

Plan to succeed from day one

Setting out a clear, realistic business strategy is essential for all would-be entrepreneurs, but don't be too optimistic, warns **Sandra O'Connell**

AS customs and exporting consultants to more than a dozen Fortune 500 firms, Carol and Michelle Lynch know quite a bit about the importance of making sure all documentation is right. But there is one document to which they pay particular attention: their business plan.

The sisters-in-law set up Crannagh & Co in Belturbet, Co Cavan, two years ago. For Michelle it was a chance to give up a high-flying Manhattan legal career, and for Carol the end of a decade heading up the trade services department in KPMG.

The duo, who won a National Enterprise Award last year, have been more successful even than their expertise would have suggested. An understanding of the importance of a dynamic business plan has been central to this.

"Typically, an entrepreneur will have a general idea of where they want their business to go, so it's very good to sit down and break things into the building blocks to get there," said Carol Lynch. "That's what a business plan is and as such it's a critical management tool."

The pair revisit their business plan every year. They are now going through it again as they head into their third year.

"Our business plan has changed each year," said Carol. "When you are starting up, it's all about what your challenge is, who your market is and who your competitors are."

"We are now in our second stage and are currently writing up our business plan to suit. We know our market, we have established our niche — the decision we have to make now is whether to keep growing at the same pace or to slow growth and consolidate what we have got."

By contrast, the archaeologist Barry Devon, whose business Tour the Ages offers guided tours of historic sites around Ireland, is still at start-up stage. For him, having a business plan was a key factor in securing bank finance.

"The business was started with bank loans," said Devon. "I had to jump through a number of hoops to get it and the business plan was central to succeeding."

He learnt very quickly just what banks want from a business plan. "Banks might not understand the model of your business, but they do understand figures — they don't let anything slip by them," he said. "As a start up, it's very easy to get carried away with notional revenues and high expectations, but you get grounded soon enough."

He drafted several versions before approaching his first prospective lender. "I ran them by friends who are solicitors and accountants first. The process helped clarify in my mind what I should be doing, what's going to happen and when."

Getting it right can be tricky. Aer Arann chairman Pdraig O'Ceidigh recently judged the Young Entrepreneur of the Year, a competition based on business plans. On top of this, he is passed an average of two business plans a week by hopeful promoters looking for investors. Of these, he says, "just 10% stack up".

"The most common mistake I see in these business plans is over optimism. Typically the promoter will over-estimate income and underestimate costs," said O'Ceidigh.

"After that comes not having their marketing strategy done correctly — your business plan has to show that you know your market and how you are going to get your product to market."

"Finally, the service or product being delivered is not complete enough to bring to market. It is being brought on too early and will fail as a result."

If your business plan is to attract bank or investor finance, it should tick certain boxes.

✚ Tailor the plan to its audience. As a tool to raise finance, a bank will view it differently to a venture capitalist ✚

It should include a profile of the promoter/entrepreneur; a market review; the unique selling point of the service or product being offered; financial projections; business operations data such as pricing, costs structure and suppliers; and a profile of the team or management and their capabilities.

There are, however, other elements that a bank will look for — including a practical understanding of financial realities.

"Businesses often provide projections based on growth year-on-year, but don't stress test these projections," said Damlan Young, the head of small business at the Bank of Ireland.

This includes positing both best and worst case scenarios and showing how they would affect margins.

"For example, for companies exporting to Britain and receiving sterling payments, such payments are worth 17%-18% less than they were last year," said Young. "This might represent the business' margin. In this case the business plan might outline how the business will protect itself from currency changes."

Jargon is a complete no-no, he stresses. "Businesses shouldn't assume that the reader will have the extent of knowledge of the promoter in terms of the product or market — the investor or banker shouldn't have to ask themselves what the company is actually selling," said Young. "A business plan is often full of technical jargon that might end up frustrating the reader."

Make sure that the plan reflects the business accurately. "While it is important that the promoter gets advice from an expert or uses a software programme to help with the template, the plan must reflect the energy of the promoter," he said. "When asked about an aspect of the plan, the promoter needs to know the answer."

Style matters too. "The overall plan should be short and avoid embellishment," said Young. "It should also have an excellent executive summary outlining what the product or service is, who the team is, why this is a good market opportunity and what the business is seeking. This is needed where the business needs to create initial interest as the investor or banker will only have time to read the executive summary before meeting the promoter."

Tailor the plan to its audience. As a tool to raise finance, a bank will view it differently to a venture capitalist.

"A bank will look to see the viability of the business and its capacity to service a debt over a specified term. A venture capitalist will also look at a five-year exit strategy perhaps and what level of return can be achieved from placing equity into the business. So the promoter needs to be specific in the plan as to what investment is required."

