

BUSINESS PLANNING 1: What is a Business Plan?

Terminology: The term “business plan” means different things to different people. For the purpose of these guidance sheets it will be applied to a document which:

- demonstrates and justifies opportunities and/or needs – ie provides the evidence
- shows what can be done about them
- shows *how* the organisation will respond – the activities which will be carried out and how they will be managed
- shows that this response will be “viable” – ie, that it can be achieved practically and within the financial and physical resources which will be available
- shows where those resource will come from.

A plan for every occasion: There are other types of plan which are, confusingly, also sometimes called “business plans”, but which have other functions. You should consider which of the following will be best meet your organisation’s needs at present:

- an “operational plan” spells out in detail, primarily for internal use, how you will run your services
- a “development plan” gives a broad view of the overall development of a new or existing organisation, showing how each of your objectives will be achieved – it may not provide the same evidence of viability which a business plan would be expected to do
- a “management plan” addresses structural and management issues and can be valuable for an organisation which is expanding rapidly and needs systems, staffing arrangements, and decision making procedures to be updated
- issue-based plans: you may split the planning job into more manageable parts over a period of time and produce a “staff/management development plan” a “fundraising plan”, a “promotional plan” etc.

The planning approach: The precise contents of your plan are up to you (and possibly your funders) and the model framework for a business plan elsewhere in this guide can be amended as radically as you like to fit your organisation’s needs. But the *discipline* which the framework gives you easily justifies the effort of getting to grips with the structure of a business plan.

This is because it challenges those preparing the document to answer fundamental questions about what they are doing – “what?”, “why?”, “how?”, “how much?” and “what if?”. A business plan is a tool for thinking as well as doing.

Finding out what is expected: If another body, such as a funder asks for a business plan *you must find out what they expect it to include*. In many cases the funders themselves are not clear what they want, until, that is, you produce something they can find fault with.

BUSINESS PLANNING 2: What is the point?

If you don't think you are a business: The idea of “business planning” is a recent import into the voluntary sector from the work of commercial enterprise. There are still some trustees who balk at the suggestion that what they are doing has any connection with business, but the pressure is now irresistible. If the term “business” is offensive, call them “development plans” instead.

The purpose of business planning? Good quality business plans are multipurpose tools which can:

- help organisations to define their objectives in detail
- encourage them to gather fresh knowledge about their service users and clients
- provide a detailed blueprint for developing and monitoring projects and activities,
- support grant applications
- provide valuable information about your work and objectives for new trustees and employees, and for outside advisors
- help to promote your activities with certain groups in the community – eg individual local authority members and officers and business people.

The final version of your business plan will have its uses. But many of the benefits lie in the *process* of planning which producing it forces on you.

Planning to improve your internal operation: Whatever other reasons you may have for producing a business plan, you should always try to see it as a tool with the power to:

- encourage trustees to review their organisation's long and short term objectives and share aspirations with one another
- encourage teamwork among members of your group
- force you to test the prospects for viability of your plans with hard financial details
- alert you to future dangers and show up flaws in your strategy planning
- help you to understand your proposed developments and new activity in detail
- help you to identify new possibilities and build flexibility into your activities
- clarify the way you will manage and staff your activities
- provide the means to monitor actual progress
- highlight your weaknesses and the reasons why you may not be successful.

If this list sounds too good to be true, bear in mind that you would have to work hard to achieve all of these benefits. But none of it is unrealistic.

Planning to raise money: There is one fundamental flaw to the view that business planning is a powerful tool for enhancing an organisation's activity and performance. *They are usually written with a completely different purpose – to raise money.* The consequences of this alternative perspective are to say the least unhelpful:

- in many cases the business plan is written under duress, or as a chore, because someone else has asked for it or expects it. It becomes someone else's – “the funder's plan”.
- misguided staff and trustees who believe that raising money is the answer to every problem may subvert the process by writing the type of plans which they think funders want to see.
- some funders themselves may be satisfied with plans that “say the right things”, even if the evidence is missing.
- poor quality plans – which in turn lead to project failure and poor performance, and damage to the potential beneficiaries, voluntary organisations becoming even more dominated by a dependency culture, and funders who are reluctant to support similar worthwhile initiatives.

BUSINESS PLANNING 3: Before you start

Make sure you plan the work of producing your business plan. Here are some of the issues you need to consider before you start to write it.

