



Simplifying Business Plans

This advice note aims to help de-mystify common myths about business plans and help local voluntary organisations understand the elements involved in business planning for community projects. **Although Business Plans sound daunting, they are actually straightforward** in the task they perform - they are plans of action outlining how a project is to be set in motion and completed within a given time-frame, and for a set budget. They have a practical role to play, in helping the organising committee build a framework around a project, making it much more likely to be successful.

What is a business plan?

A great deal of nonsense is talked about Business Plans. At worst, they are portrayed as highly complex documents, mainly comprising mystifying financial forecasts, which can only be compiled by expensive experts. In practice, most projects implemented by community groups require only a simple plan that members of the group can quite easily prepare for themselves.

A Business Plan is precisely that - a plan. Many things in life need to be planned, from organising a children's party to building (and paying for) a house. The complexity of the plans involved should therefore reflect the complexity of the task. As a general rule, if the task/project/business you propose to implement is so complex that you cannot plan for it yourself, then you should probably modify your ambitions.

A Business Plan is not a Feasibility Study. A Feasibility Study should come first (see separate advice note on preparing feasibility studies), and asks the question: "Is this proposal feasible?" The Business Plan describes how it will be done - i.e. it assumes that you have already determined that the proposal is feasible.

Why prepare a business plan?

Again it is necessary to dispel a widely held belief. A Business Plan is not an irritating hoop through which one must jump in order to persuade banks, LA's and others to provide funds. It is true that banks, Local Authorities and funding agencies will often ask to see a Business Plan, but this is a coincidental reason for producing one.

The main reasons for producing a Business Plan are the same as the reasons for planning anything else in life. In the first place, going ahead and doing anything remotely complicated without first planning it is a recipe for disaster - you are bound to overlook something and create unnecessary difficulties. Secondly, and perhaps more importantly, most complicated projects (especially those led by community groups) involve several people in their implementation. Without a clear, agreed and written plan at the start, confusion and even conflict are almost inevitable.

What are business plans used for?

For the purposes of most community groups it is probably worth dropping the word "Business", and simply talking about "Plans". Anything that you propose to do, which is in the slightest bit complex, will benefit from being planned in advance. Writing that plan down, and discussing it with all those involved, is simply good communication. Without it, you cannot expect outsiders to necessarily support you, and you may find that insiders are (unwittingly) all pulling in different directions. In practice, terminology is often used in a very confusing way. You will hear talk of Project Plans, Strategic Plans, Operational Plans and more. For most community groups this is largely irrelevant, and you will be concerned simply with producing one plan, probably annually, setting out what you propose to do, why, how and when. Some community groups may wish to plan separately for particular projects, but the principal ingredients of what, why, how and when are the same.

Practicalities

A Business Plan must be compiled by those who intend to implement it. If you cannot plan a project yourselves then you should question whether you will be able to implement it yourselves.

Having said that, it makes every sense in certain circumstances to obtain outside advice, especially if a project is technically complex (e.g. developing a community owned hydro-electric site), or financially uncertain (e.g. setting up a community owned tourist centre). There is, however, an important distinction between obtaining advice so that you can be more effective in developing your own plan, and getting



someone else to develop the plan for you. By all means consult consultants, but do not abdicate to them! (see separate advice note on working with consultants).

What to put into a plan?

This depends on what the plan is for. In particular the relative emphasis given to what, why, how and when will vary according to purpose. A suggested framework is given at the end of this paper, which should be used flexibly according to circumstances.

A comprehensive description of what you intend to do is clearly vital. Vagueness on any particular aspect is of no use to anyone, but where there is some uncertainty this should be spelt out together with the various alternatives which may be followed according to circumstances. For most plans there is a particular need to describe clearly what the proposed market, or target user audience, is for the proposal. This "demand" is fundamental to supporting, and often financing, the proposal.

People frequently forget to adequately answer the question "Why?" a clear rationale and justification for your proposals are required, not simply to woo potential outside supporters, but also to ensure that internally the group has thoroughly thought through the issues involved. Too often, and not just with community groups, there is an enthusiasm to race into the detail of what will be done, without standing back and thinking through what this will achieve, how it fits with other activities going on in the area etc.

In most cases, more of the Business Plan will be devoted to how you will do things than to any other aspect. This is quite distinct from describing what you will do, and deals with the practicalities of constitution, decision making, management, staffing, premises, financing etc. There is no room for any vagueness with these aspects, and the

project may fail if they have not been carefully planned in advance.

