



NATIONAL YOUTH DEVELOPMENT AGENCY

**GUIDELINE FOR
PREPARATION OF
BUSINESS PLAN**

1. Introduction

1.1 Cover / Front Page

Business Name, logo, physical and postal address, telephone/cell/fax/e-mail numbers of business and contact person. Include also date of compilation.

1.2 Executive Summary

This is a brief overview of your Business Plan, short and as interesting as possible and includes your business concept, financial features, financial requirements, current state of your business, when it was formed, principal owners, key personnel and major achievements.

1.3 Index of Contents

Provides overview of the contents of your plan with headings for major sections and sub-sections cross-referenced to page numbers.

2. Business Description

Name of business; when formed; where is it located; how many people does it employ; is it a company, CC, partnership, trust or sole proprietorship; who are the owners; what does it do; to whom does it sell its product or service; in respect of businesses which are being bought, why is the person selling.

3. Development Impact

How many black youth (i.e. African, Coloured and Indian between 18-35 years old) does the company employ; how many youth are involved in the ownership and management of the company; how many people does the company employ or expect to employ; how many black women are employed; what employment equity plan does the company have and what is the progress in its implementation; what skills development plan does the company have and what is the progress in its implementation; how much foreign exchange earnings will the company generate in a year; what percentage of its goods and services is or will be procured from black-empowered companies.

4. Finance Required

How much of finance is required; what type of finance is required (grant, loan, guarantee, equity); for how long is the finance required; what security is available to secure the loan; what will the funds be used for (supply quotes in respect of assets to be financed). What is the entrepreneur's contribution in respect of own capital? Who else was approached for funding; what was the outcome (furnish contact details).

5. Past Operating Performance

Prepare a summary of the past three years operating performance in respect of Sales, Cost of Sales, Gross Margin, Operating Expenses, Earnings before Interest, Tax & Depreciation (EBITD), etc and a summary of the balance sheet. Include a summary of key ratios (gross margin%, EBITD%, Debtor days, Creditor days etc). Explain significant variances from year to year. Loss/gain of market share, customer analysis (sales per customer etc). Record of rescheduling of debt. Were offers of compromise made with creditors? Explain difficulties experienced. How were these overcome? Were there any abnormal or extraordinary events?

6. Strengths, Weaknesses, Opportunities and Threats

What are the key strengths and weaknesses of the business in each critical area of the business (eg. marketing, finance, production, logistics, administration, human resources, plant and equipment, raw materials and finished goods, products and brands, business management, research and development etc.)? What plans are in place to eliminate or reduce the business' weaknesses and capitalize on or exploit its strengths? Note: being a BEE company is not a strength – it is merely an opportunity – outline what plans are in place to exploit these opportunities.

What opportunities exist for the business? What is the capability of competitors to exploit these opportunities and are they better placed to exploit these opportunities? What are the impediments to accessing these opportunities? What threats does the organization face in each of the critical areas mentioned above? How does the company manage these threats?

7. Critical Success Factors

What are the critical success factors applicable to the key areas of the business? An example is as follows:

Key Area of Business Critical Factors

Marketing Sales volume
Market share
Gross margins
Production Capacity utilization
Quality standards
Wastage factor
Logistics Capacity utilization
Level of service
Delivery times
Finance Debt service coverage
Cash conversion cycle
Debtors collection period

What is the likely effect if all or some of these areas of the business are not well managed? Conduct a sensitivity analysis and show its effects on key ratios such as return on investment, liquidity and solvency (eg. debt service coverage).

8. Owners, Management and Technical Assistance

8.1 Owners:

Who owns the business and how is the shareholding distributed amongst the owners; which shareholder is in control of the business; how long have the shareholders known each other; what is their background (experience, knowledge, previous or other business interests, track record in managing businesses, age, sex, race, marital status, schooling and educational qualifications, social activities and hobbies, spouse's occupation and level of interest/support for the business etc.). Provide a list of their assets and liabilities; personal monthly cash flow statement; references from their bankers and business associates; surety-ship / guarantee issued in favour of third parties; details of previous sequestrations, liquidations, compromise with creditors, judicial management; ITC or credit bureau judgments and reasons therefore; details of life assurance policies in existence; credit history with third parties (such as Edgars, mortgage bond, hire purchase, student loans etc.). What will be the roles and responsibilities of shareholders in the business? How do the shareholders resolve conflict?

What will be the owners' financial commitment to the business?

8.2 Management:

Similar information is required for management. In addition, how is management incentivised to remain in the business? Provide organogram and job descriptions of the key management staff.

8.3 Technical Assistance:

Who is the technical partner; how strong is the relationship, what is the duration of this agreement; what is the cost; what are the deliverables; what is the arrangement i.e. intellectual property rights, past experience with technical assistance partner.

9. Market Overview and Analysis

9.1 Overview and Segmentation:

Describe the overall market broadly; what are the different segments; why are they different; give brief characteristics of the different segments; what are the advantages and disadvantages of each segment; why has the business selected a particular segment; what are the barriers to entry.