When? Any substantial new voluntary organisation or project needs a plan, whether it is produced by a newly established organisation or an existing one which is undertaking a fresh development. To be realistic, in most cases you are unlikely to write a plan until someone else tells you to do so – usually to support or justify funding. But you should definitely start thinking about and discussing the *contents* of the plan at a much earlier stage – while you are exploring ideas for developing your activities.

Who is it for? Don't forget that this is *your* plan. A business plan which does not incorporate the ideas of all the trustees is a lost opportunity. One which *ignores* their ideas may well lack their support or understanding when you implement it. This is probably the last chance you will get for at least a year to involve trustees together in the planning process.

Who does it? The usual approach is to delegate one person to write your business plan, normally the chief executive officer if one is employed. If there are no paid staff to do the job, the organisation may be lucky enough to have a trustee with business planning experience. But you should ensure that everyone else is regularly consulted on the ideas which are going into it, and that that trustees discuss early drafts jointly.

Another more demanding approach is to delegate members of the group to write or produce information for different sections of the plan. You will need a co-ordinator to ensure that all the jobs are done on time or reallocated to other volunteers, and to polish the document and harmonise the writing styles. This approach is certainly hard work, but it is extremely valuable for creating a shared understanding and collaboration.

How long should it take? Resist the temptation to spend months over it. Try to write it fast (say, within a month) and have two or three intensive planning sessions with the group to share and refine ideas. Otherwise you will get bogged down and lost in the process.

Is “Market research” really necessary? It may be essential to provide hard evidence for your proposal which can only be collected by research. In most situations “market research” (like “marketing”) is mostly a matter of common sense, with a small amount of technical nouse which you can pick up from a friendly professional researcher. But:

- don't assume you know the answers your clients will give before you ask them the questions,
- don't ask leading questions to get the answers you want.

The simplest approach is to draw up a questionnaire to be completed by the people who you expect will use your service. You need to know what their needs are, how, where and when they might use the service and (if they will be paying any of the cost) how much they might be prepared to pay. The more you find out the better. If this becomes a group exercise for trustees and other volunteers, the research does not have to be a chore, and the information you gather can be enormously enlightening, and all the more dependable because you collected it yourselves.

Do you need help? Most of the process is entirely logical and does not require special skills. If you are not familiar with producing financial projections it might well be advisable to consult someone with financial experience to make sure you are on the right track. - this could be a worker in another group or an advisor for a local council for

voluntary service. The main areas where less experienced organisations might need outside help are:

- the cash flow forecast (see Sheet 9)
- designing objective questionnaires for market research, and evaluating the results
- fixing charges for your services
- monitoring and evaluation processes

BUSINESS PLANNING 4: Writing the plan and the forecast

Trustees certainly need to be *involved* in the process of business planning, but they will only need to *write* it if there is no one else to do so. This sheet is designed for trustees who have little or no previous experience of business planning, and who need to undertake the work themselves.

A few basic tips:

- It is vital to use a word processor. It's extremely handy to be able to change things around as you go along, and you are almost certain to need to alter it later when the document is revised for other potential funders, when you adapt extracts for internal reference or information leaflets, or when it is updated in 12 months time.
- Start by producing a rough picture of the income and expenditure (which you will refine later. The order in which you write the rest of the plan is much less important.
- one possible approach is to build it up layer by layer - starting with an outline plan and then filling in more detailed information in several stages. This encourages you to think in ever more detail about the project, and to check that your earlier assumptions about the project still apply as more information is accumulated.
- revise it – your understanding of the way your project or organisation will work will improve the more you think about it.
- share it with fellow trustees – six heads can be much better than one.

The cash flow forecast: Even if every penny of your income comes from a single grant source, you will need to make sure that there is money in the bank at the right time to pay your bills. The cash flow forecast at its simplest will tell you when you need to receive any grant instalments to avoid being overdrawn at the bank. As soon as you are reliant on earned income of any kind (such as charges for your services) the rate at which you receive money can be expected to become variable and less predictable, and it can easily fail to keep pace with the rate at which you spend it. A cash flow forecast is simply a budget forecast which:

- includes your opening bank balance
- shows income and expenditure in the month *when you actually receive or spend the money*, and
- shows you the expected size of your balance at the end of each month.

What about the truth? Good business planning can sometimes be subverted by funders. It is not unknown for public sector bodies to ask for plans to be rewritten not because they are inaccurate but because they are too honest. It's easy to get the message that the best practice is to lie to funders in your plan – exaggerating its financial viability, minimising the defects of the scheme and the weaknesses of your organisation. The disastrous consequence of this approach is that you may end up with funding but without a realistic, workable plan for your operation.

