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Contents

Foreword	5
Introduction	7
The Purpose of Preparing a Business Plan	00
Structure of the Business Plan	00
1 Executive Summary: Snapshot of your Business Plan	00
2 The Business in Detail	00
3 Organizational Structure and Management: Introducing your Business and your Management Team	00
4 Presenting your Business's Operational Plan	00
5 Industry Analysis: Analyzing your Business's Environment	00
6 Presenting your Business's Products or Services: Your Revenue Generators	00
7 Market Analysis: Defining your Products or Services and that of your Competitors	00
8 Marketing Strategy: Presenting your Strategies	00
9 Constructing Your Business's Financial Position and Projections	00
Appendix I: Business Plan Checklist	00
Appendix II: Sample of a Business Plan	00

Foreword

I am pleased to present the Seventeenth booklet under the Members' Information and Education Series (MIES-17) on the subject of “**Business Planning Guide: Practical Application for SMEs**”.

The booklet contains an information paper developed by the Professional Accountants in Business Committee of the International Federation of Accountants (IFAC) in collaboration with the Malaysian Institute of Accountants (MIA).

The paper is intended as a general guide in presenting and explaining the concepts, techniques, frameworks and methodologies of writing business plans for the small and medium enterprise (SME) owners. While this guide is aimed at SMEs, the principles and practices referred to are equally applicable for practitioners who are servicing these SMEs.

Part I is a brief overview of the subject. Part II, 'The Purpose of Preparing a Business Plan', explains the purpose of business plans and the general principles and practices covering the basic elements of a business plan. Part III, 'Structure of the Business Plan', helps the reader construct an effective business plan.

The paper also includes a business plan checklist and a sample of a business plan.

Basically this guide discusses the concepts and techniques of writing business plans for SMEs and also provides a business plan checklist in addition to example of the same plan.

It is expected that you will find the booklet useful and informative.

In the end, I would like to bring on record my appreciation to the IFAC and MIA for developing this valuable guide and the editorial team at ICAP for their assistance in publishing it under the Institute's MIES program.

Imran Afzal
President

March 20, 2008

Introduction

This document is intended as a general guide in presenting and explaining the concepts, techniques, frameworks and methodologies of writing business plans for the small and medium enterprise (SME) owner. While this guide is aimed at SMEs, the principles and practices referred to are equally applicable for practitioners who are servicing these SMEs. The practical applicability of these principles and practices is not intended for micro-businesses, i.e. one-man shows, although they also could find many aspects of the guide useful, but for those businesses with a basic organizational structure in place as well as for fairly sophisticated SMEs.

This guide does not go into a detailed discussion of the theories behind the various concepts of business planning. *Part II The Purpose of Preparing a Business Plan* will first explain the purpose of business plans and the general principles and practices covering the basic elements of a business plan. *Part III Structure of the Business Plan* will serve the purpose of helping you construct an effective business plan. It will explain why it is important to include certain sections within a business plan, and will also describe how to write them in a manner that is easily comprehensible and gets the message across to the reader.

The Purpose of Preparing a Business Plan

There are two primary objectives to preparing a business plan. The first is external, to obtain funding that is essential for the development and growth of the business. The second is internal, which is to provide a plan for early strategic and corporate development. This helps guide an organization towards meeting its objectives, by keeping the business entrepreneur and all its decision-makers headed in a predetermined direction, and by setting out how the company will be run for the next two to three years.

In addition, well designed business plans provide an operational framework that allows the business to enjoy distinct competitive advantages. This, in turn, should result in increased profits for the organization. A well developed business plan serves the following four primary purposes:

- (a) To serve as an Action Plan – for the next 12 months
- (b) To serve as a Roadmap – for the next two to three years
- (c) To serve as a Performance Tool – on an ongoing basis
- (d) To serve as a Business Promotions Tool

(i) Action Plan

A business plan can help by breaking down a seemingly insurmountable task of starting a business into many smaller and less intimidating tasks, each of which is assigned a due date, person(s) responsible, and detailed action plans. For existing businesses it enables greater focus on dealing with issues in an organized, coherent and systematic manner.

(ii) Roadmap

Once you have started your business, a business plan can be an invaluable tool to help keep you on track and moving in the direction you want to go. In the busy running of the day-to-day business, it is very easy to lose sight of your objectives and goals. A business plan can help keep you focused and serve to help others understand your vision. The business plan depicts the ‘flags on the hill’ and the roadmap of actions to get you there.

(iii) Performance Tool

Your business plan is also an operating tool which, when properly used, will help you manage and guide your business towards its success. Your business plan will allow you to set realistic goals and objectives for your organization's performance, and, if maintained, will also provide a basis for evaluating and controlling the organization's performance in the future.

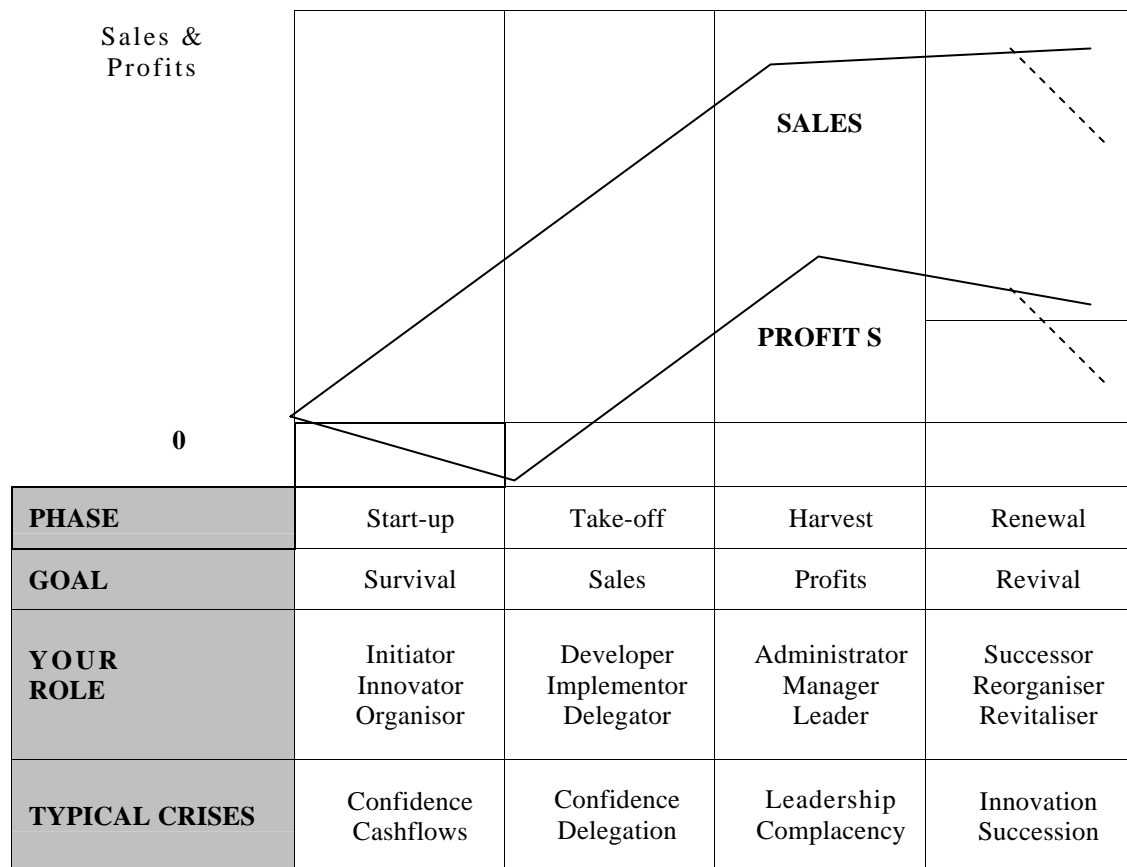
(iv) Business Promotions Tool

Perhaps most importantly, a business plan serves as a business promotional tool. You will probably require external financing to fund your business, and a business plan is one of the tools you use to persuade investors or lenders to finance business.

In order for your business plan to be effective, you will need to follow the plan and to review it periodically. When your business is faced with a difficult decision, your written business plan will serve as a guide to help you form your decisions. For example, when deciding on a particular action to undertake, whether an acquisition or divestment, it is important to look back to your vision and mission statements documented in the business plan. If the outcome of the corporate decision does not conform to the vision and mission statements, you should reconsider the merits of the proposition and possibly abandon it or look at the need to adjust the business plan to cater for the new opportunity.

There are some sections in your business plan that are particularly dynamic, and some that remain static. In order for your business plan to be accurate and remain sensible, you will need to review it periodically as certain sections of your business plan may require changes over time, while other sections remain fundamental and form a backbone to the business plan. Sections such as marketing strategies, organizational structure, pricing strategies, operational strategies, management and shareholding structure, and products and services, will change due to environmental changes. Whereas sections like vision and mission statements, corporate values, goals and objectives are less likely to change over time unless key objectives are achieved or need to be reassessed.

The general trend in a small and medium business life cycle is portrayed as follows



Start-up is the first one or two years in existence, as you attempt to gain initial clients, employ your first few staff, build up your supply of tools, and start to make a name for the business: This requires long hours, will result in little initial profit, and will likely put pressures on cash.

Take-of follows if you survive start-up, and is the next two to three years as the business expands, builds on its initial satisfied client base, employs more staff, acquires bigger premises and equipment to get through more volume of work. This calls for lots of work, but what is worked on needs to be selected carefully to avoid unproductive action.

Harvest represents the good times, where there is plenty of work but at more competitive pricing from new businesses; staff start to leave to set up in opposition; equipment needs updating; and you need a good holiday.

Renewal or Decline: It is your decision to either reinvent and reinvigorate the business or simply let it decline through natural competition. You have the assets but now need energy to recreate that business momentum, or you could simply sell out.

General Principles

The following are some general guidelines and policies covering the basic elements of a business plan. These will be helpful in writing a business plan for any audience.

