

EASY PLAN



An introduction to business planning



**State
Development**

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NOTE:

Easy Plan was designed as a workbook to assist in the preparation of a Business Plan. The format includes the major items, which need to be considered.

Each business should address relevant sections to the detail required, indicating the impact across all components of the Business Plan.

INTRODUCTION

BACKGROUND

Planning for the future is essential to success. Good management is about knowing the day-to-day trading position of a business while achieving longer-term strategies.

THE PURPOSE OF THE BUSINESS PLAN

The Business Plan will help you to identify your customers, market area, pricing strategy and the competitive factors affecting your business. By completing the Plan you will discover your competitive advantage, new opportunities and any deficiencies in your existing business.

THE BUSINESS PLAN FORMAT

This Business Plan has been designed to provide an action learning opportunity for the small business operator. Key issues are set out in a step-by-step manner that allows for research and completion.

It concentrates on the practical elements of running a business and demonstrates that all sections of the Business Plan are interrelated.

The benefits of this planning, however, will not be realised until the Business Plan is implemented and monitored.

THE COMPONENTS OF THE BUSINESS PLAN

EXECUTIVE SUMMARY

This section emphasises the key points of your Business Plan and convinces your reader to read the whole plan. It is the single most important part of the document and should be prepared last - after the other sections are completed. This is the summary of the information contained in those sections.

1.0 BUSINESS PROFILE

The purpose of this section is to introduce the reader to your business. It should contain sufficient background information so the reader can obtain a working knowledge of the business.

OBJECTIVES

The objectives of the Business Profile are:

- Know and understand the business you are in.
- Describe the history and achievements of the business.
- Develop a mission statement for your business.
- Assess the strengths, weaknesses, opportunities and threats of the business.
- Set business objectives and goals.
- Business Plan - purpose and outcome.

2.0 PRODUCT/SERVICE AND MARKET ANALYSIS

The purpose of this section is to conduct a detailed analysis of your products/services, and to plan for future products/services with respect to their uniqueness or difference to competitors.

The market prospects, opportunities and characteristics, critical to the survival and growth of the business, are also analysed.

OBJECTIVES

The objectives for the product/service and market analysis component of the Business Plan are:

- Determine the market or need for the products/services.
- Know and understand the future trends in the industry.
- Ensure the needs of potential customers have been correctly interpreted and the products/services are designed to meet those needs.

3.0

THE MARKETING PLAN

This component of the Business Plan initially identifies the firm's position in relation to the market. Having established this, it is possible to evaluate the effectiveness of existing marketing programs in the light of current market conditions.

Based on this information it will then be possible to set directions for the future by taking into account the changing circumstances in the marketplace, the varying demands of customers and the preferred future direction for the business itself.

OBJECTIVES

The objectives for the marketing component of the Business Plan are:

- Define and understand your market.
- Know the selling techniques best suited to your business.
- Analyse the impact of major competitors on the business.
- Identify opportunities in the marketplace
- Apply market research and current trading to set future sales programs.
- Develop a suitable reporting system for marketing activities
- Identify training programs to develop the marketing skills of

4.0 THE OPERATING PLAN

The starting point is to assess performance levels of current production. This allows the business to be evaluated in relation to other firms within the same industry. It will then be possible to identify ways to improve productivity, and identify major competitive factors and opportunities for the future direction of the business.

It is essential that this section is also completed by those involved in Service Industries.

OBJECTIVES

The objectives for the operating component of the Business Plan are:

- Know the current performance levels in your business.
- Understand the activities of your competitors.
- Review production/service delivery processes.
- Maintain advantages in the marketplace.
- Recognise the skills of staff for improving the production/service delivery process.
- Develop efficiencies on costs and production/service delivery inputs.
- Know which production and control systems are best suited to your business.
- Implement suitable reporting systems.
- Identify suitable training programs to develop skills of personnel.
- Set targets (well defined, specific, measurable, time phased, and realistic).

5.0 THE MANAGEMENT AND PERSONNEL PLAN

This section involves the most important resource of your business. The selection, management and motivation of staff are essential to the efficiency and profitability of every business. It is a major cost component and usually has the greatest impact on the financial results of trading.

OBJECTIVES

The objectives for the personnel component of the Business Plan are:

- Evaluate effective time management functions.
- Review current personnel levels, functions and policies.

- Implement a method to appraise performance.
- Identify opportunities for external and on the job training.
- Know your legal obligations to staff.
- Know the skills and abilities of staff in order to maximise your staff satisfaction.

6.0 LEGAL MATTERS

The purpose of this section is to deal in a practical way with some of the legal concerns of small business operators. The list has been compiled under the major sections of your business plan. It is not intended to be an exhaustive list and operators should access professional legal expertise and opinion on certain matters.

