FINANCIAL TIMES

Essential Guides

WRITING A BUSINESS PLAN

HOW TO WIN BACKING TO START UP OR GROW YOUR BUSINESS

VAUGHAN EVANS

THIRD EDITION

FT PUBLISHING

FT Essential Guides

WRITING A BUSINESS PLAN

'This excellent book shines a light on what suppliers of capital expect in a business plan and why. It is an invaluable resource for all managers and budding entrepreneurs.'

Hugh Lenon, Chairman, Phoenix Equity Partners; former Chairman, the British Venture Capital Association

In one engaging, outcome-oriented book, *The Financial Times Essential Guide to Writing a Business Plan* gives you:

- The essential knowledge you need to write a winning business plan – quickly and without fuss
- Guidance on how to focus throughout on the plan's purpose – to win backing
- Samples of what a good plan looks like, so you can benchmark your own as you write it
- Checklists, tips, examples and milestones to ensure you're on target
- Prompts to reflect on, evaluate and learn from your experience

Whether your business is a startup or a more established company looking to grow, this is the one guide you need to create a credible and persuasive plan.

Feedback on earlier editions of *The Financial Times Essential Guide to Writing a Business Plan*

'Vaughan Evans provides a thorough yet practical guide to writing a business plan. I particularly like his emphasis on market demand and competitive analysis because often we entrepreneurs tend to go with our gut feel rather than proper analysis. Miscalculate these two critical areas and you will probably enter the wrong business. I have been there before and no matter how good your team or execution is, it will be an uphill battle to convince investors if those two areas aren't compelling. Evans gets the priorities behind business planning right.'

Anthony Karibian, founder bOnline Ltd and co-founder, Euroffice Ltd and XLN Telecom Ltd (both sold September 2010)

'Raising capital is rarely straightforward. Evans's excellent book shines a light on what suppliers of capital expect in a business plan and why. It is an invaluable resource for all managers and budding entrepreneurs.'

Hugh Lenon, Chairman, Phoenix Equity Partners, and Chairman of the British Venture Capital Association, 2010

'Evans has nailed it! Clear, readable, no-nonsense thinking about the fundamentals every business plan must address. If writing a business plan is your next step, this book's for you.'

John W. Mullins, Associate Professor of Management Practice in Marketing and Entrepreneurship, London Business School, and author of *The New Business Road Test* and *Getting to Plan B*

'This guide cuts to the heart of what needs to go into a business plan – in any number of different scenarios. It is admirably clear and cleverly illustrated by real-life examples. It ought to be required reading for anyone contemplating any form of investment, even if they think they know it all already.'

James Brocklebank, Managing Partner, Advent International it competes not just with rivals Tesco, Sainsbury's and Morrisons, as well as the discounters Aldi and Lidl, but also with the local grocer, butcher and fishmonger. In ready-cooked food, Asda competes with local restaurants.

Then there is indirect competition. These are competitors not directly in your space but infringing on your space by offering an alternative solution to the customer. They are competing for your customer's pocket.

You could argue that the local grocer is an indirect competitor of Asda since it offers a different service – more personal, hands-on, quality assured, returns-friendly, neighbourly, perhaps. An example of a truly indirect competitor would be iTunes, whose streaming solution for music reduces demand for CDs sold by the likes of Asda.

Essential example

Pret A Manger's competition

In the mid-1980s, you might have thought that there were few more mature industries than the sandwich shop. The office worker typically unwrapped a self-prepared sandwich from a Tupperware container, or popped into Boots or Marks & Spencer for a ready-made sandwich. If you weren't in a hurry, you joined the queue at a sandwich bar, where, having struggled to make up your mind from the array of ingredients on display, some cheeky chappie behind the counter crafted a sandwich especially for you.

Not much scope for innovation there, you might have thought. One entrepreneur thought otherwise. He opened a sandwich shop in Victoria where sandwiches were made up on the premises in the early morning, packed and sold off-the-shelf as upmarket fresh fast food at lunchtime. It was an instant success, boosted by a strong culture ('Pret behaviour'!) of staff joviality and lively communication on the healthiness of the offering.