- **Make It Easy to Read**

The business plan must be well formatted and easy to understand. The introductory statement is one of the most important sections, in that it summarizes your business in a page or two. Write your business plan in simple language so the readers can understand it as they read.

- **Present A Market Analysis**

The business plan must not be product-driven. You must understand that investors or customers are primarily interested in how the market will react and receive the products and services. Present your research, demonstrating and substantiating how your customers will benefit from your products or services; this is the “WIIFT” (“What’s In It For Them”) approach.

- **Present Your Distribution Plan**

Be specific as to how your business will sell and distribute its products or services. Clearly describe the methods used, and what it will cost to get the products or services into the ultimate customer's hands. This will include logistics, warehousing and delivery arrangements.

- **Present Your Business's Uniqueness and Formulate Your Competitive Advantages** Explain what will give your business a competitive edge in the marketplace; for example, state any special attributes like patents, trade secrets, copyrights, strategic alliances, or new technologies.

- **Emphasize Your Management’s Strengths**

It is advantageous to show that your business is managed by highly qualified professionals or people with vast experience in the industry that you operate in. It is important to highlight the policies that will keep them together, and that the directors and the management possess the necessary credibility.

- **Present Stretch but Realistic Projections**

Paint a realistic picture and substantiate it with plausible assumptions. Be meticulous and keep it credible. Well-validated projections and forecasts are impressive. Ensure that all projections are attainable in the business world.

- **Design Business Plans for Specific Parties**

Construct different versions of your business plan to suit the requirements of each reader. A banker's or financier's interest lies in stability, security, cash flow coverage, and sound returns, whereas a venture capitalist is more interested in high leverage resulting in high returns. Both will nonetheless also want to know their exit options and how the proceeds are going to be spent. If you are managing and planning a family business, the focus is on managing cash and the family remuneration for effort.

- **Uses of Funds and Terms of Payback**

If the business plan is intended for potential investors, it should show that their funds are adequately secured and that your cash flows more than cover their interest and principal payments.

Structure of the Business Plan

1. Executive Summary: Snapshot of Your Business Plan

The executive summary, or business plan summary, is just what it sounds like: a summarized version of the big plan. In coming up with an Executive Summary, one needs to answer the following questions:

- What sort of business is it?
- What is the product/service and why is it special?
- Who are the managers?

- How much money do you need? When, and at what stage would it be required? What will you use it for?

Your executive summary may be the first thing investors or stakeholders see about your business. Therefore, it should contain all the highlights of the plan that will provide a strong positive impact to readers.

The executive summary should not be more than two pages long. Readers may lose interest after going through the first page. The plan should be condensed, interesting, and present the company in its best form. It can also be used as an overview for those who are less interested in the details of your business, or for those who wish to analyze a particular aspect of your business. The executive summary is used to capture the readers' initial interest and encourage them to know more about your business and your plans.

The Executive Summary includes an assessment of:

- (a) The Business
- (b) Products / Services
- (c) Industry Analysis and Trends
- (d) Competition
- (e) Strategic Position
- (f) Marketing Plan
- (g) Income and Assets Summary
- (h) Use of Proceeds Summary (where funds are borrowed)

2. The Business in Detail 2.1 Business Overview

The first section of your plan contains your business data. The information here should describe briefly your business, your vision, your mission, your values, your business goals and objectives, and your corporate strategies. In essence, you are using words to build a picture of your business.

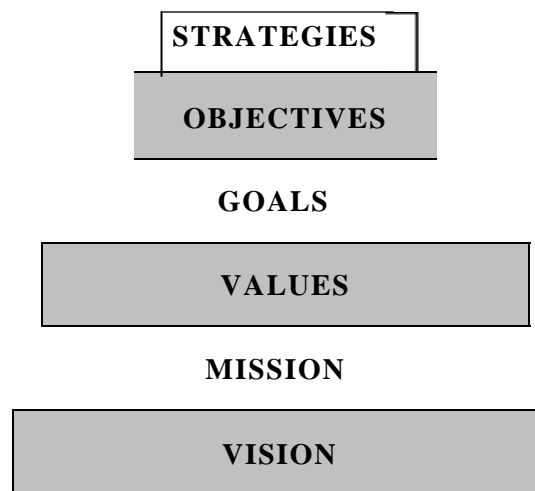


Diagram: Building blocks of a sound business

In this section, you should also highlight your business's strategic initiatives and milestones. In the process, also try to point out the competitive advantages your business has over your competitors.

2.2 Vision Statement

2.2.1 What is a Vision Statement?

Your business's vision statement should be a precise, well-drafted statement indicating where your business wants to go. Your vision statement serves as a compass, presenting to all the direction in which your business is heading. It has been described as the 'flags on the hill' - to which you are marching. It is a short, succinct, and inspiring statement of what the organization intends to become and to achieve at some point in the future, often stated in competitive terms. It refers to the category of intentions that are broad, all-inclusive, and forward-thinking. It describes aspirations for the future, without specifying the means that will be used to achieve those desired ends. The most effective visions are those that inspire, usually motivating employees to be their best.

While a business must continually adapt to its competitive environment, there are certain core ideals that remain relatively steady and provide guidance in the process of strategic decision-making. These unchanging ideals form the business vision and are expressed in the company mission statement.

2.2.2 The following are some examples of a vision statement:

- (i) CIMB: *'To be the Premier Investment Bank in Malaysia post liberalization and deregulation'*.
- (ii) General Electric (GE): *'We bring good things to life'*.
- (iii) Ford Motor Company: *'To become the world's leading consumer company for automotive products and services'*.
- (iv) Apple Computer: *'To change the world through technology'*.
- (v) Sony Corporation: *'Sony is a company devoted to the CELEBRATION of life. We create things for every kind of IMAGINATION. Products that stimulate the SENSES and refresh the spirit. Ideas that always surprise and never disappoint. INNOVATIONS that are easy to love, and EFFORTLESS to use, things that are not essential, yet hard to live without'*.

2.3 Mission Statement

2.3.1 What is a Mission Statement?

A mission statement is a broad statement of the organization's purpose or intent, specifying the fundamental reasons for its existence. It articulates your business's purpose, beliefs and long-term aspirations. It gives direction to the business by establishing the scope of its business activities, provides overall direction, and gives a framework and justification for the business's goals and objectives. Usually, it defines the core business activities and the strategic aims and objectives of the business in a short and concise manner. It is also a short and concise statement of goals and priorities of the business.

2.3.2 Purpose of a Mission Statement

The mission statement affirms the business's long-term commitment to achieving its vision, and generates an aura of confidence and credibility to all. Other advantages to having a mission statement are that it:

- serves as a reminder to top management of what the business is about, where it is headed, and what it needs to do to get where it wants to be;
- presents the business and its employees with a clear direction as well as a challenge in attaining the mission;
- serves as a form of motivation to employees and to give them a sense of purpose in serving the organization; and

- enables straightforward decision-making during resource allocation.

2.3.3 Contents of the Mission Statement

Your business's mission statement can be a powerful tool to communicate the purpose of your business to people both inside and outside the organization. It establishes who you are and what you are planning to do.

To be effective, your mission statement must convey the following in a clear, concise, informative and interesting manner:

- The business's core business activities, including your target market and the products and services your company offers.
- The business's competitive advantage, or what sets it apart from its competitors.
- Major milestones in the next three to five years.

A mission statement should outline the business's purposes, intentions and strategies to stakeholders at the highest level of generality. However, some businesses may choose to come up with a one-line mission statement supported by a set of values, or may choose to be very specific in wording its mission statement. The following are two examples of actual mission statements:

- Ford's mission statement: *'Our mission is to be the worldwide leader in automotive and auto-related products and services as well as in newer industries such as aerospace, communications and financial services'*.
- Shell's mission statement: *'Our mission is to search for oil and produce, refine and market petroleum and petroleum products throughout the world'*.

2.4 Corporate Values

2.4.1 What are Corporate Values?

Corporate values reflect the core ideology of an organization and are independent of the current industry environment, product life cycle and management trends.

Corporate values will not change even if the industry in which the business operates changes. If the industry changes such that the core values of the business are not appreciated, then the business should seek new markets where its core values are viewed as assets.

For example, if service is presently a core value, but will no longer be as appreciated by the present customer market in the next decade, the business should seek new markets where service is given priority in the consumer's buying decision.

The following are examples of values that some businesses have chosen:

- Excellent customer service
- Continuous improvement
- Pioneering technology
- Creativity and innovation
- Human resource development
- Integrity
- Social responsibility and commitment

2.4.2 The Importance of Corporate Values

Your business faces all sorts of options, alternatives, and must make decisions every day. If you take the time to define your business's values, these values can provide a form of guidance in your decision-making process as your company faces complicated issues for which there are sometimes no straightforward responses. For example, when a crisis happens, you can react quickly based on a clear sense of what is important. Even when your business is sailing in smooth waters, a strong sense of values helps to motivate you and your employees towards its ultimate goals.

2.4.3 Creating Your Corporate Value Statement

A value is a belief or a philosophy that is meaningful to the business.