Pressure to change your plan: Whatever the circumstances, you must stay in control of your own plan, and not allow others to dictate contents which you cannot put into practice.

- emphasise, even embellish if you must, the positive aspects of your proposal, but don't make commitments you cannot deliver on
- always ask why changes are needed:
 - is there a real defect in your proposal?
 - does your project fail to match the criteria?

are you being asked to distort the truth so that the funder can give you a grant you don't really qualify for? – in which case you'll need to talk this situation through informally because it is fraught with risks for your organisation if things go wrong later.

BUSINESS PLANNING: 5 Using a model format

The basic shape of the plan will be much the same, whatever its purpose and audience. The plan should include:

- a summary
- an introduction addressed to your particular audience (which you can adjust on a word processor for other funders or to turn the plan into a promotional tool)
- the context and background to your plan
- your objectives
- the practical proposals and the need for them
- how they will be managed and monitored (including timetables and review methods)
- how much it will all cost, and where the money will come from.

Models to avoid: Beware of other models which may not do the job you need.

- model plans designed for conventional businesses often contain distracting elements which are irrelevant to voluntary organisations (financial forecasting related to their profitability, for instance).
- models for conventional businesses exclude some elements which are important or vital for voluntary and community groups (eg details of the beneficiaries and membership, the provision for social auditing etc).
- simplified, “fool-proof” business plan forms produced by some banks are utterly useless (arguably for conventional businesses too). Don’t even use them for doodling on.

The recommended format: There is no single definitive model for a business plan. The model plan included with this guide (Sheet 8) can be adapted to meet the needs of individual voluntary organisations by amalgamating or eliminating any of the sections as required. (It assumes that the plan is the central part of a grant request – because plans are almost always used this way sooner or later.)

BUSINESS PLANNING 6: Producing a cash flow forecast:

The plan starts here: The whole planning process should start with cash flow forecast. You must be able to see realistic ways of securing enough income to cover all your expenditure before you know that your project or organisation is practical or viable. Thinking about the details of income and expenditure is also a great way to focus on the details of the day-to-day operation and to sort out the problems which are bound to emerge

Developing the forecast: Here are a few tips:

- use a computer spreadsheet for the forecast if you possibly can (even if you have never used a computer for anything except word processing, the enormous flexibility you get for testing and revising your figures can justify the time spent learning to use a spreadsheet programme.)
- don't concentrate only on optimistic expectations – anyone can make a project look good with wishful thinking; devise a realistic scenario in which your outgoings are rather higher, and the income takes longer to build up, than you would like, and then work out how you would survive in *that* situation
- don't expect the first version of the forecast – or even the third or fourth – to be best or last; as your planning progresses you will think of items you have missed, correct mistakes and make refinements
- don't be frustrated by the need to keep going back to it; the improvements you make are well worth the extra time
- don't be afraid to ask for help if you need it.

Dealing with the forecast sceptics: Planning, especially financial planning, can be threatening to some people because it exposes weaknesses and sometimes leads to conclusions you'd prefer not to deal with. So be prepared to persuade the doubters who tell you:

- “financial forecasts are always wrong” – yes, and so are railway timetables; but there would be no service at all without them
- “if we can't reliably predict three months ahead, why produce a three-year cash flow forecast?” – year 1 of a project is distorted by the special demands of getting it started, and even if the project is running at full speed throughout the whole of year 2 (which cannot be guaranteed), the financial situation in the second year can still be affected by the anomalies in the first (eg grant surpluses carried forward because of a slow start); so it is not until year 3 that you get a completely clear view of how the project will run and whether it is likely to be sustainable.

Sheet 9 is an example cash flow forecast.

BUSINESS PLANNING 7: Work by outside consultants

Ownership: There is one important alternative to the business planning process described in this guide – getting an outside specialist to do it for you. Whatever the scope of the consultancy, it is crucial that the work is understood and “owned” by the group. Ownership means simply that the proposals or plans have the same commitment from members of the group that they would have had if the group had carried out all the work themselves.

Funding for plans: The idea of an outside consultant can be particularly attractive if funding is readily available for business planning – some public bodies are prepared to fund voluntary organisations, particularly if jobs and training are a likely outcome. The cost of a basic plan for a small to medium voluntary organisation will probably start around £2,000 to £3,000. If you need and can afford follow-on help with *implementing* a business plan, you should consider a total fee of £4,000 to £6,000.