7.0 THE FINANCE PLAN

The purpose of this section is to conduct a financial analysis and prepare projected financial statements (2 years) for your business. It is envisaged that you will work in conjunction with your accountant in completing these tasks. For an established business, accurate reports of current trading and comparative financial statements of previous years are required. It is of this data that projections will be based. For start up and early growth businesses where insufficient trading figures exist, it will be necessary to make an accurate forecast of sales. Other financial projections will be based on this figure.

OBJECTIVES

The objectives for the finance component of the Business Plan are:

- Know and understand the current financial business.
- Prepare projected financial statements for 1 year flow).
- Understand the projected performance of your
- Recognise the need to plan for contingencies, and to and update profit and loss and cash flow projections.

8.0

THE ACTION PLAN

The major components of the Business Plan have now been outlined.

In order for these plans to become a reality, a sequence of events must be initiated. Actions have to be coordinated and placed into a timeframe (eg availability of funds, market conditions, negotiated positions).

Draw from the action items identified in your Business Plan to complete the Action Plan schedules. This section can be separated and used in day-to-day management and updated at regular intervals. At all times it should focus on the key objectives previously identified.

Regular contact should be maintained with professional advisors to review the outcomes of this Action Plan. Contingency Plans may be required to address risk factors.

APPENDICES:

This section includes documentation, which supports your Business Plan, and gives the reader a better appreciation of your business.

EXECUTIVE SUMMARY

Background and description of the business:

Current business/economic position and future outlook:

Marketing Plan

An assessment of the market potential, market share and competition:

Marketing strategies for next year:

Market size and market share by segment:

Next Year 1:

Next Year 2:

Operational Plan

Product/service and production uniqueness and differentiation:

The management team (experience, talent, and strengths):

Financial Plan

Projected financial results for the year

Sales:

Profit:

Gross Profit%

If this Business Plan is to be used as an application for funding:

Amount contributed by principal(s): \$_____

Additional funds required: \$_____

Total Funds: \$_____

Funds to be used for:

Other comments:

1.0 BUSINESS PROFILE

1.1 BUSINESS DESCRIPTION

Describe briefly the legal structure of the business (eg, sole trader, partnerships, and Pty Ltd company):

Location (Advantages/Disadvantages):

Describe briefly your business in terms of:

a) Products/Services

b) Target markets and customer types

Describe any achievements or milestones to date.

1.2 BUSINESS MISSION STATEMENT

This innovative and motivating statement should:

- be a simple, precise statement that identifies why you are in business; give the business a purpose and a difference
- and define the purpose of the business along three dimensions
 - (i) Customer Groups - who is to be served and satisfied
 - (ii) Customer Needs - what is to be satisfied?
 - (iii) Technologies/Services - how are customer needs to be satisfied.

Our Business Mission Statement is:

1.3 INDUSTRY KNOWLEDGE AND EXPERIENCE/SKILLS OF KEY PERSONNEL:

(Total Staff = _____)

NAME	POSITION	KNOWLEDGE/EXPERIENCE

1.4

SITUATION ANALYSIS

External Factors- Work through the following list and assess which factors could result in an opportunity or threat to your business. Note whether the factors will have little influence (rating 1) on the activity of your business or whether they will have a major effect (rating 10).

EXTERNAL ENVIRONMENT	OPPORTUNITY	THREAT	INFLUENCE (1-10)
Economy:			
Stage of the economic cycle			
Current interest rate			
Average disposable income			
Competitors:			
Your main competitors product/service			
Their pricing policies			
Their performance - sales, growth, market share, profit, cash flow			
Their customer base			
Technology:			
Innovations in the manufacturing process			
Technological developments in the product (eg substitute products)			
Social Patterns:			
The population make-up (eg age, education, family structure)			
The status of women			
Percentage of work to leisure time			
The standard of living			
Environmental/Legal:			
Current environmental issues (eg population, green movement, energy costs)			
Changes in legislation			
Physical Factors:			
Climatic conditions			
Infrastructure - transport, communications and services			
Other Factors:			

Internal Factors (Your Business) -

The following is a self-assessment of your Business. The result should lead to a clear identification of your strengths and weaknesses. Work through the list and indicate which factors are strengths and weaknesses and assess whether they are key factors of your business (10 indicates an extremely important factor of your business).

INTERNAL ENVIRONMENT	STRENGTH	WEAKNESS	FACTOR (1-10)
Sales and Performance:			
A comparison of your pricing policies to industry practices			
Meeting of customer needs and wants			
Your sales level compared to capacity			
Your market share			
The current sales trend of your market			
The profit level of the business			
Your marketing plan and budget			
Personnel:			
The experience and expertise of your staff			
Training provided to your staff			
Utilisation of staff capacity			
Staff motivation and satisfaction			
Regular staff meetings			
Utilisation of professional business advisors			
Physical Resources:			
Are your buildings adequate? (facilities, size, access)			
Is your machinery/equipment effective/ (up to date, fully utilised)			
Financial Resources/Matters:			
Do you have an effective purchasing system/ (credit, stock control, availability)			
Is your cash flow adequate for growth?			
Do you have access to further funds?			
Does management have access to timely and useful financial information?			
Are key financial indicators of the industry and your business analysed regularly?			
Do you have a strong debt collection system?			
Potential:			
What is your potential for growth or improvement? (sales, profit, market share, competitive position)			
OTHER FACTORS:			

Issues identified from the Situation Analysis:

1.5 "SWOT" ANALYSIS

A SWOT analysis, which identifies the strengths, weaknesses, opportunities and threats of your business, can now be performed from the information you have prepared in the Situation Analysis.