Here are some examples of corporate values that have propelled the following companies to great success:

- (i) Sears' commitment to customer trust that allows any product to be returned with a money-back guarantee.
- (ii) Apple Computer's belief in the values of ease of use and service to society.
- (iii) Marriott's values of systemization and standardization, which enabled it to seamlessly duplicate its standard model hotel hundreds of times across the country.
- (iv) Nestlé (Malaysia) Berhad's values statement:

VALUES
Nestlé, Nourishing Malaysia since 1912 through our core values:
Trust <i>We earn trust from each other, consumers and business partners with our competence, honesty and integrity.</i>
Respect <i>We respect and care for our people and their diverse cultures, religions and traditions.</i>
Involvement <i>We are enthusiastically involved in proactive change to create sustainable and profitable growth.</i>
Pride <i>We feel proud in passionately building successful brands through our people and the quality of all our activities and products.</i>

Source: www.nestle.com.my

2.5 Vision, Mission and Shared Values Statement

The vision, mission and shared values statement of PETRONAS:

<p style="text-align: center;">VISION</p> <p style="text-align: center;"><i>"A Leading Oil and Gas Multinational Of Choice"</i></p> <p style="text-align: center;">MISSION</p> <p style="text-align: center;"><i>"We are a business entity"</i></p> <p style="text-align: center;"><i>"Petroleum is our core business"</i></p> <p style="text-align: center;"><i>"Our primary responsibility is to develop and add value to this national resource"</i></p> <p style="text-align: center;"><i>"Our objective is to contribute to the well-being of the people and the nation"</i></p> <p style="text-align: center;">SHARED VALUES</p> <p style="text-align: center;"><i>Loyalty</i> <i>Loyal to Nation and Corporation</i></p> <p style="text-align: center;"><i>Professionalism</i> <i>Committed, Innovative and Proactive and Always Striving for Excellence</i></p> <p style="text-align: center;"><i>Integrity</i> <i>Honest and Upright</i></p> <p style="text-align: center;"><i>Cohesiveness</i> <i>United in Purpose and Fellowship</i></p>

Source: www.petronas.com

2.6 Business Goals and Objectives 2.6.1

Goals

Goals are broad business results that your business is absolutely committed to attaining. Goals are typically stated in terms of general business intentions. You may define your business's goals by using phrases such as "becoming the market leader" or "being the low-cost provider of choice." Such goals focus the business's activities without being so narrowly defined as to stifle creativity or limit flexibility.

The goals that you set for your business should ultimately dictate your business choices throughout your organization and may take years to achieve. Goals should forge an unbreakable link between your business's actions and its mission.

2.6.2 Objectives

An objective is a specific step, a milestone, which enables you to accomplish a goal. Setting objectives involves a continuous process of research and decision-making. Knowledge of yourself and your unit is a vital starting point in setting objectives.

The objectives must be:

- results-driven, and not activity-driven
- specific
- measurable
- attainable
- related to time

Why Set Objectives

Corporate objectives are critical for effective performance management. They inculcate a sense of direction among employees and facilitate coordinated growth across the organization. Objectives act as a benchmark against which actual performance may be assessed, and guide decision-making and action. Well established objectives provide management with predictability of outcomes and create a form of control over employee behavior and required degree of effort.

2.6.3 Difference Between Goals and Objectives

Objectives are quantifiable and time-related; goals are general open-ended statements of desired outcomes, without quantification or specification of the periods in which they are to be achieved.

2.7 Business Strategy and Keys to Success

2.7.1 Business Strategy

This section is crucial and must not be missed when preparing your business plan. This section serves to tell the readers what strategic initiatives you plan to take to achieve your visions, as mentioned earlier.

Corporate strategy involves the entire organization. It concerns itself with the survival of the business as a minimum objective and added value as a maximum objective. It covers the range and depth of the business's activities and directs the changing and evolving relationship of the business with its environment. It is concerned with a business's basic direction for the future: its purpose, its ambitions, its resources, and how it interacts with the world in which it operates and, more importantly, towards other businesses in the marketplace against which it competes. It is a plan a business formulates to gain a sustainable advantage over its competition.

There are five major parts in writing your business strategy:

- (i) Your business model
- (ii) Building your competitive advantage
- (iii) Innovation Strategies
- (iv) Strategic initiatives
- (v) Timeline

2.7.1.1 Describing your Business Model

The business model is the key focus of your business plan. It describes the nature of and what is unique about your business, and how you intend to grow it. A good business model illustrates the approach to four different aspects of the business i.e. revenue, profits, market share, and growth.

Revenue

You need to describe where your revenues will come from. Not only do you need to describe each revenue stream, you also need to quantify it. You may describe each stream in terms of percentage of total revenues.

Profits

After establishing your revenue streams, you will then need to assess the profitability of each stream by projecting its respective gross profit margins. Gross profit margins represent the specific profitability of your products or services.

Market Share

You will need to assess your revenues in relation to total revenues earned by the industry you are operating in. This is to provide you with an idea of your positioning on a macro level. Often, the size of the market you operate in drives your revenue projections and what market share you aspire to. Market share is computed by dividing your revenues into the specific industry's revenues. Profits are excluded from determining market share, as different businesses have different operating cost structures.

Market Growth

The final component of your business model illustrates the projected growth of your business and that of the industry it operates in.

In commenting on your market's growth prospects, compile historical data and information on market trends as a basis for extrapolating the data to the future. Based on how the market is expected to change and grow, identify opportunities and possible competitive forces, and analyze how they will affect your financial projections. If you ascertain that the market is experiencing decline in growth over a long period, it is advisable to look for new markets or at least be prepared with a strong marketing plan to challenge the underlying market forces.

2.7.1.2 Building your Competitive Advantage

The goal of a business strategy is to achieve a sustainable competitive advantage over your rivals. Competitive advantages come in two forms, as expounded by Michael Porter. They are cost advantages and differentiation advantages. Cost advantage is achieved when your business can produce the same products and services at a lower cost. Differentiation advantage is achieved when your business's products and services are superior to your competitors'. These advantages ultimately lead to higher margins than those of your competitors.

A business's sustainable competitive advantage is achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions. Human resources represent one of the most important value-creating assets in developing a competitive advantage.

Competing businesses may possess similar types of resources - resources that are rare, valuable, and difficult to imitate will provide a sustainable competitive advantage to your business. In today's competitive environment, intangible resources are more likely to produce a competitive advantage because they are rare and difficult for competitors to imitate. Examples of intangible resources include brand, human capital, supply chain optimization, innovation, design excellence and reputation.

In this section, you should highlight how you are going to develop your intangible and tangible resources to create a competitive advantage. There are a number of ways that your competitive advantage can be built on the following assets:

Intangible assets:

- To continuously train and educate your employees. You need to ensure that their skills and knowledge are up-to-date with the market.
- To provide benefits and attractive remuneration packages to motivate employees.
- To provide a more positive, supportive, and innovative work environment for your employees.
- To diversify approaches to ensure staff are motivated to provide suggestions for business improvement.

Tangible assets:

- To invest in research and development for your products and services.
- To provide a technologically advanced facility for your research and development department.

2.7.1.3 Innovation Strategies

Due to the ever changing economic environment and evolving customer needs, your business will have to provide special attention to research and development to manage product innovation. The rate of product obsolescence is quickly increasing. Barriers to entry are diminishing with impending globalization and free trade. Without product innovation, your product's market share will decrease, together with sales and profits.

You will need to highlight your innovation strategies. There are three factors that need to be studied to assist you in formalizing these strategies. A brief explanation on these three factors are as follows:

- **Structure** - The linkages across functional departments are necessary for a successful innovation strategy. Continuous flows of information and knowledge across functional boundaries are crucial in facilitating an innovative organization. For example, the research and development department will obtain feedback from the marketing and customer services department on the product's strengths and weaknesses. This information will provide the research and development specialists a clearer picture on consumers' needs and wants.
- **Environmental** - Technological changes, consumers' psychographics (i.e. classification of people according to their attitudes, aspirations, and other psychological criteria), and government regulations will affect your innovative strategy. You may have developed a very successful product now, but over time there could be new technologies which provide for a more advanced product; consumers' taste might change as they mature; and the government might want to open up the economy and promote free trade with neighboring countries, which may dramatically increase the level of competition.
- **Core Competencies** - Your business's ability to deliver innovative products and services on a sustainable basis depends on its core competencies. Your management and other key staff will play an important role in driving this strategy to success. Their mindset must be imaginative, receptive to outside comments and be able to take prudent risks. They must have an analytical mind and be able to spot future trends by studying the current market.

2.7.1.4 Strategic Initiatives

This section should discuss any major initiatives outside the day-to-day running of your business that are vital to the success of your business model. These initiatives might include acquisitions, physical expansion, international development, and the like.

2.7.1.5 Timeline

This final section presents the major milestones you face in successfully implementing your chosen business model. This can be presented either through narrative text or graphical timeline.

2.7.2 Keys to Success: Critical Success Factors (“CSFs”)

Keys to success or critical success factors are the fundamental issues that you absolutely and positively have to satisfy if you want to win in the marketplace. The CSFs for your business should be specific. CSFs are the must do’s or must address that cannot be ignored. The following are a list of critical success factors that you can identify ahead of time:

- (i) Adopting new technologies
- (ii) Hiring human resources
- (iii) Strategic location
- (iv) Distribution channels and marketing strategies
- (v) Government regulation
- (vi) Improving services or customer focus
- (vii) Enhancing operations towards best practice

2.8 Risk Management, Business Continuity and Succession Planning

2.8.1 Risk management and Business Continuity Planning

In order to manage risk and to maintain continuity in business, it is essential to develop a comprehensive Enterprise Risk Management Framework/System and a Business Continuity Plan. These exercises should cover every aspect of your business. The system/plan should be developed through contributions from a team of employees who hold core responsibilities within the organization. This team needs to study the business carefully and identify potential risks that might affect various facets of your business and the mitigating actions to be taken by the business in the face of those risks. Effective risk management and business continuity planning are not just about crisis management, it is about crisis prevention.

The results of your risk assessment will help you understand your business’s underlying risks and the potential impacts of disaster. A comprehensive Enterprise Risk Management Framework/System and a Business Continuity Plan will have shown you the areas of most risk within the business, and control systems to mitigate the chances of those risks occurring. The control systems will have to be reviewed periodically to ensure that the risks are adequately managed. The team will also need to be ready whenever a crisis or a threat occurs, be it regulatory, industrial relations, technical, financial, internal, external, human or natural, and manage them with as little disruption to the business as possible.

2.8.2 Succession Planning

The future success of your business depends greatly on who you choose to helm it. This team must have the ability to steer your business towards the vision you have set previously with your management. This team must also command a level of respect by all within the organization, and from external stakeholders and business partners alike.