9.2 Product:

What product or service does the business offer; what are its features; what products compete with the business' products; to what extent is the product prone to being at risk because of changes in technology, consumer tastes and behaviour, substitute products; what is the quality of the packaging; is it environmentally friendly; is it SABS approved; is it protected by patents, copyrights etc; does the business have loss leader products.

9.3 Price:

How is the price for the product determined; how often is it increased; how price-sensitive are customers to the product; what is the price of competing products; justify why the business' price may be different to competitors; is there a multiple-pricing strategy and if so why; describe the price elasticity of demand (how responsive is demand to changes in price); to what extent is price a reflection of quality (perceived); is price regulated or fixed in terms of a contract; how does the business respond to changes in its competitors prices; to what extent is the price affected by changes in exchange rates and interest rates; are prices for certain goods part of a loss leader strategy; how would the business respond to predator pricing (where a competitor sets a low selling price to damage competitors); to what extent may the business adopt a penetration pricing policy (setting low prices to attract customers).

9.4 Promotion:

Describe the business' promotion strategy; justify the need for the strategy; what resources does the business require to execute the strategy; how does the business know if the strategy is effective; how many customers were obtained using the different promotion strategies; quantify the relationship between promotion costs and turnover; what is the selling point / value proposition; briefly describe the test marketing performed and the results thereof.

9.5 Distribution:

How are products distributed (distribution channels); how accessible are they to the customer.

9.6 Customer Analysis:

Who are your customers; what proportion of total sales does each one comprise; who are your "A" list customers; what preferential treatment do they enjoy; what customer retention strategy does the business have; describe the customer relationship management process; how many customers make up at least 75% of total revenues; how long have you had each customer; how did you secure each customer; what are the credit terms offered per customer; which customers are the most profitable customers; how do you know whether a customer or an order is profitable; which customers and what value has the business lost over the last two years; which customers have you won over and for what value over the last two years; what is the business' relationship with the buying department of its customers; how long have the customers been in business; who has the relationship with the customer (the business or an agent); how many customers has the business secured per sales person; why would this sales person not take the customers with him if he leaves the business (what has been the previous experience); what does the customer know about the business' competitors and their products; does the customer buy competitors' products; what is the bargaining power of the customer; how frequently does each customer order and what is the average value of an order; how critical is the product to the customers' business; what is the importance of quality to the customer; how much of the sales is cash and credit; what % of business is derived from government/public sector; what are the payment terms; what % of revenues arise from tenders (when were these awarded and for what period are they valid.)

9.7 Competitive Advantages:

What competitive advantages does the firm enjoy over its competitors; how has this influenced growth in sales or attracting new customers (give specific examples). Which firms or similar business closed down and what were the reasons for closure?

9.8 Comparative Advantages:

What factor specific to the market or industry makes it more likely for the business to gain market share (e.g. high import tariffs restrict competition from overseas suppliers). What is likely to happen to the business if these structural peculiarities no longer exist? Who owns the intellectual property rights (patents, copyright etc)?

10. Technical Review

10.1 Production Process:

Describe the production process; provide a diagrammatic exposition; what are the critical points in the production process; how many staff and what type of staff are required in the production process; indicate how long it takes at each point in the production process for the product to pass through; What is the normal capacity of the plant; shift patterns, working days etc.

10.2 Location and Premises:

Where is the business located; why is it located in this place; how long has the business been located here; how accessible is it for customers; suppliers and employees; is the premises owned or leased; what was the purchase price or lease terms; why did you buy the building instead of lease it; what is the cost of maintaining the premises; how secure is it from vandalism and sabotage; what is the market value of the business; how suitable is the premises for the business' current and medium term needs; can it cope with anticipated increase in demand; provide factory layout; explain how loss through theft is handled within the context of the entry and exit points of the business.

10.3 Machinery:

What machinery is necessary for the proper functioning of the business; what does it cost; from where is it purchased; how available are spares and technical maintenance support; what is the machines productive capacity; how does this reconcile to expected demand; how old is the machine and describe its condition; what is its expected useful life; what is its current replacement cost; what machines are used by competitors and how is it different to the machine used by the business; to what extent is the machine affected by technological changes; what is the machine downtime and how does this compare to prior years and competitors.

10.4 Insurance:

Identify the specific insurable risks which the business faces; what is the insured sum and premiums; does the business have insurance for business interruption (loss of profits), theft, fidelity, all risks, public liability, damage, fire, etc.); has the business suffered any uninsured losses over the past 3 years; what insurance claims have been submitted over the past 3 years; provide details of the business' insurance broker.

10.5 Legal and Regulatory:

Past and pending litigation, laws and regulations peculiar/specific to the business, results of VAT/income tax audits.

10.6 Management Information Systems (MIS):

Briefly describe the MIS system used by the company. Does it meet the needs of the business? How are the internal controls and procedures addressed in the company?