Funding from reserves: If you cannot attract outside grant funding, it may still be worthwhile investing some of your reserves in employing a consultant to help with planning. (But consult your local county voluntary council first. They may provide some free help or point you to other sources of assistance.) This is most likely to apply if:

- you are planning a substantial project where outside expertise is vital, or
- you feel that your organisation has run into a dead end, and you need a fresh outside view.

Feasibility studies and business plans: Funding schemes sometimes refer to “feasibility studies” rather than business plans. There is not much real difference because a business plan needs to demonstrate the “feasibility” of the project idea, and is likely to involve some research. But in practice it is essential to make it clear when writing the brief for the work that you want a *full business plan* produced at the end of the process. A dull or unscrupulous consultant who is simply asked to produce a feasibility study could leave you with a market research report and a cash flow forecast, but no rounded plan for implementing the project.

Working with outside consultants: Money can be wasted if the consultancy is not set up and managed properly. Here are some tips:

- it is not normally necessary to put the task out to tender, although a funder may require this.
- use the Wales Council for Voluntary Action Database of Trainers and Consultants to find specialists who work in your field.
- always follow up references, and talk to other groups or agencies about consultants’ appropriateness and competence before employing them for the first time.
- it is vital to prepare a detailed written brief for the consultancy (or get your prospective consultant to prepare one which meets your specifications) – this should cover the work to be carried out, the time it will take, the completion date and the all the costs (fees, expenses and VAT); discuss it again with the consultant before the work starts to avoid misunderstandings.
- the consultant should work closely with you throughout the process – insist on this
- indicate the level of consultation which is expected; the very minimum arrangement should be detailed discussions between your consultant and the trustees when the consultancy starts, half way through and at the point when a draft plan is produced

- co-operate with the consultant as much as you can by providing information when you are asked for it, and help in any way you can.

WCVA has produced an information sheet on using freelance consultants.

BUSINESS PLANNING 8: A model business plan

This model template provides an extensive list of items to include in your business plan. Individual organisations will need to decide which topics to include.

1. A cover: Include your name and logo, the name of the funder it is addressed to, and the date. Indicate whether this is a draft, and number different drafts sequentially. It's easy to get confused with different versions of your plan.

2. Introduction: Provide a brief outline of the project or development

3. Background: Describe:

- what you do and the project you are planning
- your objectives (and charitable objects)
- (briefly) the origins and development of your organisation
- your existing and proposed constitutional arrangements

4. Personnel:

- list the trustees with their roles and a little background information about each, such as employment and outside interests
- (if you employ staff) include details of the manager and other key staff (whether already in post or proposed) – you can include job descriptions in an appendix.

5. The need or “market”:

- who are the current and proposed users/clients of your service?
- quantify the need for the service; who will use it?
- how did you go about identifying and evaluating this need, ie any market research you have carried out and a summary of the results? (present the full results in an appendix); you should include evidence of the general background need (eg drawn from census and other statistics and anecdotes drawn from your experience)
- who else is providing this type of service, and how is yours unique or better?

6. The development proposal:

- describe the services which you want to provide or develop
- explain how they will operate and why you chose to run them in this specific way; describe any specialist equipment, processes or approaches which will be unfamiliar to outsiders
- outline the stages for developing the project with target dates
- describe the local and national policy context; list any special legal and licensing requirements you will be required to meet
- what are the potential problems and how will you overcome them? (include a risk assessment as an appendix.)

7. Promotion and service delivery

- how will you let your potential users and customers know about your service?
- who will actually provide the service? where? when?
- what are the targets for the first year of the new operation?

8. Charges:

- how have you fixed your proposed charges, how do they compare with services elsewhere?
- include any detailed calculations in an appendix, and refer to them.

9. Staffing and volunteering:

- what paid posts will you create to provide the service? what skills are required?

- are there any significant recruitment issues such as salary levels or availability of skills
- what facilities and training will be provided for staff and volunteers?
- how will volunteers be recruited, inducted and supported? is there a volunteering code of practice?

10. Management:

- who will make overall policy; who will take day to day decisions; who will be consulted?
- how will decisions be recorded and communicated, and who is ultimately responsible?
- how will the paid manager and staff work effectively with the trustees?
- how will the financial arrangements be managed, supervised and monitored
- where appropriate, include a chart to show how the management structure fits together.

11. Policies and procedures: List the key policies which you have in place, including health and safety, equal opportunities (and child protection if relevant).