In this section, you will need to mention who you have identified as successors to key functions held by present management. Highlight the necessary training that the persons need to undertake in order to be fit for those roles. It will also add credibility to the chosen successors if you highlight their past experiences, expertise, academic qualifications and special skill sets.

Successors need to be reviewed periodically, as circumstances might arise that will change the required leadership attributes to run your business.

2.9 Scenario Planning

More often than not a business operates in an environment filled with risks and uncertainties about the future. In these times of intense competition, forecasting alone may not suffice in view of the rapid changes and the unpredictable nature of those changes. Therefore, as a precautionary strategy, it is always wise for businesses to develop scenario planning.

Scenario planning is a method that you can use to develop your flexible long term business plans. It makes use of the scenarios of the future to manage strategic risks and opportunities. It enables businesses to be flexible and responsive to the qualitative aspect of change that affects the business environment. It is a process in which you invent and then consider, in depth, several varied scenarios of equally plausible futures with the objective of bringing forward surprises and experiencing unexpected leaps of understanding.

In doing this, you will need to create scenarios based on facts as well as on possible social changes that surround your business.

3. Organizational Structure and Management: Introducing your Business and your Management Team

3.1 How to Put Together an Effective Organizational Structure

The organization chart describes in diagrammatic form the structure of the organization. It helps to explain the communication patterns, operational processes, reporting lines, and the linking mechanisms between the roles. It illustrates to everyone who communicates with whom, how the control system operates, who is in control, who has authority and finally, who is responsible. It also explains how the organization is coordinated and how individual departments relate.

A business organization may be structured in many different ways, depending on the environment within which it operates. There are always drawbacks with any organizational structure. Traditional organizations based on departments often tend to be bureaucratic and slow in distributing information, whilst modern organizational structures which are more aware of the external environment often lack the formality and control of the traditional organization.

In more formal organizations, the organization chart defines the way that communication and work flows through the organization. The typical organization chart assumes a hierarchical structure, reflecting communication flowing downwards from top management to the departments further down the organization. But of course communication also flows in reverse, instructions received from above have to be acted upon and results reported upward.

However, in many modern organizations communication tends to be horizontal, between individuals and departments, rather than the upwards or downwards flow used by conventional structures, which create unnecessary red-tape and bureaucracy.

This type of structure is often referred to as the matrix structure. Its advantage is that it is cross-functional, whilst maintaining functions and the commitment and specialization of individual departments. At the same time it allows flexibility for change, encourages commitment to the organization as a whole, improves communication and perhaps most importantly, reduces the need for slow, laborious communication up and down the traditional hierarchical structure.

The organization's structure is essentially developed to deliver its mission and objectives. Building the organizational structure must therefore begin at this point.

- Type of organization: Commercial? Non profit-making? Service oriented? Government administration?
- Who are the major stakeholders? Shareholders? Managers? Employees?
- What is our purpose?
- What does our purpose tell us in broad terms about how we might be structured?

When structuring an organization, you will need to consider the following issues:

- Whether the business should have departments i) for particular functions, ii) for products, iii) for geographical regions, or iv) for teams of individuals concerned with specific projects
- The best organizational structure for the business in terms of the number of levels of authority in its hierarchy, and how many immediate subordinates each line manager should personally control.
- Whether each member of the organization should specialize in and be responsible for a single function, or whether duties and responsibilities should overlap.
- How individuals, sections and departments are to be appraised and controlled.
- Whether employees should be closely supervised, or left alone to effect broadly defined tasks.
- How activities are to be coordinated and by whom.
- Whether decision-making is to be centralized or decentralized.
- Sizes of departments.
- Extent and nature of delegation.

3.1.1 Purposes of Organizational Structures

The essential purposes of an organizational structure are:

- To have the right people making the right decisions at the right time.
- To establish who is accountable for what and who reports to whom.
- To facilitate the easy flow of information through the organization.
- To provide a working environment that encourages efficiency and the acceptance of change.
- To integrate and coordinate operations.

3.1.2 Types of Organizational Structures

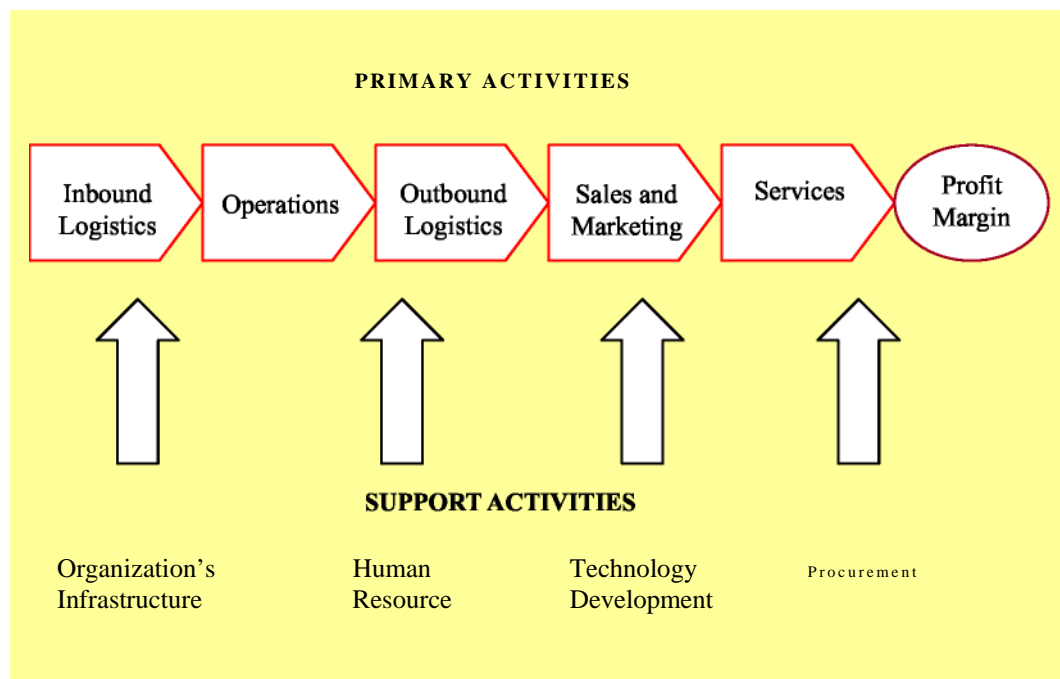
Here are some organizational structures that you can choose from to present in your business plan:

- Small Organizational Structure – ownership controlled
- Functional Organization – functions predominate
- Multidivisional Structure
- Holding Company Structure
- Matrix Organizational Structure
- Innovative Organizational Structure

3.2 Core Organizational Competencies

Based on Michael Porter's 1985 book entitled "Competitive Advantage: Creating and Sustaining Superior Performance", an organization's value chains can be broadly divided into two segments,

comprising primary and support activities as shown in the following diagram. These activities are what an organization does to bring a product or service from conception to delivery to customers/end users. They also form a series of value-generating activities that are aimed at generating value that exceeds cost of activities, thereby resulting in profit margins.



Source: Michael Porter's Competitive Advantage: Creating and Sustaining Superior Performance. New York, NY The Free Press.

By enhancing the skill sets required to perform each set of activities stated above, operational efficiency, cost competitiveness or product differentiation may be achieved, thus providing an organization a competitive advantage based on the competencies at which the organization has chosen to excel. This would in turn, result in superior value creation for which customers would pay more, thus creating higher profit margins for the organization.

Descriptions of value-generating activities and corresponding key competencies/skill sets required to perform these activities are as follows: -

Value-Generating Activities	Description	Key Competencies / Skill Sets
Primary Activities		
Inbound Logistics	This involves receiving and warehousing activities pertaining to raw materials and delivery/distribution of the same to production floor. In the case of a service-based organization, this involves preparation or acquisition of supporting tools for service delivery.	<ul style="list-style-type: none"> • Knowledge in logistics planning; • Storage and warehousing planning to minimize inventory costs; • Practice “Just-in-Time” ordering if applicable, to minimize inventory holding costs. • Production and project planning skills; and • Ability to deliver raw materials/inventory from storage to production floor or goods display area efficiently to minimize bottlenecks.
Operations	This involves the actual process of converting the inputs into finished products or services.	<ul style="list-style-type: none"> • Production and project scheduling/planning; • Production and project management skills; • Supervisory skills in monitoring work progress of production operators/service personnel to improve lead time; • Troubleshooting and maintenance of production machinery or supporting tools in the case of service delivery; • Quality control and management; • Monitoring of subcontractors’ performance, if production is outsourced; and • Managing relationships with subcontractors.
Outbound logistics	This involves the warehousing and delivery of finished goods/services to customers/end users. It also dictates the manner in which an organization interfaces with its customers.	<ul style="list-style-type: none"> • Knowledge in logistics planning; • Storage and warehousing planning to minimize inventory costs; • Smart packaging to reduce inventory and delivery cost; • Effective monitoring of product/service

Value-Generating Activities	Description	Key Competencies / Skill Sets
		<p>delivery process to reduce bottlenecks and improve lead time;</p> <ul style="list-style-type: none"> • Ability to establish adequate distribution network to increase coverage; and • Online transaction capability to provide convenience and improve purchasing experience of customers.
Sales and Marketing	<p>This involves the process of bridging the gap between customers' needs and an organization's products and service offering. It also includes the actual transactions of sales and purchases between the customers and an organization.</p>	<ul style="list-style-type: none"> • Ability to identify areas where customers' needs may be most effectively fulfilled by an organization's product/service offering; • Salesmen's negotiation skills in soliciting new business/accounts; • Effective advertising and promotions; • Ability to formulate right pricing strategy; • Market intelligence such as knowledge of industry development, competitors' strengths and weaknesses, customers' changing needs and lifestyles, etc; and • Online marketing capability to reach out to more of the targeted audience.
Services	<p>This involves after-sales support and customer relationship management.</p>	<ul style="list-style-type: none"> • Knowledgeable and courteous customer support team; • Technical skill sets to troubleshoot problems encountered by customers; • Ability to respond to customers within targeted timeframe; • Effective monitoring of subcontractors' performance if customer service function is outsourced; • Managing relationships with subcontractors; • Capability to provide online support to provide convenience to customers and improve response time; • Providing 24-hour customer support if this would result in value creation for customers; and • Effective customer loyalty programs to achieve high customer retention.

