch the venture and realize its objectives.

In addition to being a planning aid, a well conceived and presented schedule – showing deadlines critical to a venture's success – is valuable for convincing potential investors that the management team is able to plan for venture growth in a way that recognizes obstacles and minimizes investor risk.

Since the time to do things tends to be underestimated in most business plans, it is important to demonstrate that your estimates are realistic. The underlying cash conversion and operating cycle of the business will provide some of the key inputs for the schedule.

Create your schedule as follows:

- Prepare a month-by-month schedule that shows the timing of product development, market planning, sales programmes, production, and operations, and that includes sufficient detail to show the timing of the primary tasks required to accomplish an activity.
- Show on the schedule any deadlines or **milestones** critical to the venture's success, such as:
  - Incorporation of the venture
  - Completion of prototypes
  - Completion of field trials or clinical trials
  - Completion of design and development
  - Obtaining sales representatives
  - Obtaining product display at trade shows
  - Signing of distributors and dealers
  - Ordering of materials in production quantities
  - Starting of production or operation
  - Receipt of first orders
  - Delivery on first sale
  - Receiving the first payment on accounts receivable
- Show on the schedule the “ramp up” of the number of management personnel, the number of production and operations personnel, and plant or equipment and their relation to the development of the business.
- Discuss in general the activities and risks most likely to cause schedule slippage, the steps that can be taken to correct such slippages, and the impact of schedule slippages on the venture's operation, especially its potential viability and capital needs.

## Financing Requirements and Deal Structure

This section should explain to investors:

- How much money you need to execute the plan, at what time intervals
- What mix of sources do you expect this money to come from over time, e.g. Founders' capital, Business Angels, formal Venture Capital, Bank Finance, R&D Funding?
- Specifically how will the monies raised be used?
- What type and round of funding are you seeking at present (who is this business plan aimed at)? Note: although business plans often specify a desired valuation and equity offer, we recommend that **for a very early stage company it is better to state how much finance you require and say that the equity valuation is negotiable.**

This is because seed-stage companies, which barely have a product yet, are very difficult to value with certainty and valuations are largely a matter of investors' opinions and perception of risk. It's therefore preferable to discuss valuation in a later conversation, where your task is to convince the investors that you can achieve the scale which would allow them to realise their desired return.

- What is your financial safety margin if your plans or forecasts are delayed?
- Details behind any banking facility or other forms of finance you expect (if any).
- What do you expect investors to receive as a return after they risk their money?
- Exit: how do you expect investors to get their return, and when. Trade sale, a flotation, a management buy-out? Mention some potential buyers or the type of company that may be interested in acquiring yours at a future date.

### Example:

#### Finance Requirement

There is financing requirement of £650,000, which will be sought from Business Angel Investors for a negotiable equity stake. The company has no loans or overdrafts and at this stage does not plan any.

In terms of financial structure, the current shareholding structure of the company is as follows:

Shareholders	Pre – Financing Stake	Post – Financing Stake
CEO (Founder)	50%	40%
Other Managers	25%	20%
Options	5%	4%
Current Investors	20%	16%
New Investors		20%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: As mentioned above with regard to an equity offer, for very early (pre-seed and seed-stage) start-ups it is recommended that you not include the second column of this

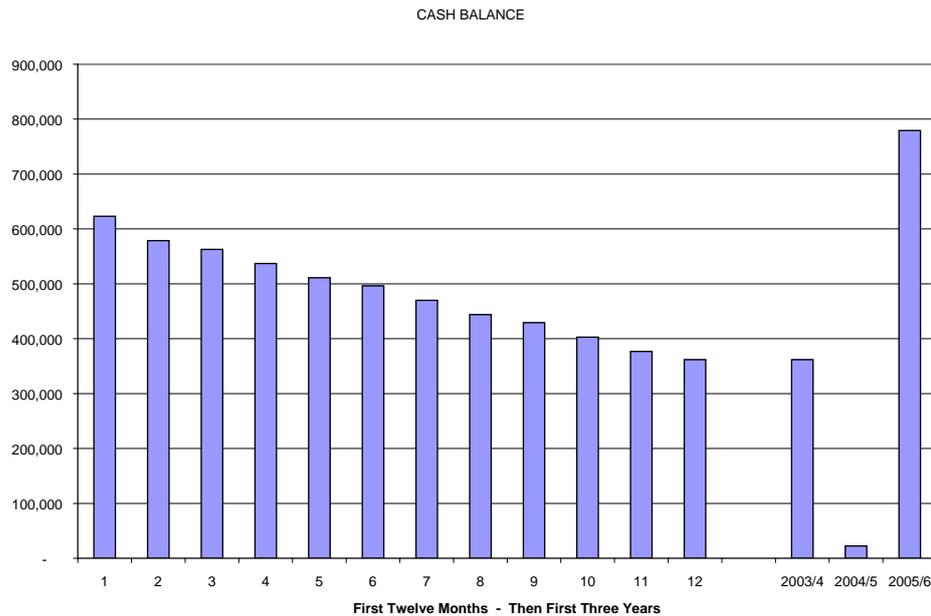
The investment is expected to qualify for full EIS [or SEIS] relief for both individuals and VCT's.

The investment will be used as follows:

Investment Area	Proportion	Amount
Marketing	30%	£ 200,000
Working Capital (inc. contingency)	55%	£ 350,000
Development	15%	£ 100,000
<b>Total</b>	<b>100%</b>	<b>£ 650,000</b>

## Cash Projections

As we stated previously, the company anticipates its first sales to be achieved in 18 months time – though this could be sooner.



Forecast Cash Balance for the next three years (first year by month):

The company will have a basic monthly cash-burn of £23,000 per month, equivalent to £280,000 per year. The average cash burn before sales in year two is expected to rise to £35,000 per month – provided our milestones are achieved, otherwise cash consumption will be contained at year 1 levels.

**Though we expect to achieve sales in 18 months, through controlling the cash burn in an event of a delay the company could support a further 9-month delay without having to return for more funding.**

Overleaf are illustrative projections for the three years following financing.

## Exit Route

These funds will be used to take the product to market, at which stage we could continue to supply at lower levels without further funding or may decide to undertake a second round of financing to expand more aggressively.

Our planned exit route would be through trade sale in the 4<sup>th</sup> or 5<sup>th</sup> year, to a larger company in industry sector X. Companies such as [Name] or [Name] could potentially have an interest in acquiring our [e.g. technology or customer base] to complement their own businesses in the areas of X, Y or Z.

It is expected that within five years the company will achieve sales in excess of £20,000,000 and to be on a fast rising sales curve with the potential for substantially higher sales growth as other catalysts in our product portfolio gradually reach the market.

## Key Financial Data and Financial Projections

All potential investors will expect to see a set of financial statements and illustrative projections for the project:

- Cash Flow projection – This is a statement of your cash position and the sources and uses of cash going forward. Cash management is probably the most important aspect of financial management as the company becomes established and grows. Certain growth policies consume more cash than they generate, so detailed cash projections are vital.
- Profit & Loss projection – this is a statement of the company's trading activities.
- Balance Sheet projection – this is a statement of the company's assets and liabilities, starting with the current position.

Investors generally like to see a graph of the cash balance, with the first year or eighteen months on a monthly basis, to illustrate to them that cash management and the rate at which the business consumes cash have been carefully thought out.

The projections should be in the way of full statements for the next three years, and then for high potential businesses an indication should be given of the headline figures for revenues and profit up to a further two years out – five years in total. This will provide investors with information on the potential upside of the business, which may not be clear from the three-year projection.

The statements should be accompanied by **Notes to the Accounts** covering the assumptions under which the statements have been constructed, including:

- The assumptions behind the sales forecasts, perhaps related to market share or sales per store, etc. What logic has been used to arrive at this figure, as it was clearly not pulled out of the air?
- Assumptions behind costs, including the costs of production, offices, staffing, etc., and how these are constructed.
- Any policies adopted, such as on the depreciation of assets, the number of days credit given to customers, the period of time taken to pay your creditors, etc.
- The detail behind any loan or other overdraft facilities and expected interest rates.
- Other major budgets, including marketing, legal fees, accounting fees, etc.

The figures should demonstrate to the investor that you understand the major financial implications of your business plan, that the assumptions are reasonable, and that you have not been over optimistic.

It is important to highlight what contingency plans you have in the event of things not happening exactly as planned. Will the business fail if there is a month's delay in the timetable, or can it tolerate a year's delay through careful adjustment and control?

**Financial statements can be generated using the Financial Plan Template and supporting content.**

## **Concluding argument (for a negative business case)**

If you are making a negative business case, you will need to add a concluding section explaining your conclusion that the business idea is not investable or feasible.

Although you may have already stated in your executive summary that you would not recommend investing in the proposed business, in this section you should elaborate or justify your opinion by summarising how your findings in the previous sections have combined to lead you to a no-go decision.

## Appendix

On the first page of this section, list what is included in the Appendices which follow.

We suggest it should include, **as applicable**:

- Full director and key management CV's
- Full list of business advisors, including accountants
- Copies of any intellectual property – trademarks, patents, designs
- Copies of relevant letters / agreements indicating success – including any orders pending
- Copies of any commissioned market research or other reports not published
- Full illustrative financial projections
- Audited accounts if business has been going for some time
- Copy of the shareholder agreement
- Copies of any loan or other material agreements, including director loans
- Sample sales & marketing material, including brochures and product diagrams
- Detailed breakdowns or analyses which can back up assumptions and statements made in the business plan