

## *The importance of business planning*



***The recent floods are making business owners focus on the need to ensure they have up-to-date business plans in place. They should accurately reflect where your business is today compared with how you intend to move forward in the face of the recent tragedy.***

With many businesses literally starting again, it is a good opportunity to evaluate what has worked well in the past and address areas that haven't brought the desired outcomes. Business plans can be reviewed or implemented if one is not in place.

The more focused your vision and the greater your ability to adapt to current market circumstances, the more likely your business will succeed. That's why it's best to express it formally and regularly.

A business plan is a road map to your destination. It tells you – in the most concrete terms possible – how to navigate from your current position to the place you aspire to reach. It is important to realise that a business plan is a living document that must grow and change with an evolving market and your aspirations for the business. The floods are a relevant example of how changing circumstances must be considered and your business plan adapted accordingly.

A good business plan serves as an invaluable management tool, one that can be used repeatedly to evaluate your firm's performance against your vision.

### ***Health check list***

***Do you have a business plan that***

- ***sets out your strategy and objectives?***
- ***describes your business?***
- ***assesses your market potential?***
- ***specifies your marketing strategy?***
- ***presents your product development?***
- ***outlines your operations?***

First, it must describe your business accurately, as well as realistically conveying its market potential. It then has to establish your overall strategy and objectives, as well as outline a marketing strategy, present your product development plan and (honestly) assess management capabilities.

A full description of your market and competitors is essential, as is financial information, such as a summary of your income statement, cash flow analysis and balance sheet.

Detailed financial forecasts are also a vital element of a business plan.

It's important not to make your business plan unduly long or complex. Never forget that its purpose is to give you a tighter focus to enable you to navigate more effectively towards your desired outcome.

It is important to regularly update your business plan. It is a tool to keep you focused and without being regularly reassessed will quickly become outdated

- ***describes your management team and its capabilities?***
- ***provides a financial summary of your income statement, cash flow analysis and balance sheet?***
- ***contains detailed financial forecasts?***
- ***assesses your competitors and markets?***

Plans do not have to be long and complicated but should provide a clear focus for the business.

## *Accurate, relevant and timely information*

The cornerstone of sound business management is quality financial data. Without accurate, timely and relevant information at your fingertips, your business will struggle to respond to changing circumstances.

A lot of businesses get into trouble because they underestimate the importance of having systems in place to extract reliable data on which to base decisions.

You need to start by asking tough questions about the value of your data, which will enable you to determine whether any action is required.

Are management accounts available promptly on a regular basis? Is this information reliable and relevant to your needs? Are budgets of income and expenditure, balance sheet and cash flow available and approved?

Digging deeper, are management accounts and budgets compared with variances and investigated in sufficient depth? And are explanations for variances considered by top management?

It is important, too, that the effectiveness of cash, stock and debtor management is investigated regularly, and that management information is assessed by both profit centre and product line to make sure unprofitable activities and products are identified and the issue addressed.

You can also use critical ratios to evaluate the business's overall financial health. These can be used to monitor progress over time, or see how your performance rates against competitors.

Useful ratios include:

- Debt equity ratio (rate of interest bearing debt and redeemable preference shares versus total shareholder funds)
- Current asset ratio (current assets versus current liabilities)
- Acid test ratio (current assets less stock versus current liabilities)
- Number of days debtors outstanding (trade debtors divided by credit sales, multiplied by 365)
- Number of days stock on hand (stock on hand divided by cost of sales, multiplied by 365)
- Stock turnover (cost of sales divided by stock on hand)
- Number of days creditors outstanding (trade creditors divided by credit purchases, multiplied by 365)
- Return on capital employed (segment operating profit divided by capital employed in segment, multiplied by 100).

***If you would like to discuss this further, please contact your regular PwC contact or phone Jason Daniels on (07) 32578536.***