Finally, a business plan should outline the



Stepping up: now in their third year, Crannagh's Carol, left, and Michelle Lynch revise their plan annually to meet new challenges

business risks clearly as much as it outlines the business opportunities.

"If an investor or bank notices a clear risk that is not covered in the plan — and the promoter is then unable to answer a question about it — this does not instil a lot of confidence as to how the business will manage such risks," said Young.

Although the figures in the plan are extremely important, don't forget about editorial presentation of the plan.

"Spelling, punctuation, grammar and style

are all important when it comes to getting your business plan down on paper," said Joanne Hession of R&H Consulting, which provides training to county enterprise board clients on how to write a business plan.

"Although investors don't expect to be investing in a company run by English language graduates, they are looking for clues about the underlying business and its management when they're evaluating a plan. When they see one with errors in spelling and grammar, they immediately wonder

what else is wrong with the business." John Rice, who set up animation software firm Jam Media five years ago, uses his business plan to benchmark his own performance. "For somebody like me who is goal-oriented, it's a very good way to keep an eye on targets and figures and whether or not I am meeting them," he said.

It has helped Rice to drive the business forward to achieve turnover of more than €4m last year and gain a nomination for Ernst and Young Entrepreneur of the Year.

Firm friends let Christmas slide to give skiing holidays a push

IT might all have been so different. Alan Moynihan could now be running a chain of men's grooming salons, peddling surfing holidays or offering kites for hire by the beach. "It turns out there isn't enough wind in Ireland to justify the kites — who would have thought — and I wasn't at all passionate about beauty products for men," he said.

It took Moynihan and two friends, Simon Egan and David Hogan, three months of toying with ideas to come up with a winner: luxury ski holidays at established resorts in France.

They would offer direct flights from Dublin and accommodation at chalets with a dedicated chef.

Today, Highlife, which they set up in September 2002, employs nine staff year round and up to 45 during the winter. Turnover was more than €2m last year.

The trio's early days were spent in an incubation space at Dublin City University's Invent centre. "We got a grant of about €4,000 from the County Enterprise Board to do a feasibility study and help us to develop a business plan," said Moynihan.

Rather than approaching the banks for funding, they raided savings accounts and called in favours from friends, family and ex-colleagues.

"My brother in England created the first website for us." It helped to keep costs down.

They still had to sell the idea as quickly as possible. The trio visited their former colleagues to generate interest and called on family and friends. "We just said, 'Do me a favour and take this flyer'."

Their backgrounds in multi-nationals helped. Moynihan had devised digital media systems for Emap among others, Egan had been in sales at IBM and Lotus Software, and Hogan had rolled out software for Lucent Technologies and Motorola. They gave up good salaries, but maintained strong connections.

The Dubliners were not above handing out flyers in the streets. "We had no money for big ads, so we had to be creative."

Thanks to a bunch of hand-bills left at The Wool Shed B&B



The white stuff: Egan, Hogan and Moynihan built their company on the foundations of friendship

HOW I MADE IT

Alan Moynihan, co-founder and chairman of Highlife

Grill on Parnell Street in the city centre, they signed up 200 expatriates from Australia and South Africa to fly out on December 20 for that first Christmas week. "Collecting deposits from the first group of Aussies allowed us to pay for the chalets that year," said Moynihan.

Relinquishing the joys of a quiet family Christmas has been one of the main sacrifices of getting Highlife off the ground. "The seasonal nature of our business means Santa has gone onto the back-burner," he said.

Numbers have grown gradually and, last year, Highlife took 2,000 skiers to France. Judicious juggling of cash flow meant that the business broke even from the beginning, but that was largely down to the three men working 70-hour weeks and taking no salary.

"It took us three full seasons to be in a position to claw back

some of those funds for ourselves.

"We were all single, so if something came up at 9.30pm that needed fixing, we just stayed," said Moynihan.

In 2004, Highlife moved into its current offices in Dame Street, in the city centre, and hired its first staff member. The three men are still the sole shareholders with equal shares and still close friends. "It can be funny to go to the pub after spending 12 hours working together, but we are the best of friends. That spills over into our decision making."

They don't want to bring in outside investors either as it would mean handing over a degree of control. Moynihan learnt that business lesson while working for the original Boo.com fashion website in England when it was a start-up. "There were too many shareholders and the funding was

very complex. It was shocking." Highlife plans to keep it simple. "That way, we are more in control of our own destiny and our decisions are based on what we want."

The men allowed business to build organically rather than chasing growth. "We see opportunities because of the high level of demand to double the number of chalets, but don't want to have to go back to 70-hour weeks to manage that."

