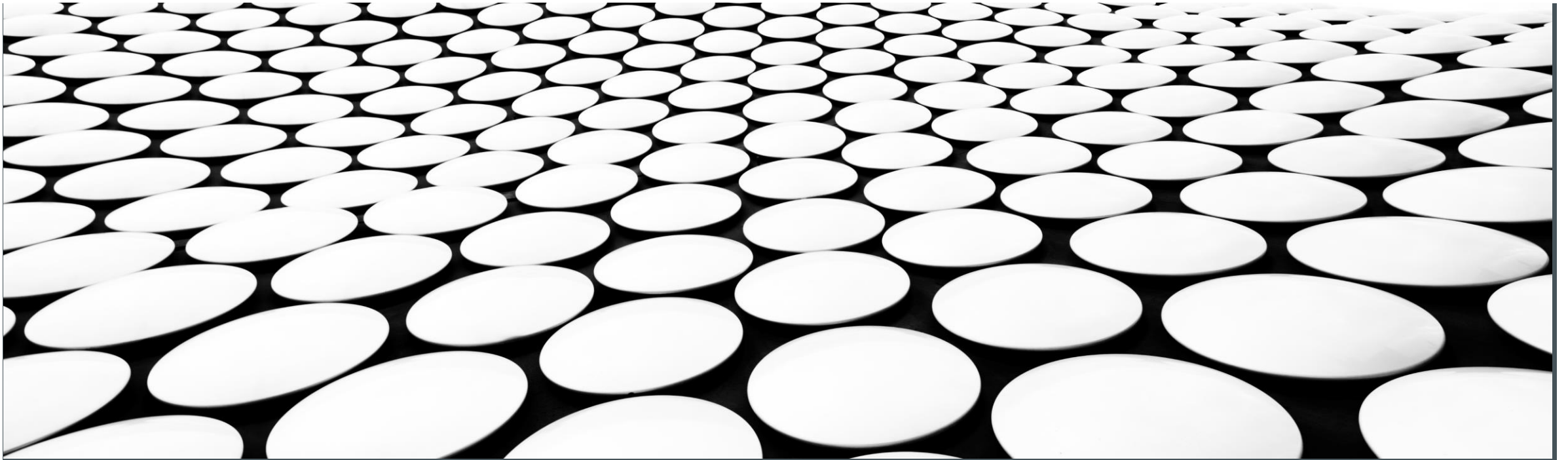


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# **FINANCE FOR NON-FINANCE : MODULE VI – HOW TO DEVELOP A BUSINESS PLAN – AN OVERVIEW**

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# **HOW TO DEVELOP A BUSINESS PLAN**

# WHAT IS A BUSINESS PLAN?

□ A business plan is a:

- Live document that we refer to regularly and which can be changed and updated
- Toolkit to help guide our actions and steer our way towards our goals
- Great way to showcase the organization, passion, and creativity
- Opportunity to work out the finances and demonstrate financial sustainability
- Way of showing how the organization would achieve its social impact
- Statement of where the organization is now and where it wants to be.

# BUSINESS PLAN TEMPLATE

- Title page
- Contents
- Executive Summary
- About the Organization – ideally a SWOT analysis
- What are our operations?
- Market Analysis
- Market research and testing
- What is the go-to-market strategy?
- Operational plan
- Resource, management, and governance
- Value chain analysis of the organization
- Revenue and cost structure
- Financial Plan matching the business plan
- Project viability including Net Present Value and Internal Rate of Return
- Risk Map
- Contact details

# EXECUTIVE SUMMARY

- ❑ We need to start by summarising the key points of our business plan.
- ❑ We need to remember that some people may only read this section, hence we need to make it a clear, concise overview of
  - who we are,
  - what we want to do, and
  - how we plan to do it.

# DETAILS OF THE ORGANIZATION

☐ This may include:

- Our vision, mission, values, and aims
- Our history
- The current state of the organization (e.g. turnover, number of staff)
- Legal status
- Products and services offerings.
- Develop and articulate Business Strategy



# **DEVELOP AND ARTICULATE BUSINESS STRATEGY**

# ANALYSIS OF BUSINESS ENVIRONMENT

- ❑ An Organization's strategy gives an idea about what the organization wants to achieve and the process how they want to achieve it.
- ❑ It basically includes the purpose of the entire organization, its goals, and objectives as well as the plans and methods that they are considering so that they can achieve this.