Value-Generating Activities	Description	Key Competencies / Skill Sets
Support Activities		
Organization's Infrastructure	This relates to an organization's physical and soft infrastructures that are in place to support its primary business operations. Physical infrastructure includes plant and machinery, management information systems, motor vehicle fleet for product delivery, etc. Soft infrastructure include policies and procedures, risk management control systems, organizational structure, etc	<ul style="list-style-type: none"> • Flexibility to alter production volume according to changes in volume of demand within targeted timeframe; • Effective information dissemination to support decision-making; • Appropriate organizational structure to ensure effective communication and execution of jobs; • Ability to mitigate major risk areas via sound internal controls, policies and procedures; • Efficient and cost effective delivery systems to minimize disruption to distribution channels; and • Ability to execute proper maintenance programs on plant and machinery to minimize downtime.
Human Resource Management	This involves human resource activities comprising recruiting, training, compensation and benefits, retrenchment, dismissal, etc.	<ul style="list-style-type: none"> • Recruiting manpower with matching skill sets for available positions; • Create the right corporate culture in line with an organization's vision and mission; • Provide continuous training to employees to ensure that customers' requirements are constantly met; • Formulate effective compensation and benefits programs to attract qualified personnel and retain high performers; and • Ability to mitigate and minimize cost associated with labor disputes.
Technology Development	This relates to the technology platform that is available to support the organization's primary business operations.	<ul style="list-style-type: none"> • Availability of personnel with research and development (R&D) skill sets; • Formulate product development plan to enhance and develop existing and new products or services respectively; • Ability to meet R&D milestones; • Perform R&D according to customers' demand and requirements to maximize the commercial value of R&D products or services; and • Capability to produce proprietary technology, where applicable.

Value-Generating Activities	Description	Key Competencies / Skill Sets
Procurement	This involves purchasing activities for production/service delivery inputs such as raw materials, supporting tools, production equipment, office supplies, etc.	<ul style="list-style-type: none"> • Purchases are performed in a manner that ensures that the organization achieves cost competitiveness; • Managing and maintaining good relationships with suppliers; • Ability to negotiate for attractive trade creditors' financing terms; • Quality control on products/services; purchased; and • Professional conduct of buyers, when dealing with suppliers, as a display of corporate value and ethics.

3.3 How to Present your Management's Capabilities

This section should include the details about the ownership of your company, profiles of your management team, and the qualifications of your board of directors.

Who does what in your business? What are their backgrounds and their roles in the business as board members or senior management? What are their responsibilities? These may seem like unnecessary questions to answer in a one or two person organization, but the reader of your business plan will want to know who is in charge to assess their capabilities. Give a detailed description of each division or department and its function.

This section should include who is on the board (if you have an advisory board) and how you intend to keep them there. What kind of salary and benefits package do you have for your people? What incentives are you offering?

3.3.1 Ownership Information

This section should also include the legal structure of your business, along with the subsequent ownership information it relates to. Have you incorporated your business? Or perhaps you have formed a partnership with someone. If so, is it a general or limited partnership?

Important ownership information that should be incorporated into your business plan includes:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership (e.g. common stock, preferred stock, general partner, limited partner)

3.3.2 Management Profiles

Experts agree that one of the strongest factors for success in any business is the capabilities of its owners and management. Let your reader know about the key people in your business and their backgrounds. Provide resumes that include the following information:

- Name
- Position
- Primary responsibilities and authority

- Education
- Unique experience and skills
- Prior employment
 - o Past track record
 - o Industry recognition
 - o Community involvement
 - o Number of years with company
- Compensation basis and levels

Be sure you quantify achievements (e.g. "Managed a sales force of ten people" - "Managed a department of fifteen people" - "Increased revenue by 15% in the first six months" - "Expanded the retail outlets at the rate of two each year" - "Improved the customer service as rated by our customers from a 60% to a 90% rating.")

4. Presenting Your Business's Operational Plan

Operational planning is the driving force behind a business plan. It provides operational guidance to employees to ensure smooth process flow. The operational plan describes what each department in your company does. This section examines the operating plans necessary for the four basic functional areas of business: production and operations management; marketing; human resources; and finance. Benefits derived from the preparation of operational plans are that:

- It should improve the overall morale and commitment among all employees involved in the operational plan, as each of them will have a clearer understanding of their role and functions;
- Lower level employees will be able to highlight the day-to-day operational inefficiencies and bottlenecks that higher level management might not be able to see;
- It provides a basis for control and appraisal;
- Junior managers gain valuable experience that will eventually help them to undertake more senior planning duties.

This section is where you describe what each unit or part of your company does. It is to show potential lenders and investors that you actually do have a depth of organization, and that someone is controlling and watching everything that is happening in your business.

5. Industry Analysis: Analyzing your Business's Environment

No business operates alone. No matter what kind of business you are in, you are affected by forces around you that you must recognize, plan for, and deal with to be successful.

How much do you already know about your industry? Take a moment to complete the Industry Analysis Questionnaire below. If you are unsure of the answer, tick the "?" box. The questionnaire is aimed to help provide you with a better understanding of the industry you operate in.

Industry Analysis Questionnaire:

Number of competitors are...

Are the numbers of competitors increasing? Is your industry dominated by a few players?

Do new technologies affect your products and services?

Is there a large and untapped market that your industry can expand to?

Does price play an important role?

Do consumers' tastes change frequently?

Are there substitutes for your products and services?

Barriers of entry to your business are...

Powers of distributors are...

Bargaining power of customers are...

Powers of suppliers are...

Is your revenue...

Profit margins are...

Costs within your industry are...

<i>Many</i>	<i>Moderate</i>	<i>Few</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>Yes</i>	<i>No</i>	<i>-</i>	<i>?</i>
<i>High</i>	<i>Moderate</i>	<i>Low</i>	<i>?</i>
<i>High</i>	<i>Moderate</i>	<i>Low</i>	<i>?</i>
<i>High</i>	<i>Moderate</i>	<i>Low</i>	<i>?</i>
<i>High</i>	<i>Moderate</i>	<i>Low</i>	<i>?</i>
<i>Growing</i>	<i>Stable</i>	<i>Declining</i>	<i>?</i>
<i>Growing</i>	<i>Stable</i>	<i>Declining</i>	<i>?</i>
<i>Growing</i>	<i>Stable</i>	<i>Declining</i>	<i>?</i>

5.1 Methods of Presenting your Industry Analysis

5.1.1 Strengths, Weaknesses, Opportunities, Threats (“SWOT”) Analysis

In any consideration of the factors surrounding the organization, there is one technique which is frequently used to explore the general environment: this is the SWOT analysis. It involves a process of scanning the internal and external environment of the organization, which is an important part of the strategic planning process. Environmental factors internal to the organization usually can be classified as strengths (S) or weaknesses (W), and those external to the organization can be classified as opportunities (O) or threats (T).

A SWOT analysis of the organization is a useful way of summarizing the current and future status of the organization. In devising a SWOT analysis, there are several factors that will enhance the quality of the material:

- Keep it brief – pages of analysis are usually not required.
- Relate strengths and weaknesses, wherever possible, to critical success factors.
- Strengths and weaknesses should also be stated in competitive terms if possible. It is reassuring to be ‘good’ at something, but it is more relevant to be ‘better than the competitor’.
- Statements should be specific and avoid blandness – there is little point in stating ideas that everyone believes in.
- Analysis should distinguish between where the company wishes to be and where it is now. The gap should be realistic.
- It is important to be realistic about the strengths and weaknesses of one’s own and competitive organizations.

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fits into an environmental scan:

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Economies of scale • Specialist marketing expertise • Exclusive access to natural resources • Patents • New, innovative product or service • Strategic location • Cost advantages through proprietary know-how • Strong distribution networks • Strong brand names with solid reputation 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Lack of marketing expertise • Undifferentiated products and service (i.e. in relation to your competitors) • Poor location of your business • Weak distribution channels • Poor quality goods or services • Weak brand name and reputation in market • Lack of patent protection • High cost structure
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Developing and expanding your market • Mergers, joint ventures or strategic alliances • Moving into new attractive market segments • A new-found market • Loosening of rules and regulations • Removal of international trade barriers • A market led by a weak competitor • Unfulfilled needs and wants • New technologies 	<p>THREATS</p> <ul style="list-style-type: none"> • A new competitor in your home market • Price war • Competitor has a new, innovative substitute product or service • New regulations • Increased trade barriers • Taxation may be introduced on your product or service

Your Business's Strengths

A business's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Remember, you must plan according to your strengths. Examples of such strengths are highlighted in the above table.

Your Business's Weaknesses

The absence of certain strengths may be viewed as a weakness. The weaknesses identified are to be studied and rectified, making sure that steps are taken to ensure that these weaknesses will not occur again in future. You cannot go forward with weaknesses. Examples of such weaknesses are highlighted in the above table.

Opportunities in the External Environment and Future

The external environmental analysis may reveal new opportunities for profit and growth. Opportunities need to be worked on. Examples of such opportunities are highlighted in the above table.

Threats from the External Environment

Changes in the external environmental also may present threats to the business. Examples of such threats are highlighted in the above table.

5.1.2 Porter's 5 Forces : Analyzing the Forces of the Environment

In carrying out an industry analysis, you will need to examine the forces that influence your business

and to address these forces well before your competitors in order to gain a competitive advantage.

Michael Porter developed a framework that provided an outline of the primary external forces that determine competitiveness within an industry and how they are related. His framework suggests that in order to develop effective organizational strategies, the business owner needs to first understand and subsequently react to five primary external forces to create a competitive advantage within the industry.

