

# ESSENTIAL STEP BY STEP GUIDE to preparing a business plan for a rural community business



# Contents

<b>Introduction</b>	<b>3</b>
<b>What is a business plan?</b>	<b>4</b>
<b>Why do we need a business plan?</b>	<b>5</b>
<b>Where do we start?</b>	<b>6-7</b>
<b>Help and advise</b>	<b>8</b>
<b>How far into the future should we plan?</b>	<b>9</b>
<b>What should we cover in our business planning?</b>	<b>10</b>
<b>1. Mission, aims and objectives</b>	<b>11-12</b>
<b>2. The organisation and the membership</b>	<b>13-14</b>
<b>3. Products, services and activities</b>	<b>15</b>
<b>4. Markets and marketing strategy</b>	<b>16-17</b>
<b>5. Competitor analysis</b>	<b>18</b>
<b>6. Resources and costs</b>	<b>19-20</b>
<b>7. Revenue forecasting</b>	<b>21-23</b>
<b>8. Targets, outputs, outcomes and impacts</b>	<b>24-25</b>
<b>9. Risk analysis</b>	<b>26-27</b>
<b>10. The budget</b>	<b>28-30</b>
<b>How to present your business plan</b>	<b>31-32</b>
<b>Glossary</b>	<b>33</b>

# Introduction

If you are hoping to set up a rural community business, like all businesses, you will need a good and realistic business plan.

This step by step guide will help your group write your business plan by explaining:

- why a plan is needed,
- how to tackle the business planning process (in 10 steps),
- what to include in the written plan, and
- how to present it.

It includes useful tools like templates for presenting your project's financial forecasts, which are your realistic predictions for how much money will be generated and spent, and when.

Some unusual technical words are used in business planning, so there is a handy glossary of terms at the end of this guide to help you understand what they mean.

For further help and advice about setting up a rural community business, please see the related document:

## How to set up a rural community business.

This guide has been produced as part of Plunkett UK's support for rural communities looking to save or set up a service through community ownership.

This guide complements Plunkett's core advisory service; for further help and support on setting up a community business, or if you would like to find out more about the benefits of becoming a Plunkett member, please email [info@plunkett.co.uk](mailto:info@plunkett.co.uk) or call us on 01993 630022 or visit our website at [www.plunkett.co.uk](http://www.plunkett.co.uk).

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# What is a business plan?

A written business plan explains how your group will set up, run and develop a specific business activity, or a series of activities, over a defined period of time. It explains what you aim to achieve, and how you will know you have achieved them, through your business.

However small or large your rural community business is going to be, you will need to produce a business plan so that your members, supporters, investors, lenders, funders and customers can understand what you want to do, how you want to do it, why it is important and what difference it will make to your community.



# Why do we need a business plan?



Producing a business plan helps your steering group or management committee develop a collective understanding of your business idea, how you can explain it to others, and how you will deliver it to customers in ‘your market’.

Writing a business plan includes describing what might happen in the environment you are operating in. It asks you to think about how you might need to adapt to changing circumstances, protect yourself against risks, and take advantage of any opportunities that arise. A business plan is important in demonstrating the viability and sustainability of what is being proposed, which is why funders or investors will typically ask for a business plan before they decide whether to support you.

Business planning also helps different groups of people affected by your community business (stakeholders) to unite in support of your business idea and provides you with a route map to your ultimate destination and a series of benchmarks to measure your progress along the way. The importance of effective business planning cannot be overstated: if you fail to plan, you could be planning to fail.

## Where do we start?

Developing and writing a good and detailed business plan will of course take time, often days rather than hours. You will need to allow enough time, energy and resources, but it can also be a fun and rewarding learning experience for you, your group and community.

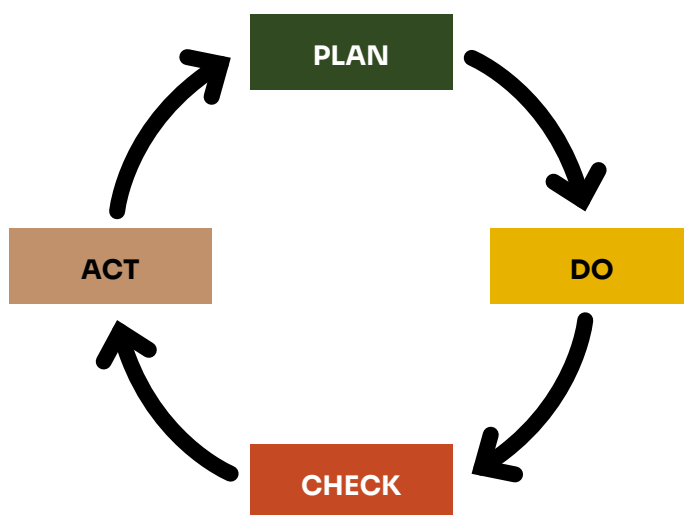
The first stage of outlining the plan and getting everyone's ideas together will just take a few days. Getting all the information together, especially if you haven't started your market research yet, may take several weeks.

Your financial plans and forecasts will develop over time as more information becomes available, but you can make some quick calculations on the 'back of an envelope', to help you decide if it is likely your community business can be financially sustainable over time.

Work together as a group, using this step by step guide, to go through the key parts of the plan. An effective activity is to run a workshop with your group members, using a flipchart to capture everyone's ideas and thoughts.

Having a good business planning team is essential but having just one person with overall responsibility for drafting the content of the plan is a good idea. This should ensure that the working document is coherent and focused, it is important someone with good writing skills is nominated to write the actual plan so it can be easily understood.

It is important to keep revising the plan at different stages of development, so it continues to reflect the full range of views within your group and changing circumstances. It is useful to follow the Deming Cycle business process of **Plan, Do, Check, Act** (PDCA) when developing your plan.



Be prepared to spend time on the review stages to properly test your plan. Each draft will need to be reviewed by as many of your group members as possible. It can be helpful to work backwards from your preferred end date for when you need your completed business plan when setting a timetable for activities and meetings.



Here is an example of a **Plan, Do, Check, Act** business planning framework that you can use to plan the timetable for each stage:

Week 1	1. Form your first steering group (or management committee),
<b>PLAN</b> Week 2	<p>2. Set up a business planning sub-group of three to five members, including a good clear writer and elect the Chairperson.</p> <p>3. Identify each person's role in the sub-group, decide how often it will meet, how it will communicate between meetings, and how it will report on its progress.</p> <p>4. The sub-group should create an effective decision-making framework: this is a list of all areas that need decisions, showing how they will be made.</p>
<b>DO</b> Week 3	5. Organise a workshop with all members and stakeholders to discuss and make decisions on the key aspects of your business plan.
<b>DO</b> Week 4	6. Produce a first draft document based on material generated as a result of the decision making, with additional information where available, e.g. statistics from local parish planning, district deprivation levels, community consultation and market research.
<b>CHECK</b> Week 5	7. Present the first draft to the full steering group or management committee and get their feedback.
<b>ACT</b> Week 6	8. Make the essential changes and revisions needed.
Week 7+	<p>9. Repeat review process and revise plan as required.</p> <p>10. Produce your final plan that reflects the revisions.</p>
Final Week	11. Present the Executive Summary (always written last!) of the final version to the full steering group or management committee.

# Help and advice

Groups often work with an external adviser to help them produce a business plan. Depending on the skill sets within your steering group, you may decide it would be best to get substantial support with the business planning process, or you may simply ask an adviser to provide some feedback on a plan that your group has already produced. Some charitable organisations, including Plunkett, provide fully funded advisory support for community businesses, so make sure you explore all of your options. If funded support is not available, groups may need to pay an adviser or consultant directly to write or assist with the plan.

A good adviser should bring a level of expertise and specialist know-how to the business planning process that the group does not have. Advisers should facilitate your group development to enable you to create, and have ownership of, your own business plan, rather than simply write it for you.

If you need to employ a consultant or an adviser, follow these good practice guidelines:

- Produce a short, written brief setting out exactly what you want and over what timescale.
- Ask the adviser to send you a written proposal of what they are going to provide against the brief and what this will cost, with any additional fees or charges clearly identified.
- Ensure the adviser you hire has an established track record in supporting community businesses and can provide references if requested.
- Before you begin working together, have a written agreement setting out what is expected from each party and what would happen if you were in a dispute.
- Make sure that there is regular monitoring of progress.
- Ensure that you have a clear end point to the advisory process, so you do not become overly dependent on the adviser.





# How far ahead should we plan?



The timeframe of a business plan is sometimes referred to as the ‘planning horizon’. Groups usually write three to five year business plans: anything longer can become speculative, as it is difficult to forecast the long term with any degree of certainty.

Anything less and the process will be more like short-term action planning. Some grant funders and social lenders prefer to see a five year business plan, so it is important to establish the fundraising context (i.e. check, if there are particular grants you are aiming for, what they expect to see) before starting financial forecasts. If you need to raise investment through community shares, for example, you probably need to plan ahead for more than three years to establish the time-frame for the potential withdrawal of those shares.

Having produced a three or five year business plan, you will still need to refresh it annually and ultimately develop a new one at the end of the period. Revisiting the plan every year will show you how well you have forecasted and where you need to adapt your plans for the future.

# What should we cover in our business planning?

The timeframe of a business plan is Your business plan should be specific to your particular community and circumstances, there are no rules as to how long it should be or what must be included. However, you should always try to make it as accurate, concise and succinct as possible so it is easy to understand and help people make decisions about investing or supporting your proposal.

Here are some things that should always be included in a business plan:

- 1. Your mission, aims and objectives:** What are you trying to achieve? What are the needs you are hoping to meet?
- 2. Your organisation:** Who is involved in running it? What is the background to the group, its history and track record? How will the community business work? What does membership entail?
- 3. Your products, services and activities:** Exactly what are you going to do/produce/sell? How does it benefit the community?
- 4. Your market and your strategy:** Is it a sound business idea? Who is the target customer base and what evidence do you have that you can succeed in this market?

- 5. Your competitors:** who are they and what are their strengths and weaknesses in comparison to your proposal?
- 6. The resources you need to start the business:** How many people will you need? What sort of facilities do you need? How much will it cost? Where will this money come from? How will you raise investment?
- 7. Your revenue:** How much of your product or service do you intend to sell? What is your estimated income? Will you make a profit, and when?
- 8. Your targets, outputs and outcomes:** What will success look like? How will you measure the results of your work (for example the number of people who will benefit)?
- 9. The risks that you are facing:** What are they and how will you control or mitigate these? What are the liabilities of investors and members?
- 10. Your budget:** Detailed financial forecasts for your community business proposal.

These 10 areas are the essentials of any business plan, although it is also useful to include (possibly as appendices):

- **A detailed timeline to completing the project**
- **Short biographies of your team members**
- **A list of any organisations you are working with**
- **A summary of the strategies and policies at national/county or local level that might have an impact on your business).**

Now let's look at each of the 10 essential components in turn. This step by step process is designed to build the foundations of your business plan. The written plan might present things rather differently, but first you need to understand your business fully and compile information for the working document.



# Step 1. Mission, aims and objectives

Your group must clearly identify the mission, aims and objectives for your community business to specifically define what the business intends to achieve and how it will go about it. You are also describing the ethos and underpinning principles of your organisation in a way that other people can easily understand.

The five priorities in Plunkett's strategy may help you to identify some of your mission, aims and objectives:

- Will your business help to provide services and amenities that your community values and needs?
- How would your community business stimulate the local economy through local supply chains?
- Will you create improved access to employment and training and volunteering opportunities, often supporting people who are excluded from the labour market?
- What will your community business do to help tackle climate change through delivery of environmentally sustainable initiatives?
- How does your community business promote equality, diversity and inclusion by creating safe and welcoming spaces for everyone in your community?

Answering these questions will help you to show how your community business can deliver a public benefit and social impact. Writing these answers into your business plan and linking them to the relevant Plunkett strategy priority above could help you to access grants, raise finance and evidence your social impact.

**Why** your group or business exists will be its **Mission**; **What** the group is trying to achieve are its **Aims**; and **How** the group or business will do things become its **Objectives**.





## Mission

By way of example, the **mission** of a community owned shop might be:

**To make affordable, good quality food easily available to the local community.**

Put simply, this is why it exists.

## Aims

The **aims** of this mission are:

**To recruit and support a team of volunteers to run the community shop.**

**To offer part-time employment to individuals in the local community. To create a community hub where local people can meet each other.**

**To enhance community cohesion by offering membership and engaging local people in a community-owned business.**

Keep the number of aims to between three and five – too many aims and your project could seem unnecessarily complicated and hard to achieve, too few and the project may appear narrow in focus and limited in its activities.

## Objectives

You can now identify the objectives that come from each aim. This will provide a good focus for the project. For example, objectives to achieve the aim of recruiting and supporting a team of volunteers might be:

- **Run at least 4 community networking events each year to promote volunteering opportunities**
- **Recruit at least 10 volunteers each year**
- **Offer 5 days of induction and training for each volunteer**
- **Provide each volunteer with a monthly supervisory support session.**

There is a well-known acronym for setting good objectives – they should be **SMART**:

**Specific** – worded precisely and simply so that everyone can understand.

**Measurable** – objectives need to be written in terms that can be counted or measured: if you can't quantify an objective, how do you know if you have achieved it?