“**Business strategy** is less a function of grandiose predictions than it is a result of being able to respond rapidly to real changes as they occur. That's why strategy has to be dynamic and anticipatory.” -

**Jack Welch.**

- ❑ A business strategy is a report that shows the plans of the entire business.
- ❑ It is a plan that is often used so that they can attract financing from big investors as well as creditors.
- ❑ This is a plan designed to give information regarding a new venture so that they can convince financial backers to invest in the said business



# TYPES OF STRATEGY

- ❑ **Strategy in general.** This refers to how a specific objective will be achieved. The strategy in general mainly concerns the relationship between the results we want to have and the resources that are currently at our disposal.
- ❑ **Corporate strategy.** This defines the market and the business segment wherein a certain company will operate. Corporate strategy is usually decided through the context of being able to define the company's mission and vision. This is the same as being able to recognize what the company does, why it exists in the first place and what it intends to become in the future.
- ❑ **Competitive strategy.** This describes competitive ability of a given business and a strategy around it. This type of strategy is centred on the company's capabilities, its strengths, and weaknesses. This is used in relation to the market characteristics as well as the corresponding abilities, strong points, and weaknesses of the competitors.

# CREATING A STRATEGY

The creation of strategy usually involves several steps:

- Set a Vision and a Mission Statement
- Five forces Analysis
- SWOT analysis - Strengths, Weaknesses, Opportunities and Threats
- PEST Analysis
- GE/McKinsey Matrix
- ADL Matrix
- Highlighting Core competencies
- Setting Goals / Objectives
- Setting Key Performance Indicators or KPIs

# VISION STATEMENT

- A vision statement is a strategic intent of an organization.**
- It is an overarching set of aspirations which the organization hopes to achieve or become.**
- These are the inspiring words chosen by successful leaders to clearly and concisely convey the direction of the organization**

# FIVE FORCES ANALYSIS

- ❑ Michael Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps the organization to understand both the strength of its current competitive position, and the potential strength of a position where it aspires moving into.
- ❑ Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:
  - **Supplier Power:** Here we evaluate how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over our business, the cost of switching from one to another, and so on.
  - **Buyer Power:** Here we ask ourselves how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to the business, the cost to them of switching from the entity's products and services to those of someone else, and so on
  - **Competitive Rivalry:** What is important here is the number and capability of the competitors of the organization.
  - **Threat of Substitution:** This is affected by the ability of the organization's customers to find a different way of doing what it does.
  - **Threat of New Entry:** Power is also affected by the ability of people to enter the market reach of the organization.

# SWOT ANALYSIS

- ❑ SWOT Analysis is a very effective technique for understanding Strengths and Weaknesses of the organization, and for identifying both the Opportunities open to it and the Threats it faces.
- ❑ Used in a business context, a SWOT Analysis helps the organization to carve a sustainable niche in the market it operates.
- ❑ Originated by Albert S Humphrey in the 1960s, SWOT Analysis is as useful today as it was then. This can be applied in two ways –
  - a) as a simple icebreaker helping people get together to “kick off” strategy formulation, or
  - b) in a more sophisticated way as a serious strategy tool.