Porter's five forces are as follows:

- SUPPLIER POWER - The bargaining power of suppliers
- BUYER POWER - The bargaining power of buyers
- BARRIERS TO ENTRY - The threat of potential new entrants
- SUBSTITUTION- The threat of substitutes
- INDUSTRY RIVALRY - The extent of competitive rivalry

The objective of the '5 Forces' analysis is to investigate how the business needs to form its strategy in order to develop opportunities in its environment and protect itself against competition and other threats.

SUPPLIER POWER

- Supplier concentration
- Importance of volume to supplier
- Differentiation of inputs
- Impact of inputs on cost or differentiation
- Switching costs of firms in the industry
- Presence of substitute inputs
- Threat of forward integration
- Cost relative to total purchases in industry

BARRIERS TO ENTRY

- Absolute cost advantages
- Proprietary learning curve
- Access to inputs
- Government policy
- Economies of scale
- Capital requirements
- Brand identity
- Switching costs
- Access to distribution
- Expected retaliation
- Proprietary products

BUYER POWER

- Bargaining leverage
- Buyer volume
- Buyer information
- Brand identity
- Price sensitivity
- Threat of backward integration
- Product differentiation
- Buyer concentration vs. industry
- Substitute available
- Buyer's incentives

THREAT OF SUBSTITUTES

- Switching costs
- Buyer inclination to substitute
- Price/performance trade-off substitutes

DEGREE OF RIVALRY

- Exit barriers
- Industry concentration
- Fixed costs/Value-added
- Industry growth
- Intermittent overcapacity
- Product differences
- Switching costs
- Brand identity
- Diversity of rivals
- Corporate stakes

RIVALRY

6. Presenting your Business's Products or Services: Your Revenue Generators

In this section, you are to describe your business's products or services. Make sure to elaborate on the benefits that it can bring to potential and current customers. Focus on the areas where you have a distinct advantage. Identify the problems in your target market that might be beneficial to potential consumers, such as lack of product features, lack of variety and choice, etc., and explain how your business's products or services would address those problems.

In effect, you are trying to convince the reader to buy your products or services. Emphasize your competitive advantage over that of your competitors and convince them that people are, or will be, willing to pay for your products or services rather than your competitors'. You should also list all your business's products or services and attach all the marketing or promotional materials.

It is important to provide details about your suppliers, availability of products/services, and service or product costs. In addition, include information about products or services that you might want to launch in the future that will boost your revenue.

It is vital to explain to your readers your products specifications, such as how the product will operate and what is its size and dimensions? If your business is providing a service, you should describe your services. How it will benefit potential customers and who are the services targeted to? Your description should not be too technical and should be written in layman's terms. If you are entering a new market, you should answer why there is a need for your products or services offerings. Also discuss any barriers that you face and have overcome in the early development stage to the launch of the product or service.

Areas that should be covered in this section include:

- (i) Is your product or service already on the market or is it still in the research and development stage?
- (ii) If you are still in the development stage, what is your products launch strategy and what is your intended timeline in bringing your products or services to the market?
- (iii) What makes your products or services unique? What competitive advantage does your products or services have over its competitors?
- (iv) Can you price the products or services competitively and still maintain a healthy profit margin?

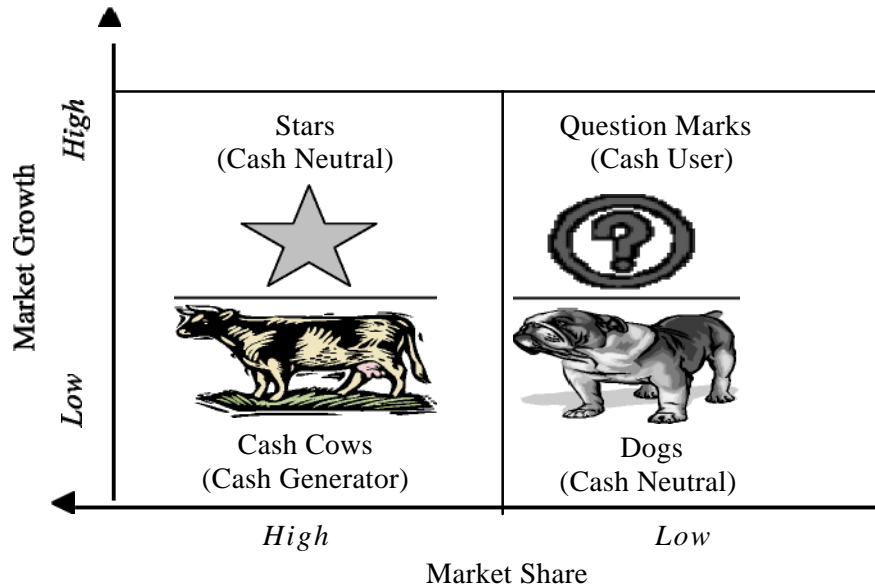
6.1 Product Portfolio Analysis: Analyzing your Business's Products or Services

It is very common for businesses to have more than one product or service. These products and services will probably be in different product life cycles and require different input of resources. In the early 1970's the Boston Consulting Group ("BCG") developed a model to help businesses manage and analyze their product portfolios. The model is known as the

BCG Growth-Share Matrix and is now used all over the world for analyzing product portfolios. The Product Portfolio Analysis is based on two major factors:

- (i) Relative market share – for each product, *the share of the organization's market divided by the share of the market leader.*
- (ii) Market growth rate – for each product, the market growth rate of the product category.

The BCG Growth-Share matrix is made up of four quadrants that describe your business's products in relation to market share and market growth rate. The matrix helps you to understand each of your product's life cycle and position in the market better by charting each product in one of the four quadrants:



The BCG matrix provides a framework for allocating resources among different business units and allows one to compare the performance of each product at a glance. Resources are allocated to business units according to where they are situated on the grid as follows:

- *Cash Cow* – a business unit that has a large market share in a mature, slowly growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units.
- *Star* – a business unit that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures.
- *Question Mark (or Problem Child)* – a business unit that has a small market share in a high growth market. These business units require resources to grow market share, but whether they will succeed and become stars is unknown or potentially less likely.
- *Dog* – a business unit that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed

elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share.

Overall, the strategy is to take cash from the cash cows to fund stars and invest in future new products that do not yet even appear on the matrix. Cash may also be invested selectively in the question mark quadrant to turn them into stars with the others being milked or even sold to provide funds for use elsewhere.

The BCG Matrix is an effective way to represent the strategic balance of the organization's business areas.

7. Market Analysis: Defining your Product or Services and that of your Competitors

7.1 Identifying your Target Market

Your target market is simply the market (or group of customers) that you want to target (or focus on and sell to). When you are defining your target market, it is important to narrow it to a manageable size.

In this section, you should gather information which identifies:

- *Distinguishing characteristics of your primary market you are targeting.*

This section should highlight information about the needs and wants of your potential customers, the degree to which those needs and wants are lacking, and the demographics of this particular group. You should also include the geographic location of your target market, the identification of the major decision-makers, and any seasonal or cyclical trends which may impact the industry or your business.
- *Size of the primary target market.*

You would need to know the estimated number of potential customers in your primary market, the amount of goods and services similar to yours that they purchased in a year, the geographic area they reside in, the demographics of this group and the forecasted market growth for this group.
- *The extent to which you feel you will be able to gain market share and provide the reasons why.*

Determine the market share percentage and number of customers you expect to obtain in a defined geographic area. You would also outline the assumptions you used to develop these estimates.
- *Your pricing and gross profit margin targets.*

Define your pricing strategies in achieving the maximum gross profit margin, and any discount structures that you plan to set up for your business such as bulk discounts, prompt payment discounts or cash discounts.
- *Media you will use to reach your target audience.*

These might include publications, radio or television broadcasts, or any other type of credible source that may have influence with your target market.
- *Trends and potential changes which may impact your primary target market.*

Analyze the changing consumer trends of your primary target market may lead to repositioning of products in anticipating and satisfying their new needs.

- *Purchasing cycle of your potential customers*

Understand the time interval between each purchasing cycle. Find out reasons for the interval and come up with solutions to shorten this cycle. One of the ways is to identify the needs and wants of your targeted market, and identify who actually has the final say in purchasing your products or services.

7.2 Market Segmentation and Positioning of your Products and Services

7.2.1 Market Segmentation

Market segmentation may be defined as the identification of specific groups of customers who respond differently from other groups to competitive strategies.

Market segmentation is important for business planning for several reasons:

- Some segments may be more profitable and attractive than others. For example, large segments may have low profit margins but their size may make them attractive, even at these levels of profitability.
- Some segments may have more competition than others. For example, a specialist segment may have only a limited number of competitors.
- Some segments may be growing faster and offer more development opportunities than others.

In conclusion, a careful analysis of segments and their characteristics is therefore important. You can come up with ways to create market segments by asking five basic questions:

- (i) Who buys your product or service? What do they buy?
- (ii) Why do they buy?
- (iii) Where do they buy?
- (iv) When do they buy?

7.2.2 Market Positioning

The term 'market position' describes how a product is perceived and evaluated by consumers in comparison with the products of competing businesses. Market positioning means finding out how customers think about your business's products or services, with a view either to enhance the product features together with associated advertising and other publicity to make it fit in with consumer's perceptions, or to change the product's position in consumer's minds. Positioning depends on the demographics and psychographics of the consumers and how consumers relate with your products or services. Businesses operating in several different foreign markets need to decide whether to locate their products in similar or disparate positions in each country.

7.3 Competitor Analysis

When conducting a competitive analysis you need first of all to identify your competitors' products and services and the market segments that these products and services are in. You need to also identify the barriers which may hinder your entry into the market.

For each competitor, determine what their market share is and estimate how long before new competitors enters the market. The purpose of this is to calculate how much time you have to establish yourself in the market and how much profits you can reap before new competitors begin entry and create impact.

When competing in the same market, it is also important to identify your competitors' strengths and weaknesses, so that you can study their strengths and oppose them, and you can study their weaknesses and learn how to avoid them and yet take advantage of them.