**Achievable** – set objectives that you know you can achieve and then once achieved, you can set yourself a new objective. This breaks your journey down into small, manageable steps.

**Realistic** – linked to achievability, objectives always need to be realistic.

**Time-related** – set a definite deadline for each objective.

Your business targets will come from these objectives (see Step 8 on Targets, outputs, outcomes and impacts). This exercise is important to show how you will run your community business. You may not choose to include all the detail compiled at this stage in your written business plan, but by clarifying your mission, aims and objectives at a very early stage in your planning process, you are laying down a very strong foundation. As a community business is fundamentally a social business, you are also preparing the way to prove your social impact.



# Step 2. The organisation and the membership

Spending some time discussing the following questions will help you to decide what organisation and legal structure would be best for your community business:

- **Who will be involved with the community business and in what way will they contribute to its success?**
- **How does your group fit with the community it intends to serve?**
- **Who is taking on responsibilities within the business?**
- **How will it be run internally and what will the relationships be with the membership, customers, producers, suppliers, and any other group?**
- **Who are all the stakeholders in the business and what is their relationship to the business (a stakeholder is defined as anyone affected by the activities of the organisation)?**
- **Where will your membership be drawn from and what will make people want to join?**

Check you have the right people with the right skill sets in your steering group to carry out the work that needs to be done. You may find that people have ‘transferable skills’ if they have no direct experience of a community business. This activity will help you define and describe your governance structure and business model.

Members are your most important internal asset, second only to your customers who are your most important external asset. You will need to make sure that you select the most suitable legal form for your community business that achieves the best balance between the needs of the business and the ownership and control of your business.

Choosing between the different legal forms can be difficult as they have different structures, regulations and reporting requirements. It is important that you take the time to get advice and consider not only how your business will be run, but how your organisation will take decisions and how members can influence and control what happens.

## SWOT Assessment and Analysis

A **Strengths, Weaknesses, Opportunities and Threats** (SWOT) analysis will help you to assess if your group and organisation is ‘fit for purpose’. Strengths and

Weaknesses are **internal** to your group or business, while Opportunities and Threats are **external**.

**Strengths** are the things that make your group special. They may include your unique offer to the community, your funding and the skills of the steering group, management committee and/or staff team.

**Weaknesses** are the areas in which your business is not so well resourced. You can identify your weaknesses by looking at other organisations and comparing/contrasting their strengths against your own. Weaknesses might include underdeveloped business skills, lack of access to funding, location or lack of publicity.

**Opportunities** relate to factors outside the business that can allow the group or business to develop. This might include the prospect of partnering up with another organisation to jointly provide services or the launch of a new funding programme.

**Threats** are the opposite of opportunities and refer to the negative pressures in the outside world that endanger your business’s future. Threats might include lack of demand for your business or new competitors.

<b>Strengths</b> Internal factors that offer an advantage	<b>Weaknesses</b> Internal factors that present a disadvantage
<b>Opportunities</b> External factors that require action to bring benefits	<b>Threats</b> External factors that may damage the business if no action is taken

## PESTLE Analysis

Having made a SWOT analysis of your group and proposed community business, it can also be helpful to look at the wider environment in which your community business will be operating by carrying out a **Political, Economic, Social, Technology, Legal and Environmental** (PESTLE) analysis. This will also help with Step 9 “Risk analysis.”

This may be done at a workshop with business plan sub-group members and other invited members and guests so that you obtain a 360° view of your operating environment. Write down everything you can think of and then select the ones you can mostly agree on as being the highest priorities for your group and decide how you will manage them.

**Political** – What kind of political issues are likely to impact on your group and your community business? What local or national taxes, like business rates, or planning regulations or policies are likely to affect you? Is there anything about your project that could be contentious with your Town or Parish Council?

**Economic** – What is the impact of rising or falling prices? Is the economy stable or rapidly changing? What is the state of the commercial sector in which you will be competing? How might the economy change over the business plan period?

**Social** – What is happening in your local community? Is the local population increasing or are people leaving? Is the customer base getting older or do young people have unmet needs? Are people rurally isolated or socially included? How would another pandemic affect you?

**Technology** – What technology will impact on your community business? Do you have great broadband speeds or are you a 4G not-spot? Can you install energy saving fridges or lighting controlled from your Smart Meter app? Does your community have a thriving social media group or are you a digital desert? Do you experience frequent electrical outages?

**Legal** – What are the legal and regulatory restrictions on your proposed community business? This might be Sunday trading laws for example. What are the legal implications of automatic enrolment for employees, Health and Safety at Work for volunteers, and are you intending to use the right legal model if you want to issue Community Shares?

**Environmental** – What are the rules on single use plastic for takeaways, what commercial recycling facilities and services are there, can you install solar panels and air source heat pumps? Would increased traffic to a community business increase carbon emissions or reduce road safety?

Once you have your list of most significant influencing factors, you can then think as a group about how best to manage them and still be consistent with your mission, aims and objectives. It may be useful to categorise them as being Urgent and/or Important to help prioritise which you deal with first. If it is both **Urgent** and **Important** perhaps you would prioritise that over an issue that was Important but not Urgent. You may want to include some of your findings in your risk analysis.





## Step 3. Products, services and activities

What exactly are you going to do? Write a list of your most important trading activities, product lines and services. This is an opportunity to find your Unique Selling Points (USP's), the things your business will do better than any competitors that will help you to stand out and be successful. As a community business with a public benefit you will want to offer better and more personal customer services than a commercial private business, and these services need to be fully costed, defined and agreed.

Always consider the needs and motivation of all of your likely members – they will form a very important part of your customer base. What will they want the business to be offering?

For example, if you are setting up a community owned pub you might think of all the different demographic groups locally who will feel a sense of ownership, and meeting their needs will be at least as important as satisfying the needs of passing

trade. Will your members want and be able to afford a gastro-pub? Possibly some of them will, but a proportion of them may want to have a different type of offering, such as darts leagues or singalong evenings. Be realistic about how many services you can offer at the same time.

Write a list that identifies the sorts of people you need to reach out to with your activities and whether they are likely to use your business. Quite often it is not just local markets you will be catering for. For example, if you are setting up a community owned farm or growing space you might want to run care/support activities for people in the wider community with sensory or cognitive impairments or medical conditions.

How will the business run day-to-day? This is where you need to develop an operating plan. Consider the activities likely to be run each day and who would be responsible for them.

In addition to what you are going to do, make sure you establish when you are going to do it! A brief description of the timeline is always useful and a detailed timeline can be put into the appendices, or in a section of its own towards the end of the plan.



## Step 4. Markets and marketing strategy



When deciding on your products, services and activities you are actually defining who you think your customers will be.

A key element of business planning is demonstrating that there is a market for the proposed business. You need to be clear that not only can you provide the product or service, but that you can prove the demand for it. Does your community actually want this enterprise, and are they likely to engage with it in the way that you would want them to?

To demonstrate a need within your community for such a business it is worth finding out if other similar enterprises have been successful in the same sort of environment. Contact and visit other community businesses with a similar business model as well as other local enterprises and, if possible, arrange visits to those that have “already done it”. A brief description of what you have learnt from this type of investigation looks impressive in your business plan.

To establish the demand there will be for your products and services, and the likely revenue you can earn from them, you will need accurate and credible information. This will involve market research on how many local people are likely to use your business, what sort of products they might be looking for, how much they would be willing to spend on average, how often and so on. Segment your likely customers by the type of product/ service you intend to offer: for example if you

were offering special offers at lunchtime, which demographic group you would be aiming for, and why?

The results of your market research will be an important part of your business plan, because it will help answer the question “Will it fly?”

Market research also gives you an opportunity for raising awareness of your community investment opportunity and ways of taking part in your community business: when asking if people would use it, you can also ask if they want to become members or volunteers and how much they would consider investing to cover start up or acquisition costs. Obtaining these pledges of support helps you present a strong case in your business plan and find out the level of commitment and support from your community for your community business proposal.

Your market research can be done through a combination of meetings, interviews, online surveys, hard-copy questionnaires and focus group exercises (this is called primary research).

On the next page there is a Market Research Action Plan template that you might use, in the context of a community café.

There are also sources of information or data evidence that can support your plan (known as secondary research), such as: Census data Index of Multiple Deprivation (IMD) data, demonstrating income levels within the community and previous local surveys or Local Neighbourhood Development Plans (NDP's).

## Market Research Action Plan

Market research	SMART Targets	Responsible	Timescale	Summary of findings
Undertake community survey using handheld questionnaire	Survey at least 300 people	Project Volunteers	Jan to March	85% of respondents said they welcomed the idea of having a community café; 50% said they would use it at least once a week, while 25% said they would use it at least fortnightly (RESPONSE rate: 80%)
Undertake an online survey sharing the link on village websites and email groups	Survey accessible by 900 people	Project Volunteers	Jan to March	90% of respondents welcomed the idea of having a community café; 60% once a week; 28% fortnightly (RESPONSE rate: 20%)
Facilitate focus groups	3 focus groups of 6-8 participants (targeted according to age groups)	Project Volunteers	April to June	Key messages re 'buying criteria' are: Good quality coffee  Range of snacks to cater for diversity of the community, including healthy lunches  Link to social initiatives, e.g. bread-baking courses, knit-and-natter groups
Run pop-up café in village hall	Run this for 1 week	Project Volunteers	May to June	250 customers used pop-up @ an average unit spend of £3 = £750 in takings  Cost of stock: £100  Operating costs: £150  Net profit = £500

## Marketing strategy

Your ongoing marketing approach will need to target products/services to each segment of your identified market, as they will need to be reached by slightly different marketing methods. Think ahead to how you will continue to reach your customers once the first enthusiasm has faded and how you will continue to engage your members in particular.

Finally, if you will need a community share offer to raise the money for your community business, write a detailed plan with timings to market it to your potential investors that includes ways of communicating, promotional activities and the share application process.



# Step 5. Competitor analysis



Your business plan should contain a competitor analysis. Identify all of your key competitors, review their strengths and weaknesses, and explore how you will compare to them.

Listing your competition, and how you are likely to set yourself apart and succeed against that competition, is important when building your business identity. You will need to show how you will compete with other businesses on

your product range, choice of services, pricing, availability, trading days and hours, convenience, customer services offered, ethical, environmental and social impact on your local community. This will help you to develop your own ‘brand values’ that should encourage your customers to prefer to shop, trade or deal with your community business.

Here is a template you might use to capture this analysis, with an example of a community shop assessing a supermarket competitor.

## Competitor analysis

Strengths	Weaknesses	Competitive strategy
Economies of scale	Does not offer locally-sourced food	Compete on the basis of: Sourcing local food
Strong supplier relationships	Does not link food retail to wider social offer	Linking food retail to wider social offer (e.g. training in healthy cooking)
Low cost	Travel time and cost for local people (not within walking distance)	Use a volunteer workforce to achieve comparable unit pricing

## Step 6. Resources and costs

Once you have worked out what products and services you can provide and how you need to deliver them (your strategy), you will be in a position to identify the resources you need, and what will be the cost of those resources.

There are three main types of resources for any business:

- **Human resources** – people are your greatest asset. Your community business may require paid staff as well as volunteers. There are costs of recruiting, training, managing and supporting both paid employees and volunteer staff that you will need to manage.
- **Physical resources** – these might include a building from which to operate, equipment or machinery.
- **Financial resources** – your group will need access to cash to pay for the first two types of resources.

To manage your resources, decide on the mix of people and skills you need to manage and lead the organisation and show how they will work together effectively. You also need to be prudent and realistic when it comes to costing physical resources. Show how your resource needs when trading will be different to those at the start-up stage.

### Costs at different stages

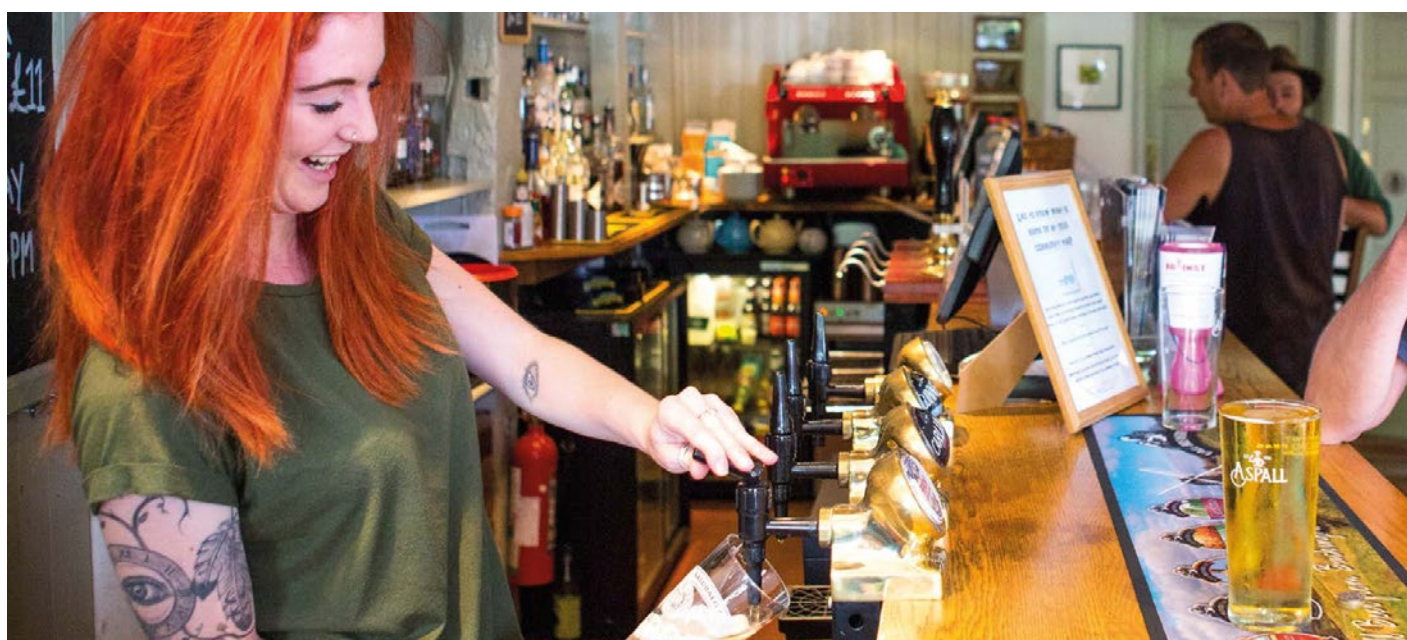
The initial costs of your project should be split into two key stages of business development:

(i) The pre-start and start-up phases (often referred to as the feasibility phase)

**Pre-start** costs are when you are assessing the feasibility of the entire project. There are professional costs involved in the pre-start phase that you must budget for, such as:

- Legal advice, e.g. giving advice regarding a lease
- Purchasing model rules and registering the community business
- Surveyor/architect costs e.g. in assessing suitability of a building or structure
- Consultancy costs associated with producing a business plan, e.g. an adviser or an accountant doing the financial modelling.

Even if some of these costs are offset by being sourced through charitable organisations or by individuals giving their services pro bono (free of charge), it is worth itemising them within your budget as “in-kind” investment.





**Start-up** costs are incurred when you have decided to go ahead but will be ‘one-off’ costs that you will not need to pay for again until you need to replace them. Setting up your business will depend entirely on your finding the investment for this stage, whether you intend to buy and run a community pub, set up a community energy scheme or take over the lease on a local shop, and so on. These costs will include:

- Staff recruitment costs
- Deposit/advance rent payment
- Purchase and/or refurbishment of building
- Equipment purchase
- Raw materials/start-up stock purchase
- Fixtures & fittings
- Marketing and promotion

The pre-start and start-up costs can be totalled as your overall set-up costs.

#### (ii) The running costs (or implementation phase)

These are the costs of running the business once it has been set up, such as rent and utilities, staff wages, expenses for volunteers and so on.



### Understanding business cost terms

There are some business terms to be aware of when considering your different types of costs:

**Fixed costs** are those that are always there, regardless of the level of activity or sales. These costs will always apply regardless of the demand – such as a building and core staff.

**Variable costs** change or vary with the level of activity. For example, as demand for your business grows, the stock, staffing and services may also need to grow.

**Direct costs** are those that are directly associated with the delivery of activities, for example the cost of a barista to deliver the coffee or the costs of stock that will be sold.

**Indirect costs** are not directly linked to project delivery; for example the cost of a website for promoting your business.



## Step 7. Revenue forecasting

You have successfully identified your costs, which in business terms is known as 'Expenditure' or money paid out, and next you need to identify your income, or money coming in, known as 'Revenue'.

At the start-up stage, you will probably have received some grant, loan or investment funding. When you are trading your income will come from sales of products and services and this is where you have to make some assumptions and predictions, as you haven't started selling yet!

When starting a business you should base your assumptions of likely financial success on realistic information and data, sometimes that can seem very difficult. By carrying out market research you will have produced some figures which can be used as a forecast of sales revenue, the income the business is likely to receive from selling goods or services.

If setting up a community shop for example, your market research asked about the amount that customers might spend each week at the shop and how many times they would visit, you should have enough information to make a reasonably simple prediction for the number of customer visits each week (the footfall) e.g.:

**650 visits per week at an average £4 per customer visit = £2,600 per week**

By multiplying this by 50 weeks you can estimate that your sales revenue for Year 1 would be £130,000.

You can also estimate your likely sales revenue by looking at the financial records of similar businesses in a similar demographic area. It is a welcome fact that community businesses are usually very happy to share their information subject to commercial confidentiality.



### Profitability

**Profit** (or surplus) is the amount left from your revenue or turnover after you have paid your costs.

The sales revenue you generate is also called your **turnover**. The level of turnover is not really a reliable indicator of financial health. What is more important is the **net profit** that you make.

### Net Profit

If your community business has revenue income of £100,000 in total turnover in a whole year of trading and the total associated costs, including all overheads such as staff, transport, equipment, loan repayments and utilities were £90,000, the **net profit** would be £10,000, which means your **net profit margin** would be 10% (£10,000 profit divided by £100,000 turnover, expressed as a percentage).

However, if your total costs are greater than your total revenue, you will make a loss. There may be circumstances where you accept this will be the situation for the first one or two years as you increase your income and grow your business to a **break even point**, where your income and expenditure are the same. You will then need to make sure you have factored in these excess costs into your start-up budget.

### Gross Profit

An important way of assessing profitability is the **gross profit margin** – this is a measure that is critical to the success of the business and should be measured regularly. The gross profit margin is a financial calculation that tells you a lot about the overall financial health of a business. It reveals how much money is left over for operations (e.g. salaries and overheads), facilities, expansion, debt repayment, distributions to shareholders and other miscellaneous expenses.

The gross profit margin is worked out as:

**(revenue from sales minus cost of goods sold) divided by revenue from sales.**

The cost of goods sold in a community shop or co-operative pub, for example, would be the amount that is paid for the stock.

**Example:** A community shop sells £100,000 of stock, which cost £70,000 to buy from wholesalers and other suppliers. The gross profit margin would be:

**(£100,000 - £70,000) = £30,000 divided by £100,000 = 30%**

**Example (with more detail):** A licensed community-run café, having carried out its market research, breaks its projected figures down as:

#### **Sales revenue (Year 1)**

Food and beverages	£180,000
Alcohol	£60,000
Takeaways	£5,500
<b>Total revenue</b>	<b>£245,500</b>

#### **Cost of sales**

Food and beverages	£45,000
Alcohol	£14,000
Takeaways	£2,600
<b>Total cost of sales</b>	<b>£61,600</b>

**Gross profit** **£183,900**  
**Gross profit margin** **74.9%**

A café will generally have high gross profit margins but these are offset by the higher cost of staff as it is a labour-intensive business and so it would be good practice in this case to list café staff costs and other direct café costs next, followed by indirect costs (such as utilities, insurances and security).

## **Can you improve your profitability?**

When working on your revenue forecast, you can check whether you can improve profitability by asking:

- What is the optimum price that you can charge for your products or services?
- Can you combine products or services as a bundle to increase your average spend and margin across different categories? For example, you may make a low margin on flour and milk but a higher margin on eggs, bundled as a pancake or Yorkshire Pudding mix you can improve your overall margin and still offer a discount on multiple items.
- Is the cost of the product/service sufficiently lower than the selling price to make a profit?
- Have you included in the cost of supply everything like growing, making, promoting and delivering your product?
- Are there alternative specifications for the product/service or different ways to deliver it that can increase or reduce the cost of supply and/or the price you can charge?
- Can you reduce the costs of shrinkage, waste, theft or transactions in your business?



## Presentation of financial forecasting

Having calculated your community business resource needs and costs, and your likely revenue, you have now become fully immersed in the world of financial forecasting!

In your business plan you need to give a brief description of your current financial position, and what your financial position is likely to be at the end of each succeeding year (at the end of Years 1, 2 and 3 for a three-year plan, for example). This is in addition to the tables and spreadsheets in Step 10, The Budget.



This description is important – it will demonstrate your understanding of your financial situation and should include:

- how you have assessed your start-up capital costs, and
- how you intend to pay for them, i.e. where the investment will come from (itemised as a mix of grants, loans, donations and equity e.g. community shares if you are setting up a society) and what terms apply to these sources (e.g. how many years and at what percentage interest, in the case of loans; what are the likely rates of interest and withdrawal terms, in the case of shares, etc.).
- what the financial performance is expected be for the first three years – e.g. when the business may break even and then go on to make a profit, and
- what assumptions these figures are based on (e.g. how many customers per month; average spend etc.).
- what your balance sheet shows about the assets (Things you own) and liabilities (Things you owe) and if your community business is solvent.





## Step 8. Targets, outputs, outcomes and impacts

If you're setting up a community business then it is certain you already want to make an impact! You want to have good outcomes! But how will you measure your success? In Step 1 we talked about your mission, your aims and your objectives. Taking this one step further, you should establish realistic targets from your objectives.

This section is about two types of targets: your social impact targets, and your sales targets. These are the changes that you will make in your community, and the way in which you will help fund them.

It is likely you are setting up the business with a strong social mission, many of the targets you set and the impacts you measure will be social in nature.

The monitoring of these targets is known as **social impact measurement**. It is the non-financial way you assess the success of your community business and proof to members and funders that you are achieving what you committed to do.

As with the difference between Mission, Aims and Objectives, it is helpful to understand the different words used for each part of the social impact measurement process:

- **Activities** - the work done by your community business
- **Output** - the immediate result of the work carried out
- **Outcome** - the difference that work has made over time
- **Impact** - the importance and value of the lasting change achieved

### Here is a worked example:

One of your **aims** (expressed in Step 1, Mission, Aims and Objectives) was to recruit volunteers and one of your stated **objectives** was to recruit 10 volunteers per year. If this happens, it will be an **output**, and you can set it as a target e.g:

**Our target output for volunteers recruited annually is 10.**

**Outputs** lead to the achievement of **outcomes**, and outcomes make an **impact**.

In the case above, the **outcome** of 10 community volunteers being recruited is that 10 local people acquire valuable new personal skills and experience, while the ultimate **impact** might be that 3 of these volunteers go on to work with other community-led projects and share their learnt skills to improve the resilience of the wider community.

The social impact measurement process is shown in the figure below:

Activity - recruiting community volunteers

Output - 10 volunteers recruited

Outcome - 10 individuals acquire new skills and experience

Impact - 3 volunteers go on to work with other community-led projects, sharing their skills



Use the following **Targets** table to set out your aims and objectives and show how these result in **outputs, outcomes** and **impacts**. In section 1 it was recommended that you identify a manageable three to five aims for your community business, so it shouldn't be a very time- consuming task to set targets for this number. Keep your targets realistic as it is better to exceed them than miss them!

The other targets that you will need to set are your **sales targets**. These come directly from your revenue forecasting. For example, if you are setting up a community shop you may have predicted that your Year 1 turnover will be £175,000. You can set targets based on this figure:

- turnover of £3500 per week
- an average 125 customer visits per day
- an average spend of £4

### Targets

Aim	Objective	Output	Outcome	Impact
To recruit and support a team of volunteers to run the community shop	To recruit at least 10 community shop volunteers each year	Minimum 10 volunteers	10 volunteers acquire new skills and experience	3 volunteers go on to work within other community-led projects



# Step 9. Risk analysis

All businesses carry risks, so you need to be prepared by asking: what could go wrong on the way? Assess every aspect of your idea for risk. Your PESTLE assessment, see Step two. The organisation and the membership, will help identify some of the following risks.

Typical areas of vulnerability to consider are:

- People
- Operations
- Reputation
- Procedures
- Project
- Financial
- Technical
- Natural
- Political
- Social.

Think about the consequences of each risk and then assess the likelihood of it happening. Be realistic and honest with yourselves – a flip chart would be handy while doing this exercise.

A summary of the major risks and how you will mitigate them should be included in the main body of the business plan, while a more detailed **risk register** is useful as an appendix.

Your **risk analysis** can build on your SWOT and PESTLE analyses (from Step 2 The organisation and the membership), drawing on the highlighted weaknesses and threats to identify risks.

For example, if one of your identified weaknesses is underdeveloped business skills within the management committee and one of your threats is a new competitor opening up, these could be combined into a risk such as: our underdeveloped business skills will mean that we may be out-manoeuvred by competitors.

You should then analyse each of the identified risks in terms of likelihood – how likely is it that the risk will occur – and impact – if the risk did occur, what would its impact be on the business. You can score both the likelihood and the impact as High, Medium or Low and develop a simple matrix for this to give an overall score (which you can rank in more detail if needed).

Risk Analysis		Impact		
		Low	Medium	High
Likelihood	High	Medium	High	Critical
	Medium	Low	Medium	High
	Low	Low	Low	Medium





## Mitigating the risks

Once you have scored the risks as Low, Medium or High, you need to consider the measures you would put in place to control the risk, either by trying to reduce the probability of the risk occurring or by trying to minimise the impact of the risk, assuming it does occur.

It is helpful to find out how strong your business plan is by using your risk register to **stress test** your proposal. Use the risks identified to work out what actions you would take over a realistic timeline to discover if your business can stand up to the challenge. An example might be the risk of not being able to recruit new volunteers to replace ones that may have moved away, and what that might mean for your paid staffing costs if you need to increase their working hours to maintain your opening hours.