To start, identify 8 of the major strengths, weaknesses, opportunities and threats, and insert them into the relevant area of the following matrix.

Strategies can now be developed, bearing in mind the following principles:

- Build on strengths to maximise opportunities.
- Try to correct those weaknesses, which are barriers to success.
- Minimise the effects of threats by building on your strengths.
- Divest your interest in areas of threat and major weaknesses.

The ideal situation is to match your strengths with opportunities and maximise your ability to satisfy customer needs wants and desires. On the other hand, you need to minimise your involvement in areas where you have a demonstrated weakness and there is a clear threat to your success.

"SWOT" ANALYSIS

Strategy	Strength	Weakness	Strategy

Strategy	Opportunities	Threat	Strategy

1.6 BUSINESS OBJECTIVES

The Situation and SWOT analysis would have given you a clear indication of the market you currently serve; the opportunities to enter into new segments and areas of your business that require improvement.

The next stage is to set some clear objectives to give the business a direction for the future. Objectives should be:

- Clear and concise.
- Realistic/achievable.
- Consistent with the mission statement.
- Measurable and quantifiable.
- Set in a particular time frame.

List major objectives for your business under the following suggested headings, noting how they will be achieved:

- Objectives for sales/profitability and any other financial goal:

- Objectives for market positioning (the position you want to occupy in the marketplace):

- Objectives for innovation (eg. equipment/technology update, quality control systems):

- Other Objectives:

2.0 PRODUCT/SERVICE & MARKET ANALYSIS

2.1 PRODUCT/SERVICE

Describe your product/service in terms of key features and benefits to a potential user, its limitations, and the basis of the cost and sale price.

Features:

Benefits:

Limitations:

Cost & Sale Price:

Are there any substitutes for your product(s)/service(s)?

2.2 INDUSTRY DESCRIPTION AND OUTLOOK

Describe the industry you are in (including the present structure, size in terms of \$ and volume, and how old it is).

Describe any major trends affecting the industry in the past and the future.

What are the chief characteristics of the market (eg competitive nature, government involvement, etc)?

2.3 ANALYSIS OF MARKET DEMAND FOR PRODUCT/SERVICE

What market research methods will be/have been used (ABS, customer survey, industry information)?

Key points to take into account for development of strategies:

[illegible]

3.0 THE MARKETING PLAN

3.1 CUSTOMER PROFILE

What is the customer profile of your business (eg, age, demographic patterns, buying patterns, customer motivation)?

List of existing/potential customers, (your customer data base):

[illegible]

3.2 COMPETITIVE ANALYSIS

List of Competitors:

COMPANY NAME	SIZE	SALES MIX (Product/Service)	YEARS IN BUSINESS	REPUTATION RATING (1-10)

In what areas does your business have a competitive advantage (management, personnel, service, marketing, pricing, and delivery, credit policy)? Can your advantage be sustained?

In what areas does your business lack a competitive advantage? Can this be corrected?

Can competitors easily diversify into your market?

FACTOR	YES/NO	REASON WHY
Technology		
Cost of Entry		
Unique Product/Service		
Knowledge & Skills		

3.3 SALES ANALYSIS & FORECASTS

Identify and define your major targeted market segments. What are your current and proposed market shares and total sales \$ and volume (units) for the next 2 years?

By sales personnel:

By full time equivalent employee (ie total hours labour to be shown as equivalent full time employees):

By client/customer:

By % of chargeable hours to available hours:

3.4 SELLING AND DISTRIBUTION METHODS

The selling and distribution plans for the business are:

Method (eg, direct marketing/telephone/mail order/retail):

Documentation (Customer records):

After sales service and warranties:

List of people/organisations involved in networking the business (franchising, buying groups, cooperative advertising, social, and professional and industry groups, allied services/products, suppliers):

NAME	PHONE	TYPE OF BUSINESS	RELATIONSHIP

3.5 PRICING (DISCOUNTING) STRATEGY

What is the basis of your existing/future pricing (discounting) policy?

Is it possible to increase prices by offering added value?

3.6 ADVERTISING AND PROMOTION

Advertising and Promotions Scheduling

How will your advertising/promotion focus on your competitive advantage/target market?

Packaging Comment on your strategy for packaging (image, positioning, attractiveness, labelling, selling features, cost effectiveness, travel and handling)?

Signage requirements/opportunities:

Literature and Stationery requirements/opportunities:

3.7 CONCLUSIONS

Major advantages in the Marketing Plan:

Main strategies developed:

Items identified for the Action Plan:

4.0 THE OPERATING PLAN

4.1 CURRENT PERFORMANCE

As a performance measure, rate these operational features relative to major competitors and the industry average.

Operational Feature	Rating out of 10		Notes - Methods for Improvement
	Current	Expected (In next 6 months)	
Cost			
Quality			
Wastage			
Flexibility			
Skill Levels			
Dependability			
Scheduling			
Downtime			
Safety			
Service			
Technology			
Innovation			

4.2 COMPETITIVE ADVANTAGE - PRODUCTION

In what ways is the production of your product/service unique, providing a distinct advantage over competitors?

How can these advantages be sustained?

4.3 LIST OF MAJOR SUPPLIERS

NAME	PRODUCT/ SERVICE	VOLUME PURCHASED	TRADING TERMS	ALTERNATE SUPPLIERS

4.4 INVENTORY

Purchasing: (usage trends, monitoring of supplier - price, quality and delivery, alternative suppliers, knowledge of new materials, emergencies)

Storage: (capacity, access, regulations, safety, and security handling equipment, product deterioration)

Inventory Control System:

4.5 THE OPERATING PROCESS

It is necessary to demonstrate how the product/service is produced. Indicate how it complies or varies with industry standards. From this information a realistic production plan and production control system can be worked out.

Detail	Current	Meets Industry Standard	Planned	Meets Industry Standard
Plant/Office Capacity				
Scheduling (operation, sequences & timing)				
Equipment/ Tooling Requirements				
Layout of business premises				
Material Requirements				
Location				
Distribution				
Quality Controls				
Staff levels				
Skill levels				
Purchasing lead times				

4.6 CONCLUSION

Have procedures/operations manuals been prepared?

Major advantages in the operations strategy:

Items identified for the Action Plan:

5.0 THE MANAGEMENT & PERSONNEL PLAN

5.1 MANAGEMENT ISSUES AND KEY PERSONNEL

Supporting Business Advisors, including contact details, are:

Accountant:

Solicitor:

Bankers:

Trade Association:

Consultants:

Insurance Company:

Other:

Have job descriptions (outline of duties) and job specifications (education, experience and personal qualities required) been prepared for ALL personnel (including management staff)?

5.2 STAFF DETAILS

Detail the total number of staff employed in the different categories, and wage expense.

	NUMBER OF STAFF			WAGES \$		
	Current Year	Next Year 1	Next Year 2	Current Year	Next Year 1	Next Year 2
Administration						
Sales/Marketing						
Management						
Production						
Secretarial						
TOTAL						

5.3 TRAINING

Current and required qualifications/skill levels of staff are rated 1-10 as follows:

	ACTUAL (1-10)	PROJECTED (1-10)
Administration		
Accounting/ Bookkeeping		
Computer		
Legal Matters		
Marketing/ Sales		
Management		
Personnel		
Production		
Research/ Technology		
Secretarial		
Strategic Planning		
Other		

The following external training programs will be attended over the next 12 months:

Staff Member	Training Course Details	Date	Duration	Cost

Structured on-the-job training will be conducted over the next 12 months as follows:

Staff Member	Training Course Details	Date	Duration	Cost

5.4 CONCLUSIONS

Major advantages offered by personnel and policy:

Items identified for the Action Plan:

6.0 LEGAL MATTERS

6.1 BUSINESS PROFILE

CONTRACTS, LICENCES AND AGREEMENTS

Indicate those areas currently affecting your business and note action required on them in the future.

	KEY ISSUE Yes/No	CURRENT STATUS
Business Purchase/Sale		
Franchise		
Plant & Equipment Purchase/ Maintenance		
Advertising Contracts		
Ownership - Business Name		
-Product Name		
-Assets		
-Intellectual Property		
Distribution Rights		
Purchase/Supply Contracts		
Service Contracts		
Loan Documentation		
Agreements with Customers and Contractors		
Cooperative Agreements with other businesses		

INSURANCE

Detail the insurance for your business - including items and sums insured, premium paid and the frequency of the review of your insurance needs.

6.2 OPERATIONS LEASES

If your business operates from leased premises, are you familiar with all the terms and conditions in relation to:

	YES/NO
Lease Terms and Conditions	
Rent payment provisions (advance, review, formula)	
Term options and expiry dates	
Assignment or transfer of lease	
Permitted use and restriction	
Location/Zoning/Real Property Description	
Relocation or demolition clause	
Body Corporate details	
Outgoings	
Responsibility for repairs and maintenance	
Trading hour requirements	
Government and Town Planning Regulations	

6.3 PERSONNEL

Are you aware of your responsibilities in the following areas?

	YES/NO	Follow Up Required
Termination of employment		
Industrial disputes		
Workplace health & safety		
Sex discrimination		
Human rights & equal employment opportunity		
Parental leave		
Negligence		
Holiday & long service leave		
Employment Contracts		
Industry Awards		

6.4 FINANCIAL

Detail your credit policy and how often it is reviewed. Are you fully protected by the stated terms and conditions of sale?

Are you aware of the effect of your legal structure on your personal liability and assets?

TAXATION AND OTHER LEVIES/CHARGES

Are you aware of your legal responsibilities regarding?

	YES/NO	Follow Up Required
Paying various taxes		
Keeping statutory records and receipts		
Employee superannuation		
Desk audits (Australian Taxation Office)		

6.5 CONCLUSIONS

Points to be raised with legal advisor:

Items identified for the Action Plan:

7.0 THE FINANCE PLAN

7.1 HISTORICAL FINANCIAL STATEMENTS - REVIEW/RATIO ANALYSIS

A financial analysis of past trading results, as applicable, should be carried out at this point. This analysis may be conducted by using the following Profit and Loss Report and Balance Sheet worksheets to determine the trends in the last two years and to produce the various financial ratios.

Having completed these tasks, you will have a better understanding of where your business is. The analysis will assist in the preparation of your projected Annual Profit Budget and Annual Cash Flow Forecast

Identify your major expense items and note any reasons for significant variances (eg interest expense, advertising, and wages).

ITEM	% EXPENSE/TOTAL INCOME		REASON FOR VARIANCE
	PERIOD 1	PERIOD 2	

Note: If your historical financial statements are for example the years 1995 and 1996, then period 1 is 1995 and period 2 is 1996

Business Name: _____		Date: _____	
Profit & Loss Report		For _____ Months to _____, 199_	
_____-_____-199_		_____-_____-199_	
\$	100 %	SALES	\$ 100 %
		DIRECT COSTS	
\$		Opening Stock	\$
\$		Plus Purchases	\$
\$ _____		Less Closing Stock	\$ _____
\$ _____	%	Material Used	\$ _____ %
\$ _____	%	Direct Labour	\$ _____ %
\$ _____	%	Production Overheads	\$ _____ %
\$ _____	%	COST OF GOODS SOLD	\$ _____ %
\$ _____	%	GROSS PROFIT	\$ _____ %
\$ _____	%	OTHER INCOME	\$ _____ %
		OVERHEAD COSTS	
\$ _____	%	Accounting Fees	\$ _____ %
\$ _____	%	Advertising	\$ _____ %
\$ _____	%	Bank Charges	\$ _____ %
\$ _____	%	Cleaning	\$ _____ %
\$ _____	%	Depreciation	\$ _____ %
\$ _____	%	Discounts Allowed	\$ _____ %
\$ _____	%	Electricity and Gas	\$ _____ %
\$ _____	%	Employee Amenities	\$ _____ %
\$ _____	%	Fees and Licences	\$ _____ %
\$ _____	%	Freight Out	\$ _____ %
\$ _____	%	Fringe Benefits Tax	\$ _____ %
\$ _____	%	Insurance	\$ _____ %
\$ _____	%	Interest	\$ _____ %
\$ _____	%	Lease Payments	\$ _____ %
\$ _____	%	legal Fees	\$ _____ %
\$ _____	%	Motor Vehicle Expenses	\$ _____ %
\$ _____	%	Postage Telephone & Fax	\$ _____ %
\$ _____	%	Printing & Stationery	\$ _____ %
\$ _____	%	Rent & Outgoing	\$ _____ %
\$ _____	%	Repairs & Maintenance	\$ _____ %
\$ _____	%	Sales Tax	\$ _____ %
\$ _____	%	Staff Amenities	\$ _____ %
\$ _____	%	Superannuation	\$ _____ %
\$ _____	%	Training costs	\$ _____ %
\$ _____	%	Travel Expense	\$ _____ %
\$ _____	%	Wages (Gross)	\$ _____ %
\$ _____	%	WorkCover	\$ _____ %
\$ _____	%	Other	\$ _____ %
\$ _____	%	TOTAL OVERHEAD COSTS	\$ _____ %
=====			=====
\$ _____	%	NET PROFIT (Before Tax)	\$ _____ %
=====			=====

Business Name: _____ Date: _____

Balance Sheet for the period ending _____, 199_

_ - _ - 199_		_ - _ - 199_
	CURRENT ASSETS	
\$	Cash at Hand and Bank	\$
	Short Term Investments	\$
\$	Stock on Hand	\$
	Trade Debtors	\$
\$	Other	\$ _____
\$	TOTAL CURRENT ASSETS	\$
\$ _____		
\$		
	FIXED ASSETS	
\$	Land and Building at Cost	\$
\$	Plant and Equipment at Cost	\$
\$	Motor Vehicle at Cost	\$
\$	Office Equipment at Cost	\$
\$	Leasehold Improvements at Cost	\$
\$ _____	Less Provision for Depreciation	\$ _____
\$	TOTAL FIXED ASSETS	\$
	INTANGIBLE ASSETS	
\$	Goodwill	\$
\$ _____	Other	\$ _____
\$	TOTAL INTANGIBLE ASSETS	\$ _____
\$	TOTAL ASSETS	\$
	CURRENT LIABILITIES	
\$	Bank Overdraft	\$
\$	Short Term Loans	\$
\$	Trade Creditors	\$
\$ _____	Other	\$ _____
\$	TOTAL CURRENT LIABILITIES	
		\$
	NON-CURRENT LIABILITIES	
\$	Proprietors Loans (if P/L)	\$
\$	Secured Loans	\$
\$ _____	Other	\$ _____
\$	TOTAL NON-CURRENT LIABILITIES	\$ _____
\$	TOTAL LIABILITIES	\$
=====		=====
	ESTIMATED NET WORTH	
\$	Proprietorship Balance b/f	\$
\$	Plus Profits	\$
\$ _____	Less Drawings	\$ _____
\$	TOTAL PROPRIETORSHIP	\$

Complete the following financial ratio analysis based on the Profit and Loss Report and the Balance Sheet on the previous page

RATIO	FORMULA	DEFINITION	PERIOD 1	PERIOD 2
Gross Profit Margin (%)	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	The gross profit margin is a measure of direct costs in relation to sales prices and is used to assess the adequacy of the profit at the trading level		
Net Profit Margin (%)	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	The net profit margin is a measure of performance of the overall results to sales prices and is used to assess the adequacy of the net profit result		
Current Trading Level per Month	$\frac{\text{Sales Level per year}}{12}$			
Break Even Point	$\frac{\text{Total Overheads}}{\text{Gross Profit Margin}}$	This ratio indicates the minimum level of sales to fully recover all costs and expenses without making a profit or less		
Budget Sales Level	$\frac{\text{Overheads} + \text{Drawings} + \text{Loan (princ)}}{\text{Gross Profit Margin}}$	This ratio indicates the level of sales needed to achieve the desired profit on drawings and the repayment of the principal		
Margin of Safety	$\frac{\text{Net Profit}}{\text{Gross Profit}}$	This ratio indicates the percentage by which the sales exceed the Break Even Point		
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio is used as an indicator of the business' ability to repay short-term loans. The higher the ratio the better		
Debtor Days	$\frac{\text{Trade Debtors} \times 365}{\text{Credit Sales per year}}$	This ratio approximates the average number of days debtors are outstanding		
Creditor Days	$\frac{\text{Trade Creditors} \times 365}{\text{Credit Purchases per year}}$	This ratio approximates the average number of days creditors are outstanding		
Days Stock	$\frac{\text{Closing Stock} \times 365}{\text{Material Used or Stock Purchases}}$	This ratio approximates the number of days stock is held without replenishment		
Stock Turn	$\frac{\text{Material Used or Stock Purchases}}{\text{Av or Closing Stock}}$	This ratio is used to approximate the number of times in a year the stock turns over. Greater Stock Turn reduces working capital		
Gearing Ratio (%)	$\frac{\text{Borrowed Fund}}{\text{Total Assets}} \times 100$	This ratio is used to ascertain the extent to which the total assets of the business are used for borrowed funds		

Debt Equity Ratio	$\frac{\text{Interest Bearing Loans}}{\text{Proprietor Funds}}$	This ratio indicates the ratio of interest bearing debt to proprietors funds in the business		
Asset Turnover per Annum	$\frac{\text{Total Sales}}{\text{Total Assets}}$	This ratio is used to show the extent to which total assets are used to produce sales		
Interest Coverage Ratio	$\frac{\text{Interest}}{\text{Interest Payments}}$	This ratio indicates how many times your business can repay interest outstanding. The higher the ratio the better		

Business Establishment/ Expansion Costs

If you are setting up a business then this checklist should be completed and any costs applicable transferred to your projected Annual Profit Budget and Annual Cash Flow Forecast.

Outflow	Amount	Payable When
Professional Fees		
... Accountant		
...Solicitor		
Advance Rent/Security Deposit		
Fittings/Renovations/Signwriting		
Telephone		
...Installation		
...Transfer		
Electricity/Gas		
...Connection		
...Deposit		
Equipment/Furniture		
Lease		
Purchase Price of Business		
...Plant/Equipment/Fittings		
...Stock		
...Goodwill		
Initial Stock/Restocking		
Initial Tooling & Dies		
Packaging & Wrapping		
Printing/Stationery		
Initial Advertising		
Working Capital Requirements		
Registration/Licences/Permits		
...Initial		
...Transfer		
Initial Staff Recruitment		
Initial Staff Termination		
Initial Insurance Premiums		
Initial WorkCover Premiums		
Initial Patent Costs		
Other Setting Up Costs		
Total Establishing Requirements		

7.2 PROJECTED PROFIT & LOSS STATEMENTS

Financial Budgeting is simply the expression of Business Plans in Financial terms. The Profit Budget shows the expected income, expenditure and profit over the budget period. It tells you how much profit is likely from your expected level of trading. This section will address each income and expense items and assists in either sourcing it from another part of the plan or will explain how the figure should be determined.

Budgeting lets you diagnose problems in advance. For instance, your budget may not provide you with adequate profit. You can then decide on an appropriate course of action.

You don't have to be an accountant to prepare financial budgets or an expert in financial analysis to interpret them. The actual preparation and use of the budgets in a Small Business is not a complex technical task and is well within your grasp. It is preferable to budget each month for 12 months to take into account monthly and seasonal trends in sales and expenditure.

Profit and Loss items can be divided into various sections:

- Direct costs - purchases, direct labour, production overheads

- Variable overhead expenses - vary according to sales or business activity.

- Fixed overhead expenses - do not vary according to sales or business activity.

- Other expenses - interest, depreciation, superannuation.

The profit budget does not reflect your cash position. It contains non-cash items such as depreciation, creditors, which you have not paid, invoices raised but for which no cash has been received. It also excludes any payment of loans.

HOW TO USE THIS ANNUAL PROFIT BUDGET

Step 1

Calculate your estimated annual sales at (A) and divide into monthly sales. Note: Take into account seasonal or monthly trends.

Step 2

When calculating purchases remember to take into account the extra stock required prior to seasonal sale increases.

Step 3

Material Used is calculated from Opening Stock plus Purchases less Closing Stock if no change in Stock, place purchases at (B).

Step 4

Costs of Goods Sold (C) is calculated by adding Material Used to Direct Labour and Production Overheads (if any).

Step 5

Calculate Gross Profit (A - C) and work out your Gross Profit Percentage at (E).

$$\frac{\text{Gross Profit \$} \times 100}{\text{Sales \$}} = \frac{(E)}{(A)} \times 100$$

Step 6

List your estimated overhead expenses. Divide your annual expenses into monthly amounts, which will be calculated by two methods. Firstly, those expenses which are "fixed" ie do not vary according to sales or general business activity (eg, Fees and Licences, Insurance, Rent and Outgoings). Twelve to determine the monthly proportion of the "fixed" expense should divide the anticipated cost for twelve months.

Secondly, those expense which are "variable" ie. They do vary according to sales and business activity (eg Advertising, Electricity and Gas, Postage Telephone and Fax) should firstly be calculated to reflect your planned business activity. Then the projected costs relating to specific months should be included in the relevant monthly columns eg advertising costs will be higher in months requiring greater promotion. Other months will reflect the cost of "normal" advertising.

Any amounts taken by the owner(s) from the business for personal living and other expenses are classified as "drawings" (ie. an advance against Profits) and these are not included in the Profit Budget.

Step 7

Calculate your Net Profit at (I) as follows:

$$\text{Net Profit} = \text{Net income (F)} - \text{Total Overheads (H)}$$

7.3 PROJECTED CASH FLOW STATEMENTS

Having completed your profit budget you must assess your Cashflow Forecast to determine if you have sufficient cash to meet your debts as they fall due. Use the Profit Budget as the basis for your Cashflow Forecast. Cash flows are required in addition to profit and loss statements as profit is not the same as cash flow.

HOW TO USE THIS ANNUAL CASH FLOW WORKSHEET

Step 1 - Cash inflow

1. Calculate the Monthly Cash Inflow from the Debtors Analysis (p.45) and anticipated cash sales and put totals in row (A).
2. Sales of Assets. Use only if you plan to sell assets during the year.
3. Capital Injection. If you plan to inject owners or borrowed funds into the business.
4. Other Sources includes cash received other than from sales such as interest.
5. Total the Cash Inflows and place at (B).

Step 2 - Cash Outflow

1. Calculate the Monthly Cash outflow for Purchases from the Creditors Analysis (p.46).
2. Transfer this figure to the Annual Cashflow Forecast at line (C).
3. Overheads. These are taken from your Profit Budget except non-cash items such as depreciation or provisions.
4. Divide your annual expenses into monthly payments putting the payments into the month it will be spent eg rent is usually monthly. Perhaps you have to pay an extra month for the deposit in month 1. Telephone and electricity are usually paid quarterly. If you run an account with a supplier you won't pay until next month (30 days), so place this into next month's column. Estimate the timing for money going out and place in the appropriate box.
5. Other items. The other payments are for items not shown on a Profit Budget such as purchase of assets, loan repayments, and tax repayments and owners drawings.
6. Total the Cash Outflow and place at (D).