If your target market is new and does not have any competition, then you will enjoy a head start in your market until competitors start to enter. While establishing yourself and expanding your market, you will need to also strategize what actions you need to take to create certain levels of barriers to entry so that it will not be too easy for new competitors to enter into your market, such as seeking patents and trademarks.

Some examples of barriers to a market may include:

- a high cost of investment
- a competitively priced market
- the time it takes to set up your business
- changing technology
- the lack of quality personnel
- customer resistance to change to your brand (i.e. customer loyalty)
- existing patents and trademarks
- industry reputation

7.3.1 Understanding your Competitors

It is useful for a business's management to know as much as possible about each of its rival's strengths and weaknesses, cost structure, culture and management style, organizational system, strategies, mission and objectives, major markets, size, sales, production methods and asset structure. Competitor analysis needs to encompass the following:

- Prices and pricing history of competitors' brands, particularly the environmental changes that caused alterations in pricing strategies.
- Timing of competitors' promotional campaigns, and the effect of these timings on how competitors perceive their target audiences.
- Themes and concepts used in competitors' promotional materials. This requires the collation of a folio of each competitor's advertisements.
- Information on the strengths and weaknesses of each rival business's products and how these compare with the outputs of your business.
- Market sectors covered by competitors, their packaging, distribution arrangements, sales promotions, and public relation events.
- Competitors' product development strategies: introduction by competitors of new products or product features, or competitors' acquisitions of other businesses in order to obtain their brands.
- Competitors' terms of sale, credit periods, levels of after-sales service, and so on.
- The financial performance of competing firms.
- The reasons why competitors choose to operate in particular markets.
- How competitors are organized or structured: distribution systems, categorization of departments by branch or functions; nature of subsidiaries, etc.

When you are doing a competitive analysis, you need to identify your competition by product line or service as well as by market segment. It is important to assess your competitors' strengths and weaknesses and compare it with that of your business. Determine also how important your target market is to your competitors, and identify any barriers which may hinder you as you are entering the

market.

Understanding your competitors' strengths and weaknesses is critical for establishing your business's competitive advantage. If you find a competitor struggling, you need to know why, so you do not make the same mistake. If your competitors are highly successful, you will also need to understand why and how they are doing so well. Lastly, you will also need to explain why there is still room for another player in the market.

7.3.2 Contents of your Competitor Analysis

Specific areas to address in this section are:

- Identify your closest competitors and compare them with your company. How profitable are their businesses? Where are they located? How long have they been in business?
- Define their target market.
- What percentage of the market do they currently have?
- In what ways is your business superior or inferior to your competitors?
- How is their business progressing? Is it expanding or is it scaling back?
- How are their operations similar to yours and how do they differ? Is their operation superior to yours?
- Are there certain areas of the business where the competition surpasses you? If so, what are those areas and how do you plan to compensate for your lost market share?

8. Marketing Strategy: Presenting your Sales Strategies

8.1 The 4 Ps of Marketing Strategy

This section outlines your intended marketing strategies. What marketing initiatives are you going to formulate to create and increase sales? This section should include information about:

- Product - anything that can be offered to a market to satisfy a want or need.
- Price - how much is charge for your products.
- Promotion - a means of promoting and creating awareness of the product in the marketplace.
- Place (distribution) - a means of bringing the product to the marketplace. .

Brief explanations of what should be included in the marketing strategy section of your marketing plan pertaining to the 4 Ps is illustrated below.

8.1.1 Your Product Descriptions

- Describe in detail your products or services in terms of the features and benefits they offer to customers.
- Describe the characteristics of your product in terms of functionality, quality, appearance that meet the needs of your customer.

8.1.2 Pricing your Products and Services

Pricing is strategically important for several reasons:

- Change in pricing will lead to higher or lower profitability for your business. It also shows how low you can price your products or services when a price war occurs, and how much margin you can play with and still be competitive. This is important knowledge that you should know.

- Pricing strategy allows you to position your products or services in the marketplace. Pricing is an important tool when used in market penetration and barriers to entries.
- Pricing strategy can affect consumers' demand for your products or services. This happens when your products or services are homogeneous with that of your competitors. Pricing is very sensitive in this type of market, because pricing is the only differentiation strategy that the business can apply.
- Pricing strategy can affect consumers' perception of your products or services. Some producers choose to price their products or services at a very high level to create a sense of exclusivity and quality.

In price analysis, there are four main steps in the process:

- Analyze competitors' pricing – Compare your prices with that of the market and see where you stand. Is your pricing above or lower than that of your competitors? However, try not to focus solely on pricing; do consider other factors that will influence their buying choice such as quality, performance and service levels.
- Establish pricing objectives – Different products will require different pricing objectives. These might include the following: harvesting mature products with higher prices; driving for growth by lowering prices; signaling quality by selling at a premium and maintaining market share by matching competitive moves; establishing a new product or brand at a special price.
- Consider competitors and their product life cycle – It is important to consider competitors' reactions to your pricing and the actions that they had previously taken. It is also useful to explore the stage of competitors' product life cycle and the price implications.
- Set prices – Price setting can then be analyzed in the context of the customer and value-for-money considerations. This latter comment may include an element of service, design and other matters.

8.1.3 Promotional Plan

A promotion plan describes the tools or tactics used to accomplish your marketing objectives. There are a number of ways you can market, or tell customers about your products and persuade them to buy. They include:

- **Direct mail** – This method involves sending of letters, brochures and flyers to potential customers highlighting the unique selling point of your products or services.
- **Advertising** – Placing advertisements in the press, magazines or trade journals.
- **Press release** – Editorial coverage in the press is free, and often carries more credibility than advertising.
- **Exhibition and trade shows** – Some products and services can be exhibited at trade shows targeted at a specific industry. This can be an effective way of reaching a target market.
- **Image** – The name of your business and the overall image you present will provide a form of perception or impression about your business's products and services, including your logo.
- **Packaging and labeling** – Packaging and labeling of your business's products can be used as a marketing tool to communicate a clear message about your business.

8.1.4 Distribution Channels

This section describes how your products or services will reach the end users through various sales and distribution channels.

Describe your sales strategies and philosophies. Do you employ an aggressive or a defensive strategy? Do you use contract sales people or permanent employees?

Describe the various distribution channels that you intend using to bring your products or services to the consumers. What distribution strategy will you adopt, for example, door-to-door, catalogues, departmental stores, etc? A few points about distribution that you should address in your marketing plan are:

- Is the delivery of the product made in a store? Through the mail? Through a direct sales representative?
- What are your production and inventory capacities? (How quickly can you produce or source products and how much stock can you store?)
- Are there cyclical fluctuations or seasonal demands for your products? For example, if you produce winter clothing, how will you manage the peak season and slow periods?
- Do you sell directly to consumers, retailers or wholesalers? Your company may use more than one method. For example, you may sell directly to customers who place large orders but also sell to customers who buy small quantities of your product through retail outlets.

9. Constructing your Business's Financial Position and Projections

The financial plan section is the section that determines whether or not your business idea is viable, and is a key component in determining whether or not your business plan is going to generate interests from the readers.

Financial statements that depict a future period are called forecasted or projected financial statements. It represents what your business will look like financially in the future, based on a set of assumptions about the economy, market growth and other factors.

For the most useful projection, state your assumptions clearly. Do not put down numbers that you cannot justify or substantiate. Do not overstate or understate your financial figures to make them look attractive. Smaller businesses should make three-year projections for both planning purposes and loan proposals.

Basically, the financial plan section of the business plan consists of three financial statements: the income statement, cash flow statement, and the balance sheet, and a brief explanation/analysis of these three statements.

9.1 Income Statement

The income statement shows your revenues, expenses, and profits for a particular period. It is a snapshot of your business that shows whether or not your business is profitable at that point in time; revenue - expenses = profit or loss.

Here is an example of a projected income statement:

Your business name			
3 Year Income Statement Forecast & Projections for the year ending 31 December			
	<i>20_6</i>	<i>20_7</i>	<i>20_8</i>
	<i>FORECAST</i>	<i>PROJECTIO</i>	<i>PROJECTION</i>
	\$	\$	\$
Revenue			
Gross Sales	600,000	720,000	864,000
Sales Returns and Allowance	(12,000)	(13,800)	(15,870)
Net Revenue	588,000	706,200	848,130
Less: Cost of Goods Sold			
Beginning Inventory	-	53,096	63,532
Purchases	426,192	457,064	548,360
Freight	1,000	1,130	1,300
Labor	1,000	1,130	1,300
Indirect Expenses	1,000	1,130	1,300
	429,192	513,550	615,792
Ending Inventory	(53,096)	(63,532)	(76,180)
Cost of Goods Sold	376,096	450,018	539,612
Gross Profit	211,904	256,182	308,518
<i>Gross Profit Margin</i>	<i>36%</i>	<i>36%</i>	<i>36%</i>
Less: Expenses			
Depreciation	4,800	5,550	9,600
Salaries and Benefits	60,000	63,000	66,150
Bad Debts	-	10,593	12,722
Advertising	2,000	2,040	2,081
Lease/Rent	6,000	6,000	6,300
Vehicle Expenses	1,800	1,836	1,873
Insurance	1,300	1,300	1,300
Charitable Contributions	-	200	300
Utilities	4,000	4,080	4,162
Bank Charges	100	102	104
Commissions	1,000	1,201	1,442
Contract Labor	500	510	520
Courier Expenses	800	816	832
Interest Expenses	1,750	1,000	250
Maintenance/ Repairs	-	1,500	1,575
Total Expenses	84,050	99,728	109,211
Operating Profit	127,854	156,454	199,307
Other Income			
Gain on Sales of Assets	-	-	-
Interest Income	-	50	100
Investment Income	-	-	-
Total Other Income	-	50	100
Profit Before Taxation	127,854	156,504	199,407
Less : Taxation	(25,571)	(31,301)	(39,882)
Profit After Taxation	102,283	125,203	159,525

