

The Importance of Business Planning



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When you are setting out and everything is moving so quickly, it's easy to deviate from where you intend to be. If you don't have a business plan, you might compromise growth or miss out on opportunities by sweating the small stuff and not focusing on what matters most.

Having a clear business plan from day one keeps you focused on the goals that are crucial for success and provides guidelines for day-to-day operations and decisions. A good business plan gives you goals to strive towards for the next month, year and beyond.

Why do I need a business plan?

There is no logical reason to wait for external motivation, like your bank manager asking to see your business plan, before you write one. Committing your plans to writing helps to sharpen your focus and identify your priorities, and can be used as a benchmark to measure your progress towards achieving your goals.

Business plans are an essential management tool that tells you what you plan to achieve, how you plan to achieve it, and when you hope to achieve it by. Set time aside to assess actual progress against your business plan to keep your business on track, and update your plan as economic, market and individual circumstances change.

The primary purpose of your business plan is to map out a strategy and action plan for your business, but it also serves a useful secondary purpose as a reference document for external parties with an interest in your business.

Who will read your business plan?

Your business plan is likely to be read by people in your company as well as other people and businesses who are entering some form of partnership or association with you.

Since your business plan contains your strategy and action plan for your business, it will be referred to by your staff to ensure the decisions they make match the overall plans and objectives of your business.

Your business plan (or selected portions of it) is likely to be shown to people outside your business, like your bank manager or other lenders, when looking to raise finance or investment capital. Similarly, if you are looking to employ a new senior staff member, a professional business plan could help clinch the deal.

Potential business partners or representatives are also likely to be favorably impressed by a comprehensive business plan, and your plan will also play an important role in presenting your business to potential buyers when the time comes to sell your business.

People from outside your business will primarily be interested in using your business plan to assess the viability and profitability of your business.

Setting your goals

Your business will not operate as efficiently and effectively as it could without specific and defined goals. Your business plan is likely to outline goals for some, or all, of the following.

- **Financial objectives** – for example, to increase turnover or reduce operating costs by 5% this year.
- **Strategic objectives** – for example, to increase the number of corporate clients by 20% within two years.
- **Operational objectives** – for example, to increase output by 10% within six months.
- **Marketing objectives** – for example, to increase total sales to existing customers by 10% next year.
- **Social/Environmental objectives** – for example, to decrease your carbon footprint by 5% each year for three years.

Holding a staff brainstorming session is a good way to benefit from the expert knowledge of your staff and get their buy-in and support for your business goals and objectives.

Depending on the size of your business, you might hold only one brainstorming session or several, to cover the objectives for various business units.

Keep your goals realistic and pertinent to current general economic conditions, and to your specific industry conditions. For example, in a period of global economic downturn, it is more effective to look at ways to decrease costs than to increase sales.

Identify your strategy

Your business plan will also include your business strategy and will outline the steps you plan to follow to achieve the goals and objectives you have identified. This, in turn, will direct the day-to-day operations of your business. Each of your business goals will need a plan of action that needs to be followed to achieve the objective.

As a rule of thumb, your strategy will outline the most practical and cost-effective way to achieve each objective. It will detail any extra equipment or personnel that might be required to achieve this.

For example, you might need an extra staff member and an additional computer to increase output by 10% within the next six months, or you might consider enrolling your sales staff on a course to achieve the objective of increasing sales to existing customers next year.

Forecast the financial implications

The financial implications of your goals and strategies will be reflected in the financial forecasts in your business plan. Your goals will identify the areas of improvement, like an increase in sales or a reduction in costs, and your strategy will identify any additional expenditure needed to achieve these goals.

Most business plans will include a 12-month cash flow forecast, a profit and loss forecast, and a two- or three-year projection.

Your cash flow forecasts will identify whether you have sufficient financial resources to implement your plans immediately, or whether you will need to explore other financing options. Monitoring your actual spend against your projections is a way to ensure that new project costs do not escalate much beyond planned expenditure.

Review your business plan

Your business plan is a living document that grows and changes over the lifespan of your business. Its objective is to identify your key goals and how to achieve them, while taking market and technological trends into account.

The effectiveness of your business plan as a management tool depends on you referring back to it as a reminder of your plans and objectives, and updating your plans to keep them relevant.

Reviewing your progress against your business plan, on an annual basis, is a good way to measure actual performance, and will form the basis for revising and updating your plans.

Because the nature of your business and the market you operate in will change over time, it is a good idea to review and update your business plan once a year. The most efficient way to achieve this is to set aside a few days every year, at the same time, to do this.

Good Luck!

If you would like help to improve your business performance give us a call today, as business accountants and advisors we can assist you achieve your goals and create the business you've always wanted.