The chain grew steadily and profitably. Today Pret runs ~550 outlets across five markets in the UK, USA, France, Dubai and Hong Kong, with ~8,000 employees, 80% of which are in the UK. But growth has not been without its challenges. An investment by McDonald's in the early 2000s led to over-rapid expansion. It faced direct competition from lookalike EAT, which initially served to further grow the market for them both. By 2019, however, EAT was in financial difficulties and sold out to Pret, who saw the opportunity to rebadge the acquired estate as Veggie Pret. Meanwhile, Pret was expanding its presence in the US market, where it faced a new hurdle – American customers struggling with the French and referring to it as 'Pretty Manager'!

You need to find out all you can about your competitors. You should prepare summary profiles of them for an appendix, to be summarised here in your Chapter 4. The profiles should include the following:

- Sales – preferably by main segment. If the only data you can find is group sales or divisional sales encompassing a number of segments, only some of which you address, make a record of those actual sales but also attempt to estimate sales in each key segment – you're going to need those estimates for your market share calculations
- Sales growth over the last three years.
- Operating and/or net profit margin – if available (unlikely if your competitor is a private company).
- Ownership – and an assessment of financial depth and backing.
- Segments addressed – now and plans for the future (for example, new products in the pipeline, new markets/customer groups being targeted).
- Location of facilities and sales/service teams.
- Physical assets deployed – for example, numbers and type of machinery.
- Strategy – main focus, recent investments, growth plans (from, for example, press or trade show clippings, or even customer anecdotes).
- Positioning in market – unique sales pitch, pricing policy.

Only key extracts and conclusions from this appendix analysis should go into your Chapter 4. Which competitors play in which segments? What's their relative market share? How have they been performing? Have they been gaining or losing share? Why? What are they up to? What new products or new markets are they planning?

And let's have a couple of pie charts in this chapter. Show each main competitor's pie slice of market share in your main business segments. If illuminating, show a back projection of market share of, say, three years ago. If you've been the one who has gained share in this period, this is a must!

This is all background stuff. Important, necessary, but perhaps not very interesting. Much more interesting to your backer, and left out entirely in the vast majority of business plans, is a discussion of competitive intensity and how it has been evolving.

Competitive intensity

What your backer wants to know is how intense competition is in your main business segments and whether it is going to intensify. And why.

They want to get a sense of what is likely to happen to pricing in your market. Future pricing is critical in financial forecasting, more important even than market share gain or loss, since every penny of a price rise falls straight to the bottom line.

Likewise, every penny of a price reduction is a direct hit to the bottom line. Your backer needs to know.

There's no better tool for assessing the competitiveness of an industry than Michael Porter's five forces model. It first appeared in his *Competitive Strategy: Techniques for Analyzing Industries and Competitors* in 1980.

Porter identified five main sets of forces that shape competitive intensity, as shown in Figure 4.1. Here's a quick word on each of them.

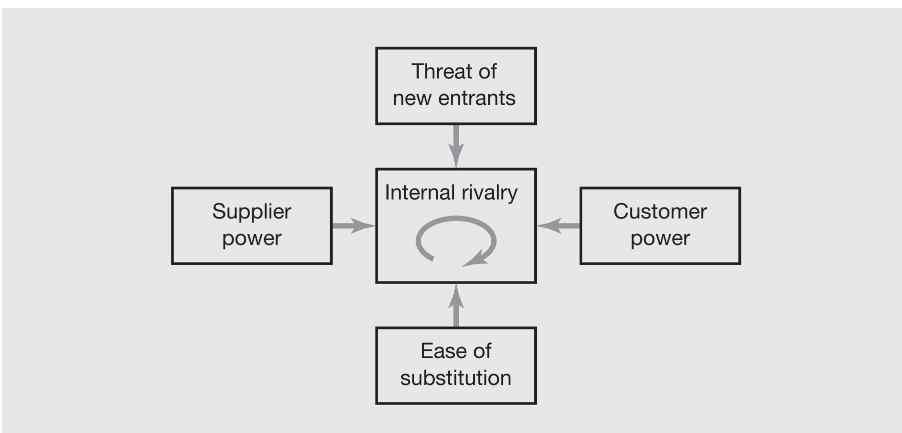

Figure 4.1 Five forces shaping competition

Source: Adapted from Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, 1980.