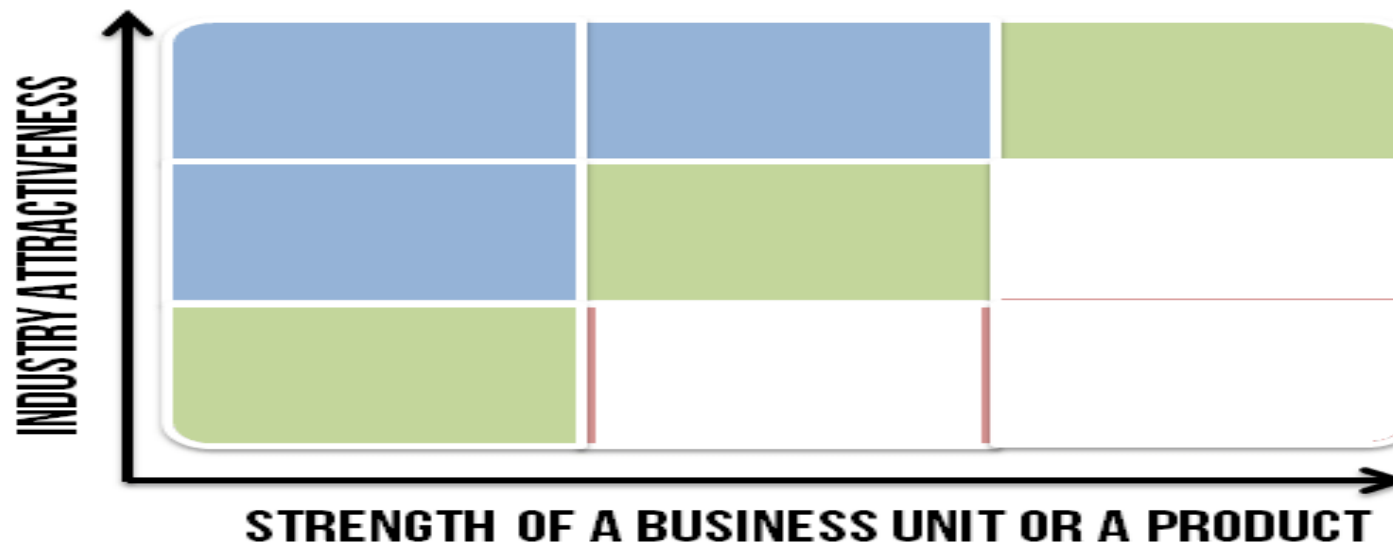
# PEST ANALYSIS

- ❑ PEST Analysis is a simple but important and widely used tool that helps to understand the big picture of the **P**olitical, **E**conomic, **S**ocio-Cultural, and **T**echnological environment the organization is operating in. PEST is used by business leaders worldwide to build their vision of the future.
  
- ❑ It is important for these reasons:
  - By making effective use of PEST Analysis, the organization ensures that it is aligned positively with the forces of change that are affecting our world. By taking positive steps to usher in the change, it has more likelihood to be successful.
  - Positive use of PEST Analysis helps the organization to avoid taking action that is destined towards failure for reasons beyond its control.
  - PEST is useful when the organization starts operating in a new country or region. Use of PEST Analysis assists the organization to break free of theoretical assumptions, and helps the organization to quickly adapt to the realities of the new environment.

# GE / MCKINSEY MATRIX

- ❑ In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products.
- ❑ At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the resources.
- ❑ Therefore, GE consulted the McKinsey & Company and as a result the nine-box framework was designed.
- ❑ The nine-box matrix plots the Business Units on its 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there are still some resources left. The BUs are evaluated on two axes: industry attractiveness and a competitive strength of a unit.

## GE-MCKINSEY MATRIX



# ADL MATRIX

- ❑ This is a Portfolio Management technique and is based on the Product Life Cycle. It has been developed in the 1980's by Arthur D. Little, Inc. (ADL), one of the best-known consulting firms, intended to help companies to manage their basket of product businesses as a portfolio.
- ❑ Like other portfolio planning matrices, the **ADL matrix** represents a company's various businesses in a two-dimensional matrix.
- ❑ It is a structured methodology for consideration of strategies which are dependent on the life cycle of the industry.
- ❑ The ADL approach uses the dimensions of environment assessment and business – strength assessment i.e. Competitive Position and Industry Maturity.



# CORE COMPETENCIES

- ❑ Core competency is a unique skill or technology that creates distinct customer value.
- ❑ In their key 1990 paper “The core competence of the Corporation” C.K.Prahalad and Gary Hamel argue that “Core Competences” are some of the most important sources of uniqueness:
- ❑ These are the things that a company can do uniquely well, and that no one else can copy quickly enough to affect competition.
- ❑ Hamel and Prahalad provided three tests to see whether these are true core competences:

| Tests                          | Description   |
|--------------------------------|---|
| <b>Relevance</b>               | Firstly, the competence must give your customer something that strongly influences him or her to choose your product or service. If it does not, then it has no effect on your competitive position and is not a core competence.                                       |
| <b>Difficulty of imitation</b> | Secondly, the core competence should be difficult to imitate. This allows you to provide products that are better than those of your competition. And because you are continually working to improve these skills, means that you can sustain its competitive position. |
| <b>Breadth of application</b>  | Thirdly, it should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.   |

# SETTING GOALS / OBJECTIVES

Goal setting should cover the following attributes:

- ❑ **Specific:** Goal objectives should address the five Ws... who, what, when, where, and why. Make sure the goal specifies what needs to be done with a timeframe for completion.
- ❑ **Measurable:** Goal objectives should include numeric or descriptive measures that define quantity, quality, cost, etc.
- ❑ **Achievable:** Goal objectives should be within the staff member's control and influence; a goal may be a "stretch" but still feasible.
- ❑ **Relevant:** Goals should be instrumental to the mission of the department (and ultimately, the institution).
- ❑ **Time-bound:** Goal objectives should identify a definite target date for completion and/or frequencies for specific action steps that are important for achieving the goal.

