

Preparing a business plan

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Recent legislation has moved local health and other bodies towards enabling rather than providing services. This has also led to a move away from grant aid towards service contracts (or agreements). Because of this, funders are increasingly asking for business plans rather than grant aid forms; and this trend will inevitably increase, given current Government policy. In this chapter I want to look at the 'nuts and bolts' of preparing such a plan. This means asking some basic questions concerning:

- what a business plan is;
- why you might prepare one, and what the benefits are;
- what you should include; and
- what will you need to know about your organization to write one.

What is a business plan?

A business plan is a systematic way of approaching future problems and overcoming them. It is not, however, a form of clairvoyance which will predict what will happen to the company in the future. In fact it is quite the opposite: it is an instrument of the present developed through trial and error, and using the company's experience and achievement in the past to plot the way forward realistically. The plan will aim to achieve the most advantageous and workable compromise between what a company wants to do and what it can do. It will show the company how its proposed policies are integrated and how one issue affects another. (West 1988: 8)

This is a traditional picture of a business plan, and while voluntary and other community and youth agencies are not aiming to turn a profit, some of the concepts of business planning are just as relevant as for a conventional business. Business plans aim to provide a realistic picture of the future and to reveal the complex jigsaw of the organization. So, for instance, if the business plan says that your youth agency has an average nightly attendance of 56 young people, and that you aim to provide a mixture of activity, formal discussion groups and one-to-one counselling, then your plan will also need to show appropriate staffing levels, a building designed for flexible use, the right skills within the management committee and the staff team, and enough money budgeted, to enable these targets to be met. When preparing a business plan, it is useful to think of your organization as a jigsaw, with individual pieces representing, for example, targets and staffing.

Why might you be asked to prepare a business plan, and by whom?

Business plans have traditionally been prepared because company funders (particularly banks and other investors) expect to receive one in the same way as voluntary organizations' funders expect to receive annual reports and accounts. More voluntary organization funders are now asking for business plans to supplement and sometimes replace their grant application form. If funders ask for a business plan, then find out exactly what they expect to see. Funders are themselves only now getting to grips with the new order, and can have a number of different perception of what a business plan is, not only in content, but in size - it could be two pages or two hundred pages. Each might have the same content, but would include different depths of information.

Funders may use the term 'business plan' to describe a plan of work alone; or a plan of work plus targets; or a more complex document, such as the one described below. They are often looking for similar information to that given within a grant application form, but usually they will want more detailed targets, clear outcomes, details of monitoring and evaluation methods and financial information.

What are the key components within a business plan?

Plans will usually contain most of the following features:

Summary This will briefly describe the organization, what it aims to do, what it intends to do, and what it needs finances for - this is written after all the other sections have been completed.

Introduction to the organization This is a brief description of the organization, what it does, and how long it has been doing it. It needs to contain the level of information usually found within an annual report.

Products or services offered This describes what you do and what services you offer. So, for example, you may offer a community-based advice service to tenants on an estate.

Management Brief and concise notes on workers and management committee members and the skills and abilities they bring to the organization.

The market Within traditional companies, this is where the competition is described, as well as sales estimates, market shares, what the customer wants, outlets, the rationale of getting to the customer.

Pricing policy This shows how the costings of your service have been arrived at. This section needs to be seen in conjunction with the financial information section (below).

Plan of action What are the steps (both large and small) that will lead you to meet your targets? This section is often the most important to funders.

Objectives This is often placed before the 'plan of action' and describes the time-based objectives of the organization - in the short term (the next six

months), medium term (six months to two years) and, if requested, long term (two years and over).

Premises This is a brief description of any premises your organization uses, plus information on level of usage, state of repair, and any major repairs that need to be carried out. It should also report who else may use the building, lease/rent details, whether it is large enough for your activities etc.