Step 3 - Net Cashflow

Calculate your net cashflow (B-D) and place at (E). This is the real test. Does money in, exceed money out?

Step 4 - Opening Balance

Put the cash balance at the beginning of the month at (F).

Step 5 - Funds Available

Calculate your cash at bank at (G) by adding (E) and (F). Note: If (E) is negative then your balance will be reduced.

Debtors Analysis (People who owe you money)

Estimated Monthly Sales		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Month 1	\$												
Month 2	\$												
Month 3	\$												
Month 4	\$												
Month 5	\$												
Month 6	\$												
Month 7	\$												
Month 8	\$												
Month 9	\$												
Month 10	\$												
Month 11	\$												
Month 12	\$												
Monthly Cash													

- 1. Calculate your Estimated Monthly Sales and place in the first column.
- 2. Receipts from Cash Sales are entered into the month in which they occur.
- 3. Receipts from Sales on Credit are entered into the month of receipt, eg sales on 30 days would be entered into the month after the sale
- 4. Add each Monthly column to calculate the Monthly Cash Inflow from Sales.

Creditors Analysis (people you owe money)

Estimated Monthly	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Month 1	\$											
Month 2	\$											
Month 3	\$											
Month 4	\$											
Month 5	\$											
Month 6	\$											
Month 7	\$											
Month 8	\$											
Month 9	\$											
Month 10	\$											
Month 11	\$											
Month 12	\$											
Monthly Cash												

1. Calculate your Estimated Monthly Trade Purchases and place in the first column
2. Payments for cash purchases are entered into the month in which they occur
3. Purchases for credit are entered into the month of payment eg purchases on 30 days would be entered into the month after the purchase
4. Add each Monthly column to calculate the Outflow from Purchases

7.4 CONCLUSIONS

Finance Report

Comment on financial trends, current trading, and variations to budget:

Advantages of the financial position/projections for the business:

Disadvantages of the financial position/projections for the business:

Key strategies relating to finance:

Cash Flow:

Sourcing Capital

Financial Management

Items identified for the Action Plan:

8.0 THE ACTION PLAN

The major components of the Business Plan have now been completed.

In order for these plans to become a reality, a sequence of events must be initiated. Actions have to be coordinated and placed into a timeframe (eg availability of funds, market conditions, negotiated positions).

Draw from the action items identified in your Business Plan to complete the following Action Plan schedules.

This section can be separated and used in day-to-day management and updated at regular intervals. At all times it should focus on the key objectives previously identified.

Regular contact should be maintained with professional advisors to review the outcomes of this Action Plan.

ACTION PLAN

[illegible]

APPENDICES

The appendix of your Business Plan will contain copies of relevant documentation which will improve the reader's appreciation of your business and its goals. Accordingly the appendices should be attractive, readable, and understandable and easily located by clear cross-referencing with the main body of the Business Plan. Material could include:

Checklist

BUSINESS PROFILE

References from customers and suppliers	.....
Copies of business agreement/business name	.....
Awards, details of significant milestones	.....

PRODUCT/SERVICE & MARKET ANALYSIS

Patents, Trademarks and Copyrights	.....
Photos of products, equipment and facilities	.....

MARKETING PLAN

Marketing material including brochures, advertisements	.....
Market research reports	.....
Media releases, features, and articles

OPERATING PLAN

Quality control and procedures manuals
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HUMAN RESOURCES PLAN

Resumes of key people, references
Organisation chart
Training certificates, Degrees	.....

LEGAL MATTERS

Partnership agreements, Company Memorandum and Articles of Association	.....
Employment Contracts	.....
Lease and loan documents	.....
Service agreements	.....

FINANCE PLAN

Profit & Loss (previous year)	.....
Balance Sheet (previous year)	.....
Ratio Analysis	.....
Projected Profit & Loss Statements	.....
Projected Cash Flow Statements	.....
Debtor & Creditor Analysis	.....

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(i) In no event shall the Department of Tourism, Small Business & Industry be liable for any damages whatsoever (including, without limitation, damages for loss of business profits, loss of savings, business interruption, loss of business information, or any incidental damages or other economic consequential damages) arising out of the use of, or inability to use, this Product, even if the Department of Tourism, Small Business & Industry has been advised of the possibility of such damages.

(ii) Neither the Department nor its suppliers, agents, servants, contractors or any other persons or entities involved in any way in the creation, supply or maintenance of the Product shall otherwise be liable for any injury, loss or damage which is caused by or arises out of the negligence or breach of statutory duty of the Department of Tourism, Small Business & Industry, its suppliers, agents, servants, contractors or other such persons or entities.

(iii) User acknowledges that it has relied upon its own skill and judgment in the selection, supervision, management and use of the Product and the results expected thereof.

(iv) On no account should business decisions be made solely on the basis of this business plan.