This will help you to develop a **contingency plan** for when a risk becomes real so that you know what you would intend to do to manage the problem.

Where you need to make contingencies this will impact on your financial forecasts and your figures will need to be adjusted to account for them. This **variance** can be explained and it can be helpful for your managing group to prepare a range of financial forecasts that show the impact of the change. An example would be price and cost inflation in the economy, if you assume that inflation will always be the Bank of England target of 2% rather than the base rate for borrowing you may find that your forecasts are out of date. Having forecasts that can be altered in response to these changes will help you to manage your assumptions and demonstrate that you can pass a stress test. Having a series of forecasts that show the difference between a 2% rate of inflation compared to a 5% and 10% rate of inflation could help convince grant making bodies, lenders and investors to support your proposal.

Including a risk register in a business plan is not essential but can be useful as an appendix and of course it will be a document that those managing the community business can check against at regular intervals.

Here is an example for a community bakery:

Risk Register						
Risk	Consequence	Likelihood	Outcome	Impact	Mitigation	Nominated Responsibility
Locals do not support the community bakery	Downturn in footfall to the bakery	Low	High	Medium	Offer a loyalty scheme to retain existing customers Review and revitalise our marketing campaign Maximise revenue through wider food hub offer (e.g. charged for training in healthy cooking) in order to offset any short-term downturn in bakery trading income	Manager & Community Engagement Volunteers

# Step 10. The budget

Every business plan should include a detailed financial forecast, frequently presented as a table in an appendix. Known as the budget, this forecast covers all income and expenditure for the number of years the business plan covers.

We have already looked at expenditure in Step 6. Resources and costs, and income in Step 7. Revenue forecasting.

The budget will need these calculations but in more detail. For example, spend should be broken down into three costs:

- **Raw materials & stock** – if you are running a community shop, for example, you will need to buy in larger and cheaper supplies of food wholesale, in order then to sell on to customers at a profit.
- **Pay** – if you have a paid worker or workers, you need to factor in basic salary and associated on-costs (National Insurance and pension contributions). You should also include volunteer expenses here.
- **General running** – You need to calculate the general costs associated with running the business, such as: Staff/volunteer training Office costs e.g. stationery, postage, photocopying, telephone, internet General overheads e.g. heat and light Rent (if applicable) Equipment maintenance Marketing/promotion Insurance External professional fees (e.g. cost of accountant).

## Cashflow

You will also need to show what your **cashflow** looks like. This is how money moves in and out of your business over time. (if you produce a three year business plan, then the cash- flow forecast should cover three years). Often presented as a spreadsheet showing revenue income and expenditure costs with a cash balance transferred from one month to another over a year.

The simplified table below shows how cashflow can be presented. The opening balance (Cash at start) has the Revenue Income added to it and then Expenditure Costs taken off which leaves a final balance for that month (Cash at end) which is carried over as the opening balance for the next month. The process is repeated each month until the end of the financial year when your accounts are finalised.

Example of One Business Quarter:

Qtr 1	Month 1	Month 2	Month 3
Cash at start	£1000	£2000	£500
Revenue Income	£3000	£2000	£4000
Expenditure Costs	-£2000	-£3500	-£3000
Cash at end	£2000	£500	£1500

Your actual cashflow spreadsheet may be much more complicated than our example above, but the principle of being able to see how money moves across your business from month to month is a useful way to make sure that you can control your finances.

All businesses worry about running out of money and being unable to pay their bills or staff, cashflow can help you to make sure you know how much money you have available at any time or if you need to arrange an overdraft, take out a loan, raise money from selling assets or raise new investment to inject cash into your business.

The first year's cash flow forecast will likely be different to subsequent years especially if there is a substantial acquisition or building project involved. This is the year that most investment will flow into the business's coffers as well and so the cash flow forecast can show you where you may need to juggle your outgoings to ensure you do not over-spend while waiting for a grant, for example.

Cashflow is a key part of financial sustainability. Businesses can be highly profitable, and yet struggle because their cashflow position is poor, as they are spending on resources upfront but being paid in arrears for their services.

## Balance Sheet

Your **balance sheet** shows the assets (Things you own) and liabilities (Things you owe) and if your community business is **solvent**.

Balance Sheets include **assets, liabilities, and shareholders' equity**. Assets are everything that a business owns and can use to pay its debts. Liabilities are the money a company owes to others. Shareholders' equity is the difference between a company's assets and liabilities. It shows how much of the company belongs to its shareholders.

## Assets

Assets can be split into three sections – current assets, fixed assets, and intangible assets.

Current assets are assets that can convert into cash within a year. It includes money in the bank, inventory, and accounts receivable (money that is owed to the company).

Fixed or long-term assets are things a business owns that it plans to use for a long period of time. This includes land, buildings, equipment, and vehicles.

Intangible assets are things like copyrights, trademarks, and patents. They have value but cannot be touched or seen. Most community businesses are unlikely to have many intangible assets on their Balance Sheet but this is not to say they never will.





## Liabilities

**Liabilities** are payments that a company is obligated to make in the future, such as loans or lease payments. They can be either current liabilities, which are due within one year, or long-term liabilities, which are due after one year.

The example of a simplified Balance Sheet shows how the value of the assets are greater than the liabilities showing that the business is **solvent**.

Example:

Assets		
Fixed Assets	1000	
Accumulated Depreciation	100	
<b>Total Fixed Assets</b>	<b>900</b>	
<b>Current Assets</b>		
Stock	250	
Debtors	150	
Bank	1250	
<b>Total Current Assets</b>	<b>1650</b>	
<b>Total Assets</b>		<b>2550</b>
Liabilities		
Creditors	300	
Loan	200	
Credit card	75	
<b>Total Liabilities</b>		<b>575</b>
<b>Net Assets</b>		<b>1975</b>
Equity		
Capital	200	
Retained Profit	1775	
<b>Total Equity</b>		<b>1975</b>

As you will also need to include a balance sheet for every year that the plan covers, you may need to seek professional support and be sure to budget for the cost of that advice in your plan.

# The last step. How to present your business plan



You will have put together a lot of information (and if you have used the Worksheet it will all be recorded in one place) and in the process you will have learned a great deal about the community business you are setting up. It is now time to put the finishing touches to the plan to make it presentable to other people, so that they can understand it as well as you do! This involves making it easy to read, ensuring that the contents are backed up by any relevant supporting documents and that it resembles an official document.

## Cover page

The cover page states the name of the community business, the fact that the document is a business plan, and gives the month and year of publication. It also states the business plan timeframe. Include the registered address and registration number of your community business (if you have these).