Risks This is where you outline 'what if' situations, such as the loss of a major funder, or the loss of a building, and what you would do to overcome these setbacks. Our inclination is usually to underestimate the risks, because we think it might worry funders, whereas in fact the recognition of risks is often very reassuring for funders, who worry about organizations' naiveté or over-optimism.

Finance required This is usually a brief statement outlining levels of finance required, and is seen as an introduction to the financial information that follows.

Financial information Usually a business plan includes a projected budget, a cashflow, and a profit and loss account. For most voluntary organizations a projected budget (for three or five years) and possibly a cashflow are enough.

Key assumptions and financial information These notes support and explain the financial information.

These twelve headings provide the basis for a business plan, and to be in a position to write one, you will need to know a substantial amount of information about what your organization does and what it plans to do.

There are some components of the plan that people often *think* they know about, but business planning demands that they think about these aspects of the organization a little differently.

Business planning step by step

We will now go through some of the important components in more detail, as they will need to be consistent with one another. To help the concepts and key components come alive, we will use an (imaginary) agency to illustrate them.

Introduction to the organization.

YOUNGOFF is a small voluntary organization that provides leisure and advice facilities to young people on an estate in Southwark, South London. Southwark Council and YOUNGOFF have agreed that a club will be provided three nights a week to, on average, 30 young people between 14-18 years, for 42 weeks a year and from 6-9 in the evening. The centre will also provide 12 weekends away to Southwark's residential centre in the Lake District. These will be for 24 young people (travelling in the centre's two minibuses). Also in the summer they will provide 20 days of activities (sport and talk) in two sessions (6 hours a day).

YOUNGOFF also offers an advice centre/information shop for young people and adults. This is staffed by the full-time worker (in his or her other hours), and two full-time advice/information workers.

Products and services offered

The products and services offered, in traditional business terms, are the services offered to the customer, but within voluntary organizations, they are not always that straightforward to identify. A private nursery, for example, may provide day care / informal education and play to children between the age of two and five years. The customers, however, are the children's parents; and therefore the service would also need to be described as offering a safe environment where parents can leave their children between the hours of 8.00 am and 6.00 p.m., knowing that they will be fed, cared for and stimulated in their play. It is the same service, but the direct receivers of the service (the children) are not the customers. An ability to describe our services as they would appear to the customer is crucial. If the same nursery took a number of referrals from Social Services, which were paid for by the local authority, then they are also customers and will want to know that safety, staffing levels, adequate care and play were available to the children, and facilities open when parents are at work etc. The customer isn't always the only one that the service is offered to.

The services offered at YOUNGOFF could be described as in *Figure 3.1*.

Figure 3.1: Services offered at Youngoff

1. We provide young people, between the age of 14 and 21, with an environment where they can meet, discuss concerns, interests and problems with each other and experienced youth workers, in an informal setting, on a regular basis.
 2. The young people that attend the club know that they can discuss with workers in confidence, and that the workers will not tell their parents or other adults whom the young people perceive as in an authority position.
 3. Monthly weekend residentials are also offered. These provide an opportunity to young people (between the age of 14 and 21) to get away from their local area, and to develop their physical skills (rock climbing, abseiling, canoeing as well as less energetic possibilities as walking), their caring skills (through cooking for each other, helping each other achieve tasks and through more formal evening discussion sessions where topics of concern to the young people and others, can be dealt with).
 4. The summer scheme is provided for four weeks for young people between the ages of 5 and 16 years. The older age group (those attending the weekday clubs and the monthly residentials) provide much of the organization and activity on offer during the four weeks. The role of the full-time workers (and part-timers) is to support the older group of members to provide services to the younger ones. This is seen as an opportunity for them to learn about their community and their obligations to it.
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In the plan further services to young people would also be described, including the Summer Scheme and what it offers to the five to fourteen year-olds, the advice centre work, the age group served, the aim of each service, and where it fits in with the rest of the provision.

Other services, such as those offered to parents (knowing their children are in a well-protected environment), to the local community (knowing young people are off the streets and being encouraged to develop their community responsibility), and to the local authority (providing young people with essential advice and advocacy, as well as public health type information such as HIV/AIDS) should also be mentioned.

While, in this example, the local authority is the actual customer, services are being offered by YOUNGOFF on behalf of these funders, and to the benefit of more than the young people themselves.

As a first step for your own organization it is worth listing and then checking all of the services that your organization offers, and to whom? Then ask who are your customers; and who benefits from the services and how? Remember that the range of services you offer may be much greater than the services you receive money to provide. List them all - a place to read the newspapers, free tea, coffee and juice, career advice and so on.

The market

You may not want to think about your 'customers' in traditional business terms, but this is one of the most beneficial areas for voluntary organization to think about and plan for.

One of the difficulties that many agencies have is that they tend to work with those that come through the door. It has only been recently that specific groups have been targeted (such as women, black people and people with dis/abilities). This specific targeting has enabled us to understand more fully the concept basic to 'selling' - knowing who is attracted by what you offer. In the youth club setting, sports and activities have traditionally attracted young men. Understanding this has helped workers grapple with the difficulties of targeting young women. Evening tenants' association meetings have tended to hinder women's involvement, therefore childcare has been provided, or meetings moved to times when children are at school. Understanding our target groups and the ways in which we might attract them and meet their needs is an important component of the market.

While this move into 'salespeak' might go against the grain, hard data on how many 14-21 year-olds there are in your catchment area, what your catchment area is, what it is that you offer that is different from other activities on offer to young people is vital information. What makes you more inviting than the street corner on a sunny July evening? So often we rely on general terms such as 'all young people', 'the community' or 'the deprived and disadvantaged'. For a business plan we need to be more precise and detailed.

Another aspect of a market orientation is knowing who we work with most effectively. So, for example, at a time when many youth agencies are targeting

only 14-21 year-olds (the age group workers have found most difficulty in attracting), understanding whom services have most impact on will lead to a greater understanding of how groups can more effectively be targeted (obviously we will need criteria to decide who we work well with: we will look at this later).

Attending to the 'competition' is also another concept that, at one level, can appear alien to voluntary organizations - but it is something that has always needed to be done. We may have put it in different words - but youth agencies because they have to attract young people in their 'leisure time' have had to look at the alternatives open to them. An understanding of *why* people come to *your* service and nowhere else, or why others stay away from all services is important. You will need to understand the competition in the sense of knowing how your agency fits in with others. If, as in our example, YOUNGOFF provides advice to young people, what about the local CAB, the local housing department and any other agencies that might offer advice. Do they see young people? Are they agencies that young people identify with? In this sense it may be less about agencies you may be competing with, and more about those you may overlap with, and knowing what makes your agency, and theirs, distinctive?.

As an illustration of the importance of this, I was asked to investigate three youth clubs situated within a mile of one another, and to find out why young people went to one and not the others. Two of the clubs had very distinct memberships: one was predominantly young men of 14+ and the other predominantly younger (12-14) boys and girls. The most common reason for the younger members attending the latter club was that the leaders made sure they got to use the equipment. If they put their names down, then they got to play pool or table-tennis, while at the other club the older ones pushed in and laughed at them, and the workers didn't do anything. At this club, the most common reason for attending was that 'there weren't a lot of little kids getting under your feet'. So, to a large extent, the memberships of two of these clubs were determined by the workers protecting the younger ones, and the older ones leaving. The problem with this situation was that the club that was attracting the younger ones was a statutory one and had prioritized work with 14+ young people; and the other was a voluntary club and wanted to attract a broad range of members. Knowing your members, the groups you work best with, your local community, why they come to you, why others don't, how you are perceived (as a place to play pool, somewhere to meet friends, somewhere you can get help), what makes your service distinctive and different from others, are all very important. If you are to target appropriately and know what your, current market is, you will need to know the answers to these questions for your agency.

