



SECTION 6

PREPARING A BUSINESS PLAN AND BUDGET

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Preparing a business plan and budget

The annual business plan and budget process is a key part of running a business successfully and achieving a strategy. It provides a discipline for the management to thoroughly review progress and to set objectives - and for the directors/holding company to commit to supporting the budget and investment plans.

A business plan is necessary for three primary reasons:

- It gives business owners a current assessment of the business as well as a roadmap for the future.
- It helps a business grow, both organically and through outside funding.
- It is essential to have an up to date business plan in order to secure financing, ranging from an overdraft facility or bank loan to venture capital funding.

The business plan/budget is a living document that should be continuously reviewed in light of the business environment and actual performance. In addition there should be formal reviews on a quarterly basis. This enables the directors to oversee business performance.

Business planning should operate on a rolling five years, while the budget is likely to be required only for the coming financial year.

When to use outside help

For a business plan to be effective it should be owned by those who will have to implement it. So, it cannot just be delegated to a consultant. But an experienced business facilitator can add value to the process, whilst ensuring that ownership is in-house.

He can:

- guide managers/directors through the process . draw out strategies from the participants
- capture the information
- record it in a structured manner.

The words of the business plan are important; they explore issues and make commitments to action. A facilitator can ensure that they are carefully chosen and understood. The figures in the budget merely represent an interpretation of the results of those actions. But the spreadsheets that lead to the figures will identify the consequences of decisions - the process is iterative until a plan and budget are reached that can be approved by the directors.

Objectives

The objectives of the business plan are first to develop and communicate a plan of action that will achieve the company's strategic objective. Then to provide a means of monitoring progress towards that objective and of stimulating alternative action if the objective is unlikely to be met by the original plan. These cannot be achieved unless the plan defines the strategic objective and includes benchmarks or performance measures at key stages during the year.

The plan should include reviews of internal resources and the external environment, and define measures of quality and customer satisfaction.

The plan is likely to focus on:

- revenue - income, direct costs and overheads
- capital - expenditure, depreciation

Financial measures will include return on investment and margin.

Targets for growth may well include turnover - but in this case margin must also be monitored.

Don't allow a focus on the figures to confuse the significance of the words. It is only actions - described by the words - that generate revenue.

The planning process

The planning process is a valuable and exciting exercise that can be a major contributor to team building and a means of developing ownership/commitment to the plan. Involve people, it should end up as "our plan" not "their plan imposed on us".

There are various exercises that can be helpful in the planning process:

- Analysis of current year financial results
- SWOT analysis - strengths, weaknesses, opportunities and Threats
- PEST analysis - political, economic, social and technological
- Balanced scorecard - analysis of the impact of achieving objectives from a financial perspective, a customer perspective and an internal perspective, and on innovation and learning, together with identification of critical success factors and performance measures.
- Brainstorming -for alternative scenarios, opportunities, strategies

If the company provides different services or operates in different niche markets these exercises should be checked for each.

For a business plan/budget exercise you should focus on:

- Review of current year as a basis for making decisions about the future
- Objectives and strategy

- Action plan and benchmarks
- Resources needed
- Results anticipated

Outline of a business plan

A business plan is a tool for decision making - remember this and remember who it is written for -then design it to suit.

A basic business plan has several key elements: Executive summary

- Description of the business
- Description of the target market
- Analysis of the competition
- Description of the management team
- Marketing strategy

As a guide, a typical business plan would have the following structure:

- Name of the business
- Address of the business
- Nature of the business
- People in the business
- Marketing and sales strategy
- Profit and loss forecasts
- Cash flow forecasts
- Capital expenditure plans
- Stock policy
- Funds required - financial base
- Management information systems
- Special factors
- Action plan - key decisions - target dates

Conclusion

Remember, your business plan is the tool that you will use to manage your future and on which your performance will be judged. It will be the basis on which you negotiate for resources. It should be imaginative, challenging and achievable. Preparing it will be' team effort is often rewarding.

QUESTIONS

- i. Give 3 primary reasons that make a Business Plan necessary.
- ii. List and explain the 5 key elements of a Business Plan's good Executive Summary.



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