## Table of contents

This page appears after the cover page and should list in order the sections of the business plan, starting with the executive summary. Page numbers should be included.

## Executive Summary

The executive summary is the first item readers will see after the table of contents. It needs to excite the readers so they will continue to read your plan. Keep it short, ideally no more than two pages and preferably one if at all possible. The executive summary should present the highlights of the plan and the following questions offer you some guidance: What are you planning? Why are you planning it? Who will benefit? Who is involved? Where is it to happen? How will you do it? When will it happen?

This forms the introduction to all of the material you have created while working through the ten key areas described in this guide. You can use any heading you like for these different sections or merge a couple of sections together if you prefer (this is not intended as a template but is a reminder of what must be included to make a good plan).

## The Vision

This section is about your mission, aims and objectives. A good vision should be inspiring and compelling. It should outline the social impact and benefits you wish to bring to people and demonstrate your motivation and aims for the business.

## The Organisation

This is about your organisational structure and the skill sets and experience of the people involved in running it (ensure you give the names of all the steering group/management committee). Outline the management structure, including staff and volunteers. Explain in simple terms the legal structure of the community business, what it means to be a member, and who the community is that the business will serve. A brief description of the origins of the business is appropriate here.

## The Business

This is about your products, services and activities. It includes a brief description of operations – how the business will actually run, who looks after what, how you will deliver your products and services to your community. The SWOT and PESTLE analysis can be included here to show you have thought about the strength and context of your proposition.

## The Market

This section is about the market research you have done, to show that you have established the demand and that you have a strategy to meet that demand.

It also covers how you intend to carry out the marketing of your business in the short and long term (i.e. your marketing plan).

## The Competition

This shows that you have analysed the competition in your chosen marketplace and how to position your community business to overcome challenges and take advantage of opportunities.

## The Costs

This is about the resources you need to set up and demonstrates you have considered all the costs involved in the business going forward. This is where you explain how you intend to cover the setting-up costs and where you intend to seek investment. If you plan to run a community share offer, explain the offer in simple terms and how the share capital will be treated.

## The Income

This explains your revenue predictions and shows that you have worked out that the business can eventually be profitable.

## The Impact

This summarises your overall targets for the business, its outputs, outcomes and its social impacts. It demonstrates what you will regard as success and describes how you will measure it.

## The Risks

A realistic appraisal of the risks facing the business and how you intend to mitigate them.

## Appendices

These should include detailed financial forecasts (the Budget), including: income and expenditure forecasts, cash-flow forecasts and projected balance sheets for the years of the plan.

You can also include any information that you have compiled that supports the narrative within the main body of the plan, such as: Short biographies or CVs of the main people involved in the group/business A timeline covering the various stages of developing the business Detailed results of your market research and community consultation.

A risk register showing your identified risks, their potential impact and how you will manage them so they are less likely to harm your community business.

Contact Plunkett for further help, guidance and signposting on business planning for community business. Also, why not sign up to join our online community groups for pubs, shops or woodlands. Contact us on **01993 630022** or **info@plunkett.co.uk** for more information and templates.



# Glossary

Here's a list of some of the key terms you may come across when you are writing your business plan.

## Cashflow forecasting

This shows the flow of money coming into the business (income) and money going out of it (expenditure) over a defined period.

## Contingency plan

Your plan of action for responding to risks that may harm your community business.

## Fixed and variable costs

Fixed costs do not change with the level of output e.g. rental of a telephone line. Variable costs do vary with level of output e.g. telephone charges for the duration of the call.

## Financial forecasting

A key part of business planning is financial forecasting. This involves projecting how much your activities will cost and what income you will be able to attract through selling goods and services, and through securing grants and donations.

## Net Profit and Net Profit Margin

Net profit is the money you make once you have deducted all of your costs, including general overheads, from your total revenue. The Net Profit Margin is the net profit divided by total sales, expressed as a percentage.

## Gross Profit and Gross Profit Margin

Gross profit is the money you make once you have deducted just your cost of sales from your revenue (and before you look at overheads). The Gross Profit Margin is the gross profit divided by total sales, expressed as a percentage.

## Planning horizon

The time span of the business plan (commonly three years).

## Primary research and secondary research

Primary research involves generating data/information directly through means such as surveys. Secondary research requires examining data/information that already exists and someone else has produced, i.e. census data.

## Risk Register

A document showing the business risks you have identified, their potential harmful impact and the steps you would take to avoid, minimise or manage them if they were to happen.

## Sales revenue

The income the business receives from selling goods or services.

## SMART objectives

These describe how you are going to deliver your project in a Specific, Measurable, Achievable, Realistic and Timed manner.

## Solvent

Showing that your business has assets that are of greater value than your debts and could pay them when needed.

## Turnover

The total income or revenue the business generates each year from the sale of goods and services.

## USP

Your Unique Selling Points are the things that make your community business better and different to your competitors.

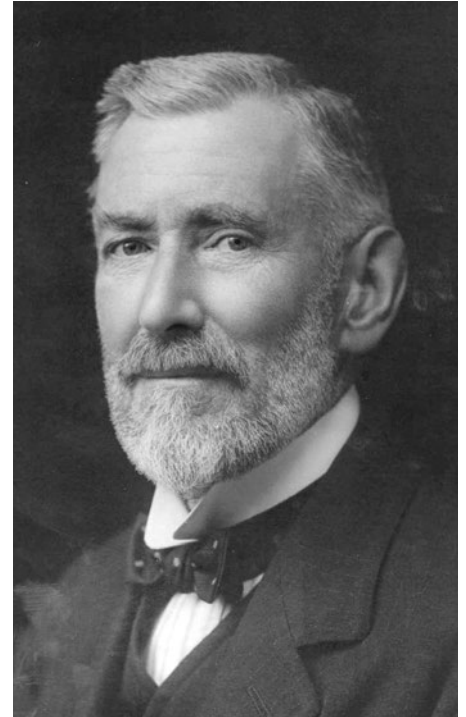
## Variance

The difference between what you predict and what actually happens to your financial forecasts.

## About Plunkett

Plunkett UK is a national charity which supports people in rural areas to set up and run a wide range of businesses in community ownership. We do this to achieve our UK-wide vision for resilient, thriving and inclusive rural communities. Community-owned businesses are owned and controlled by community members who have an equal and democratic say in how the business is run.

Plunkett has promoted the community ownership model for over 100 years because of its track record for delivering better businesses for people, communities, the economy, and the environment. Today, we represent 800 trading community-owned businesses and a further 500 in the process of setting up. Plunkett raises awareness of the community business model, provides practical community business support, and represents our members through networking, research and advocating with government, think tanks and funders.



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