To summarize here - you need to know your market - what groups of people are involved, why do they use your agency (be more positive than 'because there is nowhere else to go', if you are tempted to write this), what is on offer elsewhere and where do you overlap and duplicate with these agencies? What makes your service distinctive?

Pricing policy

The next part of the jigsaw is the pricing policy. One of the more profound changes involved in moving away from grant aid is the replacement of funding

organizations designed to meet a particular need, and a move towards paying for a specific, well-defined service, aimed at specific groups, with specific outcomes. This means that agencies need to cost each piece of work and not how much it costs to run the organization as a whole. Funders are less interested in providing monies for those aspects of the work that do not have a direct benefit to the client group. The traditional problem that organizations have had in funding co-ordinators or even administrators (those that have an indirect benefit to the client group), will continue and could become more severe. (Although one way through this is to attempt to include a specific heading for management and co-ordination in costings - as is the case for *Youth or Adult?* agencies). The changes in funding patterns also mean that we need to understand basic costing concepts to enable us to cost up a particular service.

The **cost** - obviously - is the expenditure necessary to provide a service. If we sell fruit and vegetables we have the cost of what we sell, plus the overheads for the premises, for advertising, for wages and the cost of providing this service must include all of these.

The **price** is how much you charge for the service - so the price equals the **cost plus the profit margin**. Grant aid has led us to think of the cost and the price as the same. The difference is what non-profit making organizations call a surplus.

We need to consider different kinds of costs:

Direct costs are those that are directly to do with the services we are providing. They can be further into

- **fixed costs** (which we would pay regardless of the level of demand on the services we provide); and
- **variable cost** which are affected by the level of demand on the service.

Examples of fixed costs are rent, salaries of workers already employed, heating and light. Examples of variable costs are telephone charges (but not rental), stationery, and photocopying, where costs would be different if for instance 100 people came through the door as opposed to 20.

There are also **indirect costs** which are overheads not wholly related to the service being costed. An administrator's salary where she/he has other responsibilities not directly related to the service provided, or office rent where the office is shared with other parts of the project, are examples of indirect costs.

Unit cost is the expenditure necessary to produce or provide **one unit** of your product or service. This may be a training course, an advice session, or a youth club evening. This unit cost provides a comparable price for funders to measure you against their own cost of providing the same service, or another organization; and helps determine whether they are getting 'value for money'.

The very high unit costs of prisons and other similar institutions have been used by community-based organizations trying to attract funds to what they see as alternative solutions to problems like crime. Similarly, statements such as

'only £15 will give this woman a cataract operation', or '£3.50 will feed a family for one week', are used to emphasize the unit cost of their services, particularly by charities working outside of Europe.

To calculate unit costs you will first need to have produced the whole year's budget for the service in question, then decide the most appropriate basis to calculate the unit cost (this may be per person, per activity, per hour, per advice session etc.), then calculate how many units there are within the overall budget and divide this into the total amount.

Plan of action

The next component we need to look at is the plan of action. This is very important because at the root of funders' requests for a business plan is often a need for evidence that your organization knows where it is going and what it will do when it gets there.

The plan of action usually emphasizes the steps you will take to reach your objectives and needs to reflect the small as well as the larger action steps. Targets will also be built into this section. Here we can look again at our imaginary agency (see *Figure 3.2*).

YOUNGOFF have limited their targets to measurable numbers, 'sorts' of young people and the form that the programme will take.

Figure 3.2 Targets for YOUNGOFF for the period April 93 to March 94

THE YOUTH CLUB (46 weeks, three nights a week) will have:

- * an average of 25 young people per night;
 - * a 50/50 attendance of young women and men;
 - * at least 30% 16+ young people;
 - * at least 30% young black people;
 - * at least (on average) three hours per week for formal discussion;
 - * at least three hours per week for activity directed by the membership;
 - * at least two hours a week for informal counselling and advice.
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For a service that offers a more general programme, targets will usually hinge around these three dimensions, although the more specific the service the more specific the targets will be. So, for instance, the advice sessions offered by YOUNGOFF, may have targets that read:

- * to provide an average of 12 hours of direct advice to people;

- * these 12 hours will be divided equally (on average) between housing and general advice;
- * of the housing advice sessions, there will be a 40% / 60% divide between council and private tenancies;
- * of the general sessions, 75% will be targeted at women;

and so on.

While the targets here have become more specific in terms of content, they have remained measurable. But there are difficulties in devising measurable targets for any educational institution. Social education and personal development, for instance, are well-trodden terms within youth work, but once you enter the realms of education, attitude change, or even increased levels of knowledge, the means of measuring whether you have achieved your targets becomes more difficult. Schools obviously have exams and other tests to measure levels of knowledge, but many agencies would find the measuring of personal development of individuals difficult. Within the context of a business plan, realistic targets clustered around measurable aspects such as numbers, form, content and process are more important than psycho-social indicators.

While you may be resistant to tying yourself down to targets separate from the demands of people coming through the door, it is just these specific targets that many funding bodies are now asking for. They often want to see workers as proactive and not reactive, and they want to be involved in defining these targets themselves. So, for example, the advice session targets specifying the type of advice (above) are typical of what some current funders are after. While you may be hesitant, a balance of specific and non-specific targets may allow you to balance the demands of funders with the demands that people make on your agency.

Once the targets are established, then the action plan will follow. The action plan is divided by time: what will you do in the next week, month, three months, six months and year. So, your targets will need to be placed into a time frame. A number of factors may influence how a target of say, 'an average of 12 hours advice a week' will be dealt with over a year. You will need to know when people seek advice and when you will be most and least able to offer it. A monitoring of advice requests may have shown that a large number of money advice requests come in January, and that housing advice is very regular and constant, while benefit requests occur after each of the statutory holidays. These trends will reflect the busy times of the year. Workers' holidays, days the service is closed, may have to fit within these trends to maintain the average level of advice sessions. Funders will expect to see this level of planning and thought. Other considerations of usage may be the weather, holidays, exams, school demands, other local events, and TV programming.

Budgeting

Within a business plan we need to describe the assumptions on which the budget is based. So, for instance, if we are budgeting for a large summer festival, we may assume the weather will be wonderful, that there will be very few

alternative attractions on that day and therefore expect 2,000 people to attend. These assumptions have substantial implications on what level of activity we would budget for. If, alternatively, we assumed rain, and that there would be 14 other festivals and fairs within 50 miles, we may assume 300 turning out. What is important is that the assumptions are stated; and again, that their consistency can be seen by the reader.

In conclusion

In this chapter I have tried to examine what a business plan is and what it contains. Below I have listed a number of texts that you may find useful in developing further your knowledge about business plans. Some comments have also been made about the contents of these books, as most written material is targeted at those involved in developing business plans within commercial organizations.

Further reading

Barrow, C. and Paul, D. (1988) *The Business Plan Workbook*, London: Kogan Page.

While this book covers most of the business plan contents described above, it has a strong finance emphasis and is a workbook with plenty of 'for you to do' exercises. The contents are taken from an Enterprise course at the Cranfield School of Management.

Callaghan, J. (1993) *Coating or Contracts? A practical guide for voluntary organizations*, London: NCVO / Directory of Social Change,

This is a useful book for those who want to develop their ability to carry out basic costing. Covers both the conceptual and the practical dimensions of costing.

Lawrie, A. (1993) *Quality of Services. Measuring performance for voluntary organizations*, London.

This book covers both definitions and concepts, as well as in-depth, demystifying detail about performance measurement, quality and quality assurance.

West, A. (1991) *A Business Plan*, London: NatWest Business handbooks.

A good book for thinking through many of the concepts used in business planning and for writing the plan itself. Also good on 'case studies'.