Internal rivalry

Internal rivalry is shaped by three main subforces: the number of players; market demand growth relative to supply; and external pressures.

The number of players

The more numerous the players, the tougher typically the competition. Are there many players in your marketplace?

Market demand growth

The slower growing the market, the tougher typically the competition.

But what of supply? Does your industry have a reasonable balance between demand and supply? If so, then internal rivalry may well be moderate.

If, however, your industry has indications of oversupply – where supply exceeds demand – that will increase internal rivalry. It will also place a dampener on prices. You and your competitors will have to fight more fiercely for custom, and any planned price increases to meet rising costs may have to be put on hold.

Do your customers have many suppliers they can choose from? Has this worsened in recent times? Are you and your fellow providers underutilised? Is industry pricing being squeezed? These are all signs of supply exceeding demand.

If, conversely, the industry is one of undersupply (or excess demand), where customers compete for relatively scarce supplies, that's good news for you. Internal rivalry will be modest and you and your competitors may be able to nudge up pricing above inflation.

How fast did you find your market to be growing in Chapter 3? And how is the market demand/supply balance?

External pressures

External bodies, in particular government and the trade unions, have great power to influence the nature of competition in many industries. Government regulation, taxation and subsidies can skew both market demand and the competitive landscape. Trade unions can influence competition in a number of ways – for example, through restrictive practices that serve to raise barriers to entry.

There are other factors influencing internal rivalry, which may be relevant in your industry. One is high barriers to exit, where providers have little choice but to continue competing when they should be withdrawing (for example, a restaurant with many employees, hence potentially high redundancy costs, or a service business with a long lease on office space that would be difficult to offload). Another factor is seasonal or irregular overcapacity due to fluctuating levels of supply or demand (for example, the fruit picking or ice cream industries).

Are there many providers in your marketplace? How fast is the market for your services growing (see Chapter 3)? What about the other factors? Put all these together and ask yourself how tough the internal rivalry is in your marketplace. High, low, medium? And in a few years' time? Why?

Threat of new entrants

The lower the barriers to entry to a market, the tougher typically the competition. Barriers to entry can be technology, operations, people or cost-related, where a new entrant has to:

- develop or acquire a certain technology
- develop or acquire a certain operational process
- train or engage scarce personnel
- invest heavily in either capital assets or marketing to become a credible provider.

Then there are switching barriers: the higher the costs to the customer of switching from one supplier to another, the higher are the barriers. A drinks manufacturer may shift from one sugar supplier to another with relative ease, but it may require a complete redesign of its bottling plant in switching from one labelling solution to another.

How high are the entry barriers in your industry? How serious is the threat of new entrants? High, low, medium? Is the threat going to get more serious over the next few years, less serious, or stay more or less the same? Why?

Ease of substitution

The easier it is for customers to use a substitute product or service, the tougher typically the competition.

Think again of the impact of the likes of iTunes in the music industry. It was a substitute solution to the sale of CDs in the high street and a contributing factor, along with e-commerce and the supermarkets, to the demise of retailers such as Woolworths and Zavvi. In this case, the threat of substitution would be classified as high.

How big is the threat of you and your competitors losing share to substitutes? High, low, medium? Is the threat going to get bigger over time? Why?

Customer power

The more bargaining power your customers have over you, the tougher typically the competition. Ask any supplier to the supermarket chains. Ask a Tier 2 supplier to automotive manufacturers.

Often, this is no more than a reflection of the number of providers in a marketplace, compared with the number of customers. The more choice of provider the customer has, the tougher the competition.

Customer power is also influenced by switching costs. If it's easy and relatively painless to switch supplier, competition is tougher. If switching costs are high, competition is less tough.

How much bargaining power do customers in your industry have over providers? High, low, medium? And in the future? Why?

Supplier power

The more bargaining power suppliers have over producers or service providers, the tougher typically the competition.

Again, it can often be just a function of numbers. There are, for example, numerous metal converters, but few (and increasingly fewer) metal producers (e.g., steel mills). When metal converters sell components to automotive manufacturers, they can find themselves in a vice-like squeeze – huge steel or aluminium suppliers at one end, auto giant customers at the other. But the best of them learn how to duck, dive and survive.

How much bargaining power do your suppliers have over providers of your kind of service? High, low, medium? And in the future? Why?