It is not always obvious that the question, "When?" is an important issue. A common answer is, "As soon as possible". Yet timing, and particularly the timing of resource inputs and outputs, is central to any plan. Imagine a plan for a child's birthday party without any timings!

Money

Popular mythology has it that a Business Plan is all about money. While this is clearly nonsense (indeed it is possible to envisage a Business Plan which involves no money at all), in most cases a plan will involve the input and output of money. Plans for the movements of money are usually called budgets.

Planning movements of money is essentially a matter of "how much" and "when". Knowing how much will come in and go out is vital to ensuring that over time you will have enough to implement your plans. Knowing when it will do so is vital to ensuring that at any one time you do not run out of cash.

Planning how much money will come in and go out in a given time period (usually a year) is straightforward. It is simply a matter of setting out how much you will start with, how much will come in and go out during the year, and what you will be left with at the start of next year. The amount of money at the start of the year is broken down into categories (cash, amounts owed, money invested in property, etc) and called a Balance Sheet. See the example below of a Balance Sheet. The amount of money coming in and going out during the year is broken down into categories (sales, grants, wages, rent, etc) and called a Trading Account. See the example below of a Trading Account.



Balance Sheet			
		31.03.2000	31.03.2001
Fixed Assets			
	Equipment	2200	4260
	Less depreciation	-440	-852
		1760	3408
Current Assets			
	Cash in bank	640	750
Net Assets		2400	4158
Made up from:			
	Grants	2200	4700
	Accrued Trading surplus/deficit	200	-542
Net Balance		2400	4158
Trading Account			
			2000/2001
Income			
	Welsh Assembly Government		4000
	Carmarthenshire County Council		4000
	Local Fund Raising		2500
		Total	10500
Expenditure			
	Staff		-7200
	Premises		-600
	Telephone		-480
	Light/Heat		-310
	Others		-1800
		Total	-10390
Surplus/deficit before depreciation			
	Depreciation		-852
Net surplus/deficit			-742



Occasionally some items (for example money to purchase a long-term asset like a computer) are effectively spread over several years by adding an amount to the balance sheet, and then showing a deduction (depreciation) repeated each year in the Trading Account.

Planning when money will come in and out is called "cash flow" planning. It is usually planned on a monthly basis, showing what will come in, what will go out, and the resulting cash balance. Obviously you need to plan so that the cash balance stays above zero.

For most people, the idea of financial planning of any kind is thoroughly daunting. This is not because we cannot do it (we all do it all the time in our personal lives), but because the standardised frameworks of Balance Sheet, Trading Account and Cash Flow seem complex until properly explained. For this reason it may be worth getting some advice, but it is essential that you use the advisor to teach you what is involved, rather than getting him or her to do it for you.

Finally, and in summary

- Business Plans are simply plans.
- A Business Plan should be no more complex than the project that it describes.
- If you cannot compile your own Business Plan, then you should ask whether you will be able to implement it yourselves.
- Most things that community groups are likely to want to do will need to be planned. Ignore the word "Business", and compile a Plan.

Suggested framework for a Plan

(Note this must be used flexibly to reflect specific circumstances).

Summary

Write this last, and be very brief. It is not essential but helps outsiders in particular to quickly get an overview of things.

Background and Introduction

An introduction to "Why?"

Justification/Rationale

An explanation of "Why?" In particular, be clear about how your project fits within a broader context.

General Description

Now we get to "What?" Elaborate on what you will do, and what you expect to achieve in terms of specific results and outputs.

The Market/Target User Audience

This is a specific, and vitally important, aspect of "what" that deserves separate description. Say something about competitors and/or other providers too, if appropriate.

Management and Staffing

Include constitutional and decision making arrangements, staffing structure and responsibilities (Job Descriptions in an appendix can be helpful).

Premises and Other Practicalities

Depends very much on the nature of the project, but make sure everything is covered.

Finance

Sometimes worth dividing up into capital (balance sheet) issues, trading account, and cash flow. Much depends on the complexity of the project. Give detailed numerical budgets as appendices, and include here narrative description of the main issues involved. These will include: explanations of the assumptions that have been used to arrive at the figures given e.g. "Visitor income forecast of £13,000 per year is based on an assumption of 10,000 adults @ £1 and 6,000 children @ 50p".

For further advice on business plans contact

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Disclaimer

This Advice Note has been produced on behalf of the Carmarthenshire Community Toolkit to assist community groups to make funding applications. However, it should not be taken as a definitive guide covering all areas of concern and it is recommended that further advice is sought in appropriate circumstances.