12. Premises, equipment and other issues: Describe any other important issues:

- the ownership and/or tenancy terms, lease or purchase cost, and suitability of premises
- necessary adaptations and conversion costs
- transport facilities you will provide or use.

13. Training and support:

- what help have you had to develop the capacity of your group and management skills?
- what training will be necessary for staff and directors in future; how will this be paid for?

14. Accountability:

- how will the public know about your work?
- how will you involve the community in the project or organisation?
- how will clients and users be involved in the planning, delivery or monitoring of the service?

15. Income and expenditure projection or cash flow forecast:

- include a budget or cash flow forecast for the forthcoming three years
- use a “notes” column to explain details in the forecasts
- explain what action would be taken if you miss your income targets or overspend
- explain the financial arrangements for ensuring the project will be sustainable in the longer term.

16. Monitoring and evaluation:

- define all the groups of people who will receive benefit from your activities, directly or indirectly (eg service users, customers, and clients, volunteers); in what specific ways will they benefit?
- explain the method you will use to monitor your progress against your business plan
- how will you evaluate the impact of the project?

17. Summary of grant request: If the Plan is supporting a grant application explain:

- how much grant aid is needed and for what purpose? what other sources of finance have you explored and secured, particularly matching funding
- what funding will be needed in future years, and where will it come from?

HOW A CASH FLOW FORECAST WORKS

This example shows how the cash flow forecast can give advance warnings of problems at the bank when a project wins new contract work and starts to expand.

1: Opening bank balance

2: Starting balance for the month: the bank balance at the start of the July, for instance, is the "month-end balance" carried forward from June.

A CASH FLOW FORECAST SPREADSHEET LAYOUT is very similar to an ordinary budget forecast. The difference is that it also shows how much you have in the bank at the start and end of each month

Starting balance
("balance bt. forward")

10000 8505 8690 13429 13614 13799 11434 6306 4417 -3077 3403 1783 13

PROJECT INCOME

	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Contract fees	2500	2500	2500	2500	2500	2500	2500	2500	2500	4800	4800	4800	36900
Council grant			6000							6000			12000
Sales	75	75	75	75	75	75	75	75	75	144	144	144	1107
Membership fees	20	20	20	20	20	20	20	20	20	20	20	20	240
Bank interest			87			138			44			18	287
Total income	2595	2595	8682	2595	2595	2733	2595	2595	2639	10964	4964	4982	50534

3: Figures show income when it will be *received*, not when it is due: here you allow for income from a new contract to be delayed till January, although expenditure on the project started in October. You have also allowed for the council grants due in April and October to be late.

PROJECT EXPENDITURE

	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Wages/salaries/NI	2200	2200	2200	2200	2200	2200	4100	4100	4100	4100	4100	4100	37800
Rent/rates			1100			1100			1500			1500	5200
Heat/light			150			250			400			400	1200
Stationery/postage	125	25	25	25	25	25	125	40	40	40	40	40	575
Telephones			180			180			230			230	30
Travel expenses	50	50	50	50	50	50	100	100	100	100	100	100	900
Insurance											2000		2000
Publicity/printing	1500					1000			2500				5000
Cleaning/repairs	20	20	20	20	20	20	30	30	30	30	30	30	300
Capital equipment							3000						3000
Bank and audit			30			30			750			30	840
Contingencies 5% (1)	195	115	188	115	115	243	368	214	483	214	314	322	2886
Total expenditure	4090	2410	3943	2410	2410	5098	7723	4484	10133	4484	6564	6752	59731

4: Figures show expenditure when it is *paid out*: here the work on a new contract causes the salary bill and other costs to rise in October, even though payments for the work will not arrive for several months.

!!! ADVANCE WARNING OF TEMPORARY CASH FLOW PROBLEM - the minus figure at the end of December means you will be overdrawn at the bank this month.

Balance for month (2)	-1495	185	4739	185	185	-2365	-5128	-1889	-7494	8480	-1620	-1770	-9197
Month-end balance	8505	8690	13429	13614	13799	11434	6306	4417	-3077	3403	1783	13	
(3) (or "balance carried forward")													

!!! RISK OF CASH FLOW PROBLEMS - bank balance very low - this tells you that you need to check whether this is a temporary or long term difficulty by extending the forecast into the next financial year

Notes: (1) If you are trading and expenditure is uncertain, you might make allowance for "contingencies"

(2) The "balance for month" is "total income" minus "total expenditure"

(3) The "month-end balance" is the "starting balance" plus the "balance for month"