Moynihan advises any entrepreneurs starting out to make sure they have the foundations right. "Make sure you know who your customer is and how you will market yourself to them before you get started. Then don't lose sight of that."

Take time to come up with the right name, logo and strapline too, he says, as you will be promoting this for many years. Moynihan took some positive lessons from former Boo.com too. "There was a 'can-do' attitude. People mattered there and their approach was that you work together to solve problems."

And that's just how the three Dubliners approach their business today.

Rose Costello

Technology is the key to cutting your overheads

James Caan is the newest dragon on the BBC television show Dragons' Den. He is chief executive of the private-equity firm Hamilton Bradshaw and has been building and selling businesses since 1985 in various sectors.



James Caan's
How to minimise risk

WEEK 4: Exploiting technology
The television dragon says you can find much more efficient ways of working

I REGARD the human resource in business as being vital to success. However, this does not mean that all else is secondary. Technology is opening up an ever-broader range of options, creating the right environment in which to increase productivity, reduce overheads and maintain profitability in an increasingly competitive market.

Some options won't suit some businesses, but it is important nonetheless to embrace new technology to improve performance. Areas to consider might be the introduction of flexible working, outsourcing or simply better time management — all made possible by improved IT.

If you employ 50 to 100 staff, consider the savings that could be made by introducing flexible working for 5%-10% of your employees. In return for providing a laptop and broadband connection you will reduce the cost of housing them in the building and the associated running costs. With advanced communication systems, an employee can be physically relocated but certainly not isolated in any way from the day-to-day operation of the business.

This level of flexibility might give you access to a different spectrum of employees, such as those who don't wish to commute, or mothers returning to work. Flexible working might also increase productivity by allowing people to focus on specific projects, by improving time management and by generally raising staff morale through a better work-life balance.

Outsourcing is a prime example of a technologically

driven option to improve the overall productivity of your business. Least-cost routing means that an employee in India, Pakistan or the Philippines can be called at local UK rates on a 0207 prefixed number — Lahore or London? In reality, does it matter?

I have used Greenwichbell, an outsourcing recruitment specialist, to fill 10 positions in Pakistan for one of the businesses in which I have invested. Each person is paid £850 (£1,080) a month with no further rent, IT, phone or stationary costs.

Compare this with the cost of an employee on the average salary in Britain, including apportioned overheads at about £3,500 per month. The cost-saving benefit is easy to calculate as £31,800 per year for each outsourced employee — and I have 10 of them.

Whatever the perception of outsourcing, the cost savings are considerable and hugely attractive to global companies such as Dell and GE, which outsource 10,000 and 18,000 jobs, respectively, to southern Asia.

However, I am not advocating the relocation of your whole operation. Rather, that you identify any components of your business that may effectively be outsourced and reap the benefits. In addition to reducing costs by flexible working and outsourcing possibilities, technology should be used to improve time management throughout your business. Being able to remotely access

e-mails on the move is an example.

What is the first thing we all do when we arrive at the office in the morning? We start by wading through our e-mails. The cost of providing an employee with a Blackberry should be related to the most efficient use of his time. If an employee on the average salary commutes by train every day for an hour each way and is able to read and send e-mails during the journey, that equates to 40 hours a month or about £500 of extra productivity against the typical Blackberry cost of £15 a month. It is difficult to ignore such savings.

As an investor in numerous businesses, I am able to use technology to increase the cost-effective opportunities. To help one recent acquisition secure customers all over the country, I established 10 virtual offices in leading cities across the land.

Historically, I would have had to take on property, staff and significant running costs in 10 locations to present the market with the same company profile.

Today the use of virtual office facilities — a prestigious address with a mail-forwarding service and exclusive telephone number with call/message forwarding provided by a dedicated team — has created an immediate national presence without high overheads.

When customers call to arrange a meeting they can simply be diverted to a sales representative's mobile phone, irrespective of location. A

meeting is then set up at the appropriate virtual office.

Using this technology to present a national — or even global — operation to your customer base will cost as little as £100 a month for each virtual office.

Compare this with the costs and time invested in running your "physical" offices, where the only extra value gained is the ability to interact with other employees — all other functions can now be serviced through technology.

Technology can also provide you with a huge shop window. We are all more likely to enter a shop with an attractively dressed window, yet websites are too often not maintained to the same standards. Your website needs to be continually updated to keep it fresh, interesting and competitive.

Technology will also improve customer service and reduce response times, with stock checks and order processing at the customer's location, rather than confirmations having to be sent back to a central office for processing.

There are challenging times ahead that will put pressure on profitability. We should always be looking for ways to cut UK costs through the use of technological tools, and today there are many possibilities for increasing productivity and reducing operational costs.

Think creatively and consider your options, because as revenue streams fall so too must your unproductive overheads.