# SETTING KEY PERFORMANCE INDICATORS

- ❑ Key Performance Indicators, also known as KPI or Key Success Indicators (KSI), help an organization define and measure progress toward organizational goals.
- ❑ Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization. They will differ depending on the organization.
- ❑ Whatever Key Performance Indicators are selected, they must reflect the organization's goals, they must be key to its success, and they must be quantifiable (measurable).
- ❑ Key Performance Indicators usually are long-term considerations.

# MARKET INTELLIGENCE

- ❑ The business plan document needs to show that we have a clear and detailed understanding of our market.
  
- ❑ This section is used to describe:
  - Our stakeholders, including your beneficiaries, customers, and donors
  - Any market research or testing we've done and results thereof
  - Our go-to-market strategy and how we intend to reach our customers
  - Any market analysis that we have carried out.

# COMPETITION ANALYSIS

- The document needs to provide some idea about the competitors,
- a summary of their strengths and weaknesses, and
- a broad analysis of how they are addressing the market dynamics.

# OPERATIONAL PLAN

- The document needs to provide an overview of the day-to-days operations of the organization and details as under:
  - The resources we need to run our operations
  - The people and organizations we work with (e.g. partners, associates, and vendors)
  - Premises and the equipment we use
  - Our process for taking payments from customers
  - Any legal and compliance requirements that the organization needs to meet (e.g. pollution clearances, appropriate licenses, and certifications if any)
  - Any insurance we have or will need.

# HUMAN RESOURCE PLAN

- We need to furnish the details of the people who are critical for the organization and any possible staff changes that may be a part of the business plan.
  
- This would include:
  - Biographies of management team
  - Biographies of trustees
  - An overview of any planned changes to the management structure.
  
- Also, this section needs to highlight any skills gaps in the existing team, and how we plan to fill them.

# SOCIAL IMPACT

- ❑ If the start-up happens to be for not-for-profit then the business plan needs to show not only a financial return but also a social one.
- ❑ This social return is the impact – the difference we make for the people and communities we work with.
- ❑ This section needs to give a clear and concise description of the impact which the plan envisages bringing to the table.
- ❑ This needs to be backed up with details of how we measure, learn from, and communicate our impact, including:
  - Changes we want to make
  - Areas we plan to measure and
  - How we'll measure it
  - How we'll use what we learn
  - What would be the communication strategy?



# FINANCIAL PLAN

- ❑ Financial plan as a part of the Business Plan, needs to provide the following:
  - Direct and indirect costs and overheads
  - Main sources of income envisaged
  - Pricing strategies (if trading is carried out in products and services).
- ❑ We also need to provide financial forecasts for three to five years in the future. We need to factor in the key aspects of our business plan – which needs to be financially realistic.
- ❑ Key elements of the financial forecasts would include:
  - Revenue forecast
  - Expenditure forecast
  - Cash forecast including monthly burn rate
  - Funding strategy
  - Net Present Value and Internal Rate of Return

# RISK ASSESSMENT

- ❑ At this stage, we need to set out the risks we may encounter in the operations we propose to undertake.
  
- ❑ These could include the following:
  - Country risks – if the operations spread over multiple countries
  - Governance risks
  - External risks
  - Regulatory or compliance risks
  - Financial risks
  - Operational risks.
  
- ❑ We need to explain the likelihood of each risk, how we plan to mitigate it, and the impact it could have on the organization.

# LEADERSHIP COMMITMENT

- The organization leadership has to play a pivotal role in the preparation of the Business and Financial Plan
- The leadership needs to be fully committed to the plan presented in the document and
- present it to the promoters for finalization.
- Once it is approved by the promoters, the CFO along with the CEO of the leadership team of the start-up needs to present the business plan to the Board of Directors for approval.



**THANK YOU!**