The next step is to make a comparison between the actual revenue earned and the projected amount for the period. The following is an example of a comparison made between the actual profit and loss position and the projected amount of the income statement:

Your business name				
Income Statement for the year ended 31 December 20_5				
	<i>ACTUAL</i> <i>YEAR-TO-</i> <i>DATE</i> \$	<i>FORECAST</i> \$	<i>VARIANCE</i> \$	%
Revenue				
Gross Sales	580,000	500,000	80,000	16%
Sales Returns and Allowance	(10,000)	(8,000)	(2,000)	-25%
Net Revenue	570,000	492,000	78,000	16%
Less: Cost of Goods Sold				
Beginning Inventory	-	-	-	N/A
Purchases	432,855	377,000	55,855	15%
Freight	800	1,000	200	20%
Labor	1,000	1,000	-	-
Indirect Expenses	1,000	1,000	-	-
	435,655	380,000	55,655	15%
Ending Inventory	(58,500)	(48,500)	10,000	21%
Cost of Goods Sold	377,155	331,500	45,655	14%
Gross Profit	192,845	160,500	32,345	20%
<i>Gross Profit Margin</i>	<i>34%</i>	<i>33%</i>		
Less: Expenses				
Depreciation	4,800	4,000	800	20%
Salaries and Benefits	57,600	45,000	12,600	28%
Bad Debts	3,000	-	3,000	100%
Advertising	1,000	2,000	(1,000)	-50%
Lease/Rent	1,000	4,000	(3,000)	-75%
Vehicle Expenses	1,000	1,800	(800)	-44%
Insurance	500	1,000	(500)	-50%
Charitable Contributions	500	-	500	100%
Utilities	500	2,000	(1,500)	-75%
Bank Charges	100	100	-	0%
Commissions	100	500	(400)	-80%
Contract Labor	100	500	(400)	-80%
Courier Expenses	100	500	(400)	-80%
Interest Expenses	1,770	1,500	270	18%
Maintenance/Repairs	100	-	100	100%
Total Expenses	72,170	62,900	9,270	-15%
Operating Profit	120,675	97,600	(23,075)	-24%
Other Income				
Gain on Sales of Assets	1,000	-	1,000	100%
Interest Income	500	-	500	100%
Investment Income	500	-	500	100%
Total Other Income	2,000	-	2,000	100%
Profit Before Taxation	122,675	97,600	(23,075)	-24%
Less : Taxation	(24,535)	(18,674)	5,861	-31%
Profit After Taxation	98,140	78,926	(19,214)	-24%

9.2 Cash Flow

9.2.1 Cash Flow Projection

The cash flow projection shows how cash is expected to flow in and out of your business. It is an important tool used for cash flow management. It allows you to know in advance when you might need to arrange for financing. It also allows you to plan in advance for short term investments when there is a cash flow surplus. As part of your business plan, a cash flow projection will give you a much better idea of how much capital investment your new business venture might need.

For a bank loans officer, the cash flow projection offers evidence that your business will generate enough cash in future to repay the business loan.

Period of Information

Projected cash flow statements should look three to five years into the future; preferably, the statements for the first two years should include quarterly or monthly cash flow estimates.

Inflows, Outflows and Cash Balances

There are two methods to report cash flows from operating activities: that are the direct and indirect method. However, the International Financial Reporting Standards (IFRS) encourages businesses to report cash flows from operating activities using the direct method as it provides information which may be useful in estimating future cash flows. Under the direct method, the IFRS prescribes the information about major classes of gross cash receipts and gross cash payments that may be obtained either:

- (a) from the accounting records of the company; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the income statements for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing in nature.

Here is a template for a 3-year cash flow projection using the direct method that you can use for your business plan (or later on when your business is up and running):

Your business name			
3 Year Cash Flow Forecast and Projections for the year ending 31 December			
	<i>20_6</i>	<i>20_7</i>	<i>20_8</i>
	<i>Forecast</i>	<i>Projection</i>	<i>Projection</i>
	\$	\$	\$
Cash Flows From Operating Activities			
Cash receipt from customers	71,618	211,886	270,692
Cash paid to suppliers and employees	(27,866)	(67,842)	(83,276)
Cash generated from operations	43,752	144,044	187,416
Income taxes paid	(25,571)	(31,301)	(39,881)
Net cash from operating activities	18,181	112,743	147,535
Cash Flows From Investing Activities			
Purchase of fixed assets	(79,000)	(5,000)	(22,000)
Net cash used in investing activities	(79,000)	(5,000)	(22,000)
Cash Flows From Financing Activities			
Proceeds from issuance of share capital	10,000	-	-
Drawdown of long term debt	20,000	-	-
Repayment of long term debt	-	(10,000)	(10,000)
Drawdown of mortgage	15,000	-	-
Repayment of mortgage	-	(5,000)	(5,000)
Net cash (generated from) / used in financing activities	45,000	(15,000)	(15,000)
Net (decrease) / increase in cash and cash equivalents	(15,819)	92,743	110,535
Cash and cash equivalents at beginning of	-	(15,819)	76,924
Cash and cash equivalents at end of the period	(15,819)	76,924	187,459
Cash and cash equivalents comprise			
Cash and cash at bank	-	85,424	191,459
Bank overdrafts	(15,819)	(8,500)	(4,000)
	(15,819)	76,924	187,459

Take note that the closing cash and cash equivalents at the end of the period are carried over to the next period. You may tailor this template to suit your own business by deleting or adding the appropriate revenue and disbursement categories.

9.3 Balance Sheet

Once you have your cash flow projections completed, it is time to move on to the balance sheet.

The balance sheet is the last of the financial statements that you need to include in the financial plan section of the business plan. The balance sheet presents a picture of your business's net worth at a particular point in time. It summarizes all the financial data about your business, breaking that data into 3 categories: assets, liabilities, and equity.

Some definitions first:

- Assets are tangible objects of financial value that are owned by the company.
- A liability is a debt owed to a creditor of the company.
- Equity is the net difference when the total liabilities are subtracted from the total assets.
- All accounts in your general ledger are categorized as an asset, a liability or equity.
- The relationship between them is expressed in this equation: $\text{Assets} = \text{Equity} + \text{Liabilities}$.

Here is a template for a balance sheet that you can use for your business plan (or later on when your business is up and running):

Your business name	
Balance Sheet as at 31 December 20_5	
	\$
ASSETS	
Non-current Assets	
Fixed Assets	74,200
Goodwill	10,000
	84,200
Current Assets	
Inventories	58,500
Accounts Receivable	98,507
Prepayments	1,000
Cash and bank balances	-
	158,007
Total Assets	242,207
EQUITY & LIABILITIES	
Capital and Reserves	
Share Capital	20,000
Reserves	98,140
	118,140
Non-current Liabilities	
Borrowings	20,000
Payables	15,000
	35,000
Current Liabilities	
Accruals	2,000
Bank Overdrafts	25,069
Accounts Payable	61,998
	89,067
Total Equity & Liabilities	242,207

Once again, this template is an example of the different categories of assets and liabilities that may apply to your business. You may need to modify the categories in the above balance sheet template to suit your own business.

9.4 Financial Assumptions

It is critical that the assumptions and projections in this section be realistic. Figures that are poorly reasoned, inconsistent, or unrealistic will damage the credibility of the entire business plan. On the other hand, well-reasoned financial assumptions and projections indicate operational maturity and business credibility.

The entire presentation of your business plan up to now is about establishing and proving the assumptions that drive your financial projections. The value of your business is calculated based on its perceived future value. Differences in your assumptions versus those of your investors can drastically alter the outcome of your financial picture and their perception of your business.

There is a logical process for creating financial assumptions. The steps are as follows:

- (i) As you develop each piece of your business plan, remember to develop it in terms of revenues you expect to generate and expenses you expect to incur. Base your projections on these and be careful not to overstate or understate revenues and expenses.
- (ii) As you examine each individual revenue stream and expense, write down your assumptions on how these revenues will be realized and expenses incurred. It is also important to determine when these revenues and expenses will be realized and incurred.
- (iii) When you are ready to develop your financial plan, gather all your assumptions together and use them as the basis for drafting your financial statements. Finally, attach your assumptions together with your financial statements in case readers require any clarification or justification of your projected figures.

9.5 Financial Budgeting

A financial budget is a translation of your business plan into numbers. It is basically a detailed plan of future receipts and expenditures or a projected profit and loss statement. It is usually included a capital expenditure budget or plan. The financial budget will allow you to plan ahead and answer questions like: *Will you require additional staff? Do you need to expand your facilities or equipment? When will be the best time to start your promotional campaign? What is the dividend policy?* Knowing when revenues are realized and expenses incurred will help prevent any unexpected surprises that could lead to financial problems linked to short-term reduced liquidity.

In preparing a budget, you need to determine the level of achievable profits. Set them as financial goals. You must then project your fixed and variable costs. From these three factors i.e. targeted profit, fixed costs and variable costs, you will be able to determine the required level of sales. Many businesses start with a forecast of profits and work backwards to determine the forecast of sales. Some large corporations choose to determine the required return on investment and work backwards to plan their revenue goals. Alternatively, you can start with a sales forecast to maintain the required bottom line in order for you to achieve your required rate of return.

It will be useful to compare actual results with budgeted figures. If the actual figures deviate from planned figures, you should study the reasons for the deviation. If your expenses are higher than expected, find out why and find ways to reduce them. If your sales are lower than expected, ask yourself what caused the difference. Use information constructively and improve your budget the next time around.

In gathering your figures, keep in mind that without accurate information, budgeting becomes guessing. Plan your financial budget in as much detail as possible. This plan, if carefully constructed, will be a great asset to you in managing your business. It will help you make decisions on when you might need extra resources in particular areas of your business or in which areas you need to trim in order to meet budgeted profits.

9.6 Financial Ratios and Key Performance Indicators: Translating Figures into Meaningful Information

In addition to an income statement, a balance sheet, and a cash flow statement, financial ratios and key performance indicators (KPIs) tell you how well or badly your business is doