



AFFORD DIASPORA FINANCE & INVESTMENT (DFI)

BUSINESS PLANNING GUIDE

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This guide provides some practical ways of preparing a business plan.

The guide is meant to assist you to develop your ideas and to structure your planning process. It suggests key areas that you should pay attention to in preparing your business plan, whether you are manufacturing a product or selling a service.

Remember that a business plan is a document, which sets out ideas, preparations made, objectives and how they will be achieved. It is essentially your working document. Also it is the document which will attract investors or lenders. It must portray confidence, both in yourself and potential investors or lenders, however it must be based on realism and supported by research.

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BUSINESS PLAN TITLE

- 1. EXECUTIVE SUMMARY**
 - 1.1 Financial Summary**

- 2. BACKGROUND BUSINESS HISTORY**
 - 2.1 Personal History of Proprietor(s)**
 - 2.2 Business History**
 - 2.3 Business Objectives**

- 3. PRODUCT(S)/SERVICE(S)**
 - 3.1 Description of Products/ Services**
 - 3.2 Suppliers/Sub-Contractors**

- 4. THE MARKET AND MARKETING**
 - 4.1. The Market**
 - 4.2 Market Research**
 - 4.3 Marketing Strategy**
 - 4.4 Competition**
 - 4.5 SWOT Analysis**
 - 4.6 Pricing Policy**

- 5. PREMISES**

- 6. CAPITAL EXPENDITURE**
 - 6.1 Equipment**
 - 6.2 Transport**

- 7. MANAGEMENT AND ORGANISATION**
 - 7.1 Management**
 - 7.2 Staff**

- 8. LEGAL ASPECTS**
 - 8.1 Sole Trader/Proprietor**
 - 8.2 Partnership**
 - 8.3 Private Limited Company (limited by shares or guarantee)**
 - 8.4 Other Legal Requirements**

- 9. FINANCIAL INFORMATION**
 - 9.1 Forecast Assumptions including Sales Forecast**
 - 9.2 Survival Budget**
 - 9.3 Break-even Analysis/Calculation**
 - 9.4 Cash Flow Forecasts**
 - 9.5 Profit and Loss Forecast**
 - 9.6 Management Information Systems**

- 10. RISK ASSESSMENT**

- 11. APPENDICES**

WHAT EACH SECTION MEANS

When you finish your business plan, go back and list all the heading and sub-headings. Show page numbers where each section is found. This will make it easy for your reader to follow your plan. Some people prefer to put their summary before the Contents page. You should also list the owners (Proprietors) of the business at the bottom of the front page. The plan should be dated on the front page.

1. EXECUTIVE SUMMARY

In brief, give an outline of what you want to do, stating clearly your objectives and how you will set out to achieve them. Mention the product/service, location, number of workers, total sales in the first year, the level of investment required, including grants if any. If you intend to borrow money clearly indicate the purpose of the loan. Explain briefly what the funds will be used for. State how much you are able to meet from your own and other sources.

1.1 Financial Summary

As part of the Executive Summary it helps the reader if the financial performance of the business can also be summarised. For an existing business, summarise performance over the past 3 years and 2 year projections. With a new business a 1 or a 2-year forecast may be all that is needed. Set out below is an example of a financial summary.

	Audited Accounts 2013	Audited Accounts 2014	Audited Accounts 2015	Year 1 Projection	Year 2 Projection
NET PROFIT					
SALES	£20,000	£30,000	£25,000	£40,000	£50,000
Cost of Sales	£10,000	£15,000	£12,500	£20,000	£25,000
GROSS PROFIT	£10,000	£15,000	£12,500	£20,000	£25,000
Overheads	£5,000	£7,500	£6,250	£10,000	£12,250
NET PROFIT/ SURPLUS	£5,000	£7,500	£6,250	£10,000	£12,250

You may then briefly comment on what these figures mean. For example, if there are significant falls in sales you need to explain why. You may also like to show your break-even sales/income as part of the table above. (See Section 9.4)

2. BACKGROUND/BUSINESS HISTORY

2.1 Personal History

Give your personal details including employment record and qualifications, mention what business training and experience you have had, if any. Do not forget to include CVs of key individuals as an appendix.

2.2 Business History

Here you give a brief history of your business. If you have not yet started, describe the proposed business and state why you have chosen it. Emphasise any unique elements in your idea and state how your knowledge and experience outlined in 2.1 will help you to succeed.

2.3. Business Objectives

By setting objectives you will be more closely focused on what it is you are trying to achieve. They are normally measurable and will help you monitor the success of your business.

Examples might include:

- To achieve turnover of £100,000 within the first year of trading;
- To have a base of 50 customers by 31 March 2019.

It is often preferable to have Business Objectives for the short (up to 12 months), medium (1-3 years) and long term (up to 5 years).

3. PRODUCT(S)/SERVICE(S)

3.1 Description of Products/Services

Describe your products or services: methods of production. Will you manufacture them yourself or use sub-contractors? Who will package and store them? Who will use or buy them? What competing products or services are already on the market and do you expect any competition in the future? State what aspects make your products or services different or better than the existing ones offered by your competitors? Consider sources of supplies for raw materials and/or stock, and how will ensure quality of your product or services.

3.2 Suppliers/Sub-Contractors

Mention who they are, why you have chosen them and what terms of trading/credit/discount they are prepared to offer. Make an effort to have more than one source of supply.

4. THE MARKET AND MARKETING

4.1 The Market

Briefly outline and describe the market you will be selling your goods and services to. State clearly the type of market you have identified or are targeting, stating it, perhaps, in terms of geographical location, size, demography, etc.

4.2 Market Research

Use this section to investigate the market you have described, at national, regional and specifically at local levels. Use libraries for information on your trade sector, read trade magazines and market reports. You will then have research evidence to support your perception of the market you are in.

Market research is a useful way of learning about your trade, your customers and your competitors. Amongst the best sources of authoritative market research reports are City Business Library (Tel 0207 332 1812) and The British Library (Tel 0207 3870649).

4.3 Marketing Strategy

Explain how you will reach your target customers. Say what methods will be used in advertising, promotion, and selling, including digital marketing, the use of social media platforms as important channels of communication with customers. The target customers may be chosen in terms of age, sex, lifestyle, needs, geographic location etc. Cost out the various methods of marketing and promoting your business and explain your strategy and timing.

4.4 Competition

What competition exists and who are your competitors? Put down all the information you can find on competition. Explain how you are going to compete with existing and potential competitors.

4.5 SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats)

This is a brainstorming exercise in which you evaluate and list points under the following four headings: Your Strengths and Weaknesses, the Opportunities for your business and the potential Threats that it may encounter. This will help you to know how you are positioned in the market place.

4.6 Pricing Policy

You are in business to make a profit and this will be determined by your pricing policy. You need to know the costs of providing your product/service to enable you to assess how much to charge.

If the area in which you are dealing is price-sensitive and your product/service is much dearer than the competition, it may not be sufficient to attempt to obtain business by looking to do things better or quicker. Give details of how much you propose to charge and the basis of how you have arrived at this information.

Please refer also to the section on Profit and Loss Forecast (9.1).

5. PREMISES

In choosing premises you must carefully consider the type of products or services you will be offering. Some key factors you may wish to consider include accessibility, parking etc.

Give the size of the premises in square feet. Describe the state of repair of the property, say how much improvements will cost, if any, (seek at least two quotes from builders). State whether the premises are freehold, lease or license. If they are leased, state the number of years remaining (tenure), how much rent is payable either monthly or quarters, and when rent is due for review.

You will need the permission of the landlord if you are planning to make major alterations to the premises.

Before you commit yourself to a lease make sure that all your financial requirements are in place and you have planning permission to start your business. If you sell food and/or drinks make sure that you consult the local council's Environmental Services and obtain their requirements. If your business is an Off Licence apply for a liquor licence before you spend money on the premises.

6. CAPITAL EXPENDITURE

6.1 Equipment

List all the equipment you already have and separately the additional equipment that you will need. State whether you require new or second hand equipment and at what cost. Remember that getting equipment on lease or hire purchase may reduce the cost of running your business.

6.2 Transport

Treat this in the same way as equipment. Give details of the vehicle(s) owned and required and state mileage, tax, insurance and servicing costs. Also mention any alternative distribution/travel method.

7. MANAGEMENT AND ORGANISATION

7.1 Management

Financial backers take a great interest in the calibre of the management of the business they are investing in. So make sure you give details of management experience and any future training you might need. Provide a CV of each key person, including personal information, training, experience, achievements and up to date references.

7.2 Staff

Mention how many (full time, part time etc.) staff you intend to employ, how they will be phased in as the business grows, what pay rates and skills are required, whether on PAYE or self-employed basis, and plans for training.

8. LEGAL ASPECTS

There are various forms of legal structures that anyone business can adopt. The common ones are outlined below.

8.1 Sole Trade/Proprietor

8.2 Partnership

8.3 Private Limited Company (by shares or guarantee)

8.4 Community Interest Company

8.5 Public Limited Company (PLC)

A solicitor or, in some cases, an accountant, will be able to assist you when deciding on the most appropriate legal structure. It is advisable to attach a copy of partnership agreement, or certificate of incorporation where applicable as part of the Appendix.

8.4 Other Legal Requirements

You may need planning permission, trade licences or environmental health clearance depending on the nature of your business. The Local Authority in the area where your business will be located should be able to assist you.

9. FINANCIAL INFORMATION

9.1 Forecast Assumptions including Sales Forecast

Some of the financial information will be based on fact e.g. rent, rates, salaries etc. However much detail will be obtained by estimates based on a number of given factors. It is important that you provide a list of how you arrived at forecasted information.

Remember that sales/revenues should not be based on hunches, but rather on sound assumptions derived from your market research.

9.2 Survival Budget

The amount that you propose to take from the business by way of drawings or remuneration may need to be restricted, particularly in the earlier stages of a business.

You should draw up a Survival Budget based on your personal circumstances to reflect the minimum that is required to pay normal living expenses and household bills if you are a new start.

9.3 Break-even Analysis/Calculation

Always establish the level of sales at which the business is starting to show signs of success. This level of activity at which your business can survive without draining its cash resources is known as break-even. This is the point at which the business is neither making a profit nor a loss. A basic example of calculating break-even is given below. You will need to know the amount of stated cost of sales, gross profits and fixed costs.

Sales	£100,000
Cost of Sales	£10,000
Gross Profit	£90,000
Fixed Costs	£60,000

To calculate break-even, you need to work out the gross profit margin:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit (£90,000)} \times 100}{\text{Sales (£100,000)}} = 90\%$$

$$\text{Break-Even} = \frac{\text{Fixed Costs (£60,000)}}{90\%} = £66,666$$

$$\text{Monthly Break-even} = \frac{\text{Break-even (£66,666)}}{12} = £5,555$$

9.4 Cash Flow Forecast

This is where your ideas, what you are aiming to do and achieve, are translated into financial figures. The cash flow projections show money coming in and money going out, month by month, up to the end of the first year of the business. In some cases the cash flow forecast will be required for a longer period, depending on the nature of operations and the level of investment required.

Timing of receipts and payment is vital. For example, if you sell or pay lighting bills quarterly enter the figure that month in the quarter when the payment is due. If you pay monthly, show payments in the months when they are due. Consider the seasonal variations in your type of business (e.g. December is a good month for greeting card retailers but not for builders, while August is not so good for restaurants). Also give consideration to the general rise in sales as the business grows. Always ensure that the scale of growth is reasonable and that projections do not exceed the total number of available hours in a day. Overdrafts may be put in brackets (O) or negative balances may be prefixed with a minus sign (-). Do not confuse cash flow forecasts with profit and loss forecasts.

9.5 Profit and Loss / Surplus/Deficit Forecast

You expect to make a profit or surplus of £5 if you expect to Buy an article for £10 and sell it for £15. In business things are not so simple. You will only make a profit if your sales are (or turnover is) in excess of your overheads. Overheads are all the operating costs, including depreciation of the equipment to be used to generate that turnover. The profit and loss forecast gives an indication of how profitable the proposed venture is likely to be.

9.6 Management Information Systems

Once you are in business it is important that you keep on top of the finances in order that you can anticipate any problems before they occur. This could quite simply be running out of cash, or having to make changes to your pricing policy due to unforeseen circumstances.

