



Briefing Note for CLA members

Business Planning (3)

Date: 7 February 2022

CLA Briefing Note Reference: BN03-22

In order to assist members during the agricultural transition, the CLA has produced a series of briefing notes on business planning. These provide information on what members need to consider when they are either developing their existing business or are considering a new business venture.

The advantages of the business plan and the common mistakes

The advantages of the business plan

The business plan provides several advantages which are set out below.

Focus and targets

One of the key advantages of a realistic business plan is the ability to secure finance and funding for the business venture. Potential investors, including the banks, will invest in the business project, work with the business and lend capital because of the strength of the business plan. In addition, grant providers, potential partners and anyone interested in buying the business will also want to see the business plan.

Even where the business plan is used within an established business, it will have the advantage of:

- helping the business spot potential problems before they happen;
- structuring the financial aspects of the business;
- focusing the efforts of the business in further developing opportunities in the market; and
- working as a series of key performance indicators to monitor the success of the business.

As importantly, a business plan remains a living document that will help monitor the performance of the business. It will require updating and modifying as the business grows. Irrespective of whether the business plan is being used internally or as a means of securing external finance, it does provide the business the ability to look at itself objectively. Failing to do this could mean the business having unrealistic expectations of what can be achieved and when.

A business plan is imperative

If the business approaches a financial institution, applies for a small grant, puts forward a business idea to a group of investors or enlists the support of a partner, a business plan is required.

Potential investors will need to see the true potential of the business project clearly laid out in hard facts and figures. A business plan, therefore, is the most straightforward way of setting this out and, in many instances, is seen as the only acceptable way of doing so.

An aid to decision-making

There are some elements in a traditional business plan that simply cannot be completed if there is confusion in the decision-making process within the business. The business planning process, therefore, helps eliminate any grey areas within the business because a list of actions and objectives must be written down and, as such, helps provide a much-needed focus. Making difficult decisions is often one of the hardest but also one of the most useful parts in writing a business plan.

For example, if the business has yet to decide on exactly what products or services will be sold and at what price, it will be very difficult to set this out in a business plan. Therefore, identifying this and other vital information is a valuable end product of the business planning process.

It can be said that writing a business plan is often the first real struggle for the small business owner who wants to launch a new project but has yet to see or believe that the idea itself could be flawed or requires further development before attempting to enter the market.

Although this may be seen as unwelcome for many, identifying gaps early in the process gives the business the opportunity to carry out further research, test ideas and take steps to make the business stronger and more viable. This might be considered as a step back but any and all further work can improve the business's chance of success before resources are invested in a project that is likely to fail.

Providing new impetus

New ideas, different approaches and fresh perspectives are some of the major advantages to be gained from the business planning process. It must be stressed again that a business plan should never be a long and rigid document.

Indeed, an effective business plan is the complete opposite. It is a flexible, growing and dynamic tool that can help the business think creatively and lead to solutions for some of the more difficult business challenges. This is especially the case when the marketing strategy section of the business plan is considered as it allows the business the opportunity to create a blueprint for all marketing activities.

Creating an action plan

A business plan is clearly a useful document for any small business. But when the business is using the business plan as a tool to help outline actions, next steps and future activities, it becomes more than this: it becomes a living document that not only outlines where the business is and where it needs to be, it also sets out the directions needed to make the business grow and prosper.

The most common mistakes

There are several common mistakes that are made and these are discussed below.

A plan is only needed to secure investment

A considerable number of businesses, especially micro and small businesses, think they only need to develop a formal business plan if they are seeking investment. This can often prove to be a costly mistake. Writing a business plan allows the business the opportunity to thoroughly evaluate ideas, uncover potential problems and issues and, crucially, consider ways to avoid problems before they arise. It is the main opportunity to assess the efficacy of the business project and establish how to overcome any weaknesses.

Indeed, the process of writing the business plan could have the result that what seemed a particularly good and lucrative idea at the time will not actually work. Such a scenario saves time, energy and money.

There is also the situation that, once problems have been overcome, the business plan effectively generates a confidence and belief in the project.

The “features myth”

For many new business ideas, when the business plan is presented to an external audience, a series of features will be listed. For example, the presenter may say what the product does and how it works, how it has more power, more buttons, effectively more of everything, than the competition.

This can be useful but it misses answering two crucial questions:

- Why will people buy into the project?
- Why does it matter that the business exists at all?

The answers to these two questions are vital because they drive customer loyalty and repeat business. A product may be more expensive than the competition but there will always be sales because the business is able to generate repeat business.

In essence, it is what people will buy into and this needs to be made very clear in the business plan because if there is a customer base it is more than likely that potential investors and partners will be willing to invest.

The business plan in a vacuum

Inevitably it will be difficult for a start-up to fully see what is in the future. Creating best and worst case scenarios is a useful exercise but this is simply the beginning of the process.

As with any new business venture, it is important to establish from the beginning examples of similar businesses and to learn from these what makes them successful. In short, the new business needs to ask of other businesses in the same market:

- How exactly did they get to this position?
- What were the main selling points?
- Why have they been able to succeed?

In addition, it will be useful to investigate other sectors which may not be directly related to the new business project. By doing this, it may be possible to find new ways in which the business can progress.

Therefore, within the business plan, it is important to be able to use information gleaned from others, particularly when it comes to sales forecasting. Learning about the successful strategies of other companies ensures that the business plan is actually founded in business reality.

Short-termism

Although a great deal of the business plan should contain detailed information regarding the financial outlook of the business and a sales and marketing framework, it also needs to set out a rather longer-term outlook.

This can be done using a first year, three year and five-year timescale. The business plan needs to set out where the business will be after each of these time periods.

Such forward thinking has two main advantages: firstly, it shows potential investors that the business has a future and that there is a long-term strategy; and, secondly, it helps the business itself by setting a series of goals and objectives to be met within each of the specified time periods.

Summary

There are significant advantages for a business, whether it is a start-up or an established business, to have in place a business plan.

- It will help the business to have focus on what can be achieved as well as put in place a series of tangible targets.
- Without a business plan, a would-be investor will not even countenance the idea of investing.
- The knowledge that a business plan must be drafted before the business can move forward aids the decision-making process and ensures that those decisions that may have been put off will actually be made.
- The business plan is not a one-off document: it changes as the circumstances of the business change. As such, the business plan will actually help the business be more flexible in meeting new and more difficult business challenges.
- It provides direction for the business, both in the short and the medium term.

However, there are four common miscomprehensions or mistakes businesses make during the business planning process.

- A plan is not solely to be used to secure investment: it should be used as the framework in which to establish the strategy of the business.

- The business is not solely there to exist and perform a series of functions. It is there to make a profit and the business plan should set out clearly how this will happen.
- The business plan cannot work in a vacuum but must look at both best-case and worst-case scenarios.
- A business plan is not a one-off event. It has to evolve and cater for the short, medium and long term. It has to be optimistic but it has to be realistic over a longer time frame as well.

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