10.7 Environmental and Occupational Safety Issues:

Does the company have an environmental, health and safety policy? Briefly discuss how these issues are managed within the organization. Are there any hazards with regard to material handling, storage, and transport? What measures are in place to ensure the safety of the workers? Has the company made progress towards or achieved certification in this regard. (e.g. ISO14000 (International Standards Organisation for Environmental Management) and or NOSA (Occupational Safety, Health and Environmental Risk Assessment) rated.

10.8 Raw Materials:

Discuss the source and availability of raw materials. Is it available locally or does it have to be imported. Are there any restrictions in sourcing the raw materials cheaper? Does the company buy directly from the supplier or is there a third party (middleman) involved. What payment terms have been negotiated with the supplier?

10.9 Labour:

Briefly discuss the key requirements in terms of the labour force. What skills are required and how are the employees sourced? What is the staff turnover in the company? Is there a Union/Bargaining council representing the employees? Does the company meet the requirements of the Basic Conditions of Employment Act? Provide details of past strikes, HIV/Aids measures and ratio of permanent to casual staff.

11. Financial Review

11.1 Source of Funds:

What funding is required; from whom will the funding be obtained; in what form will the funding be provided; what are the terms of the funding (period, interest rate, security, installment, grace periods, special terms etc.); indicate the draw-down schedule.

11.2 Application of Funds:

How will the funds be used (itemize); support with quotations; show how the working capital figure has been arrived at; relate the amounts to the rest of the business plan (e.g. if under the technical review section it was mentioned that 2 machines were required, ensure that it agrees with what is stated under application of funds); justify why new or used machines will be needed;

11.3 Financial Projections:

provide financial projections (including the assumptions related thereto) for balance sheet, income statement, cash flow statement); include past 3 years historical performance; for the first 2 years provide projections on monthly basis, for next 3 years annually; justify each significant figure in these statements; relate the returns, margins, stock turnover rate, growth rates etc to that of the industry and explain deviations; ensure that the financial projections tie in with what has been stated in the rest of the document; explain material deviations to historical financial statements; the financial projections must reflect the most likely scenario (and not the best and worst case scenarios – these can be incorporated in the sensitivity analysis); pay particular attention to supporting the following items: sales, cost of sales, inventories, salaries, wages, rent and all balance sheet items. Provide commentary on and analysis of the figures.

11.4 Purchase of Business:

In respect of businesses which are being bought, provide detailed valuation of shares or business; who conducted the valuation and their contact details; details of profit warranties; results of due diligence undertaken; proposed payment terms; potential deal-breakers.

11.5 Break-even Analysis:

Provide a break-even analysis taking into account all fixed obligations (including debt service costs); how long will it take to break-even and relate this to that experienced by similar businesses; by what level may sales drop before it reaches break-even point (margin of safety); what is the payback period for the investment.

11.6 Sensitivity Analysis:

show what would happen to the key aspects (debt service ability, current ratio, operating margin, return on investment) of the business if sales volume or sales price decreased by (say) 10%; 15%; 20%). How would the business' ability to service debt be affected by an increase in interest rates of (say) 5% (500 basis points).

12. Risks and Issues

What specific risks (e.g. risk of break-up of shareholders, key-man risk, succession planning, customer loss, fast growth risk, internal control risk, technological risk, legal risk, tax risk, liquidity risk, currency risk) does the business face; how is it likely to affect the business; what strategies are in place to mitigate the risk.

13. Supporting Documentation

13.1 In respect of owners and managers:

- Owners and managers curriculum vitae (CV);
- Certified copy of identity document;
- Bankers' references;
- Credit references;
- Personal references;
- List of assets and liabilities of owners;
- Personal monthly cash flow statement of owners;
- At least two months personal bank statements of owners;
- Copy of last 12 months of bond statements from bank;
- Confirmation from landlord that rent has been timeously paid;
- Proof of existence of owners' equity contribution;
- Proof of other sources of income outside the company;
- Copy of owner's personal income tax return and tax assessment for last 2 years.
- Financial statements of other business interests of the owners.

13.2 In respect of business:

- Memorandum and articles of association, founding statement, association agreement, shareholders' agreement, partnership agreement or joint venture agreement;
- Banker's references;
- Credit references;
- Past 3 years historical financial statements and latest management accounts;
- Projected financial statements (income statement, balance sheet, cash flow statement for 3-5 years, with the 1st two years prepared monthly (include assumptions to the financial statements);
- Record of unrecorded income and/or personal or non-business expenses passed through the historical financial statements;
- Management letter from the company's auditors for past 2 years;
- Income tax returns and tax assessment of company for last 2 years;
- Tax clearance certificate;
- VAT returns for last 12 months and VAT receipt;
- Bank statement for last month of the financial year;
- Debtors' aged analysis at end of financial year;
- Valid quotations of capital expenditure;
- Certified copies of operating licenses and permits;
- Organogram of the company;
- Letters of intent
- Contracts for purchase of goods or services;
- Media cuttings.