To enable you to foresee these situations, it is important that you adopt some systems that will give you up-to-date information on the progress of your business. A simple way of doing this is to complete and analyse the 'actual' columns against the forecasts mentioned earlier.

If your business uses computers, there are some effective packages that can be used.

10. RISK ASSESSMENT

By setting up in business you have already taken a big risk - but by following the format of this booklet you will minimise the risk in key areas.

Some additional risks might be covered by taking out suitable insurance cover. However, you should ask yourself 'what if' to ensure that all possible eventualities have been thought of. Examples might be:-

- ✓ What if my debtors take much longer to pay than forecast?
- ✓ What if I am ill and unable to work for any period of time?
- ✓ What if my transport fails?
- ✓ What if grants and loan incomes are delayed?

11. APPENDICES

Include here any supplementary information which you feel will be useful, particularly if you are seeking finance in addition to all supporting documents requested. This might be in the form of CV's, advertising and promotional literature, letters of intent from prospective clients, references or additional financial information.

SUPPORTING DOCUMENTS AND CHECKS

If you are provided with a conditional offer, you will need to provide the following documents/information in order to be made a final offer. Where it is felt that some of these documents will assist the grants panel to reach final decisions, we will request relevant documents prior to conditional offers being made:

- Details of 2 work related and external referees;
- Your registration document (e.g. Charity registration, company registration, etc.);
- Your Constitution / Memorandum and Articles showing your charitable/not for profit/ social purpose;
- Details of your Asset Lock if you are a CIC;
- Evidence of your Employers' Liability insurance policy certificate (required only if you have employees in England, Scotland or Wales);
- Public Liability Insurance (if your business holds or is likely to hold public events);
- Evidence of other relevant insurance;
- Evidence of your match funding. If this has already been secured (a) evidence of the mandatory £7500 match funding, and (b) for other match funding;
- Last 2 years' Annual Report and financial/accounts;
- Information on your local partners;
- A validated and signed partnership memorandum of understanding (MoU) between the diaspora organisation and their African partner(s);
- A constitution for your partner or your company in Africa;
- References from two reputable referees for each African partner; or proof of its legally registered status.

We will also check the following:

- Details of your Trustees/Directors on the Charity Commission, Companies House or other relevant regulatory website;
- Details of your local partner(s) on relevant regulatory website.

Cashflow

Business Name

Forecast for the 12 month period ending

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	TOTAL	
Month																										
Receipts																										
Capital Introduced (Match Fund)																										
Bank Loan																										
Cash Sales																										
Receipts from Debtors																										
Others: DFI Grant																										
Total Receipts (A)																										
Payments																										
Purchases: Stock / Materials																										
Salaries / wages																										
Drawings																										
National Insurance																										
Rent / Rates																										
Water Rates																										
Insurance																										
Repairs / Renewal																										
Heat / Light / Power																										
Advertising / Promotion																										
Bank Charges & Interest																										
Bank Loan Repayments																										
Capital Expenditure																										
VAT Payment or Refund																										
Legal and Professional Fees																										
Sundry Expenses																										
Others:																										
Total Payments (B)																										
Net Cashflow (A-B=C)																										
Opening Balance (D)																										
Closing Balance (C+D=E)																										

Profit & Loss/surplus/Deficit

Business Name

Forecast for the 12 month period ending

Month	1		2		3		4		5		6		7		8		9		10		11		12		TOTAL			
	Budget	Actual																										
Sales Net VAT (F)																												
Less direct costs																												
Cost of Materials																												
e.g. Purchases																												
Wages																												
Gross Profit (A)																												
GPM % (A/F x 100)																												
Overheads																												
Salaries																												
Staff Wages																												
National Insurance																												
Rent / Rates																												
Water Rates																												
Insurance																												
Repairs / Renewal																												
Heat / Light / Power																												
Postage / Print																												
Stationery																												
Travel																												
Telephone																												
Legal and Professional Fees																												
Interest Charges																												
Sundry Expenses																												
Bank Charges																												
Others:																												
Total Overheads (B)																												
Trading Profit (A-B=C)																												
Depreciation																												
Net pre-tax profit (C-D=E)																												
Net Profit c/fwd																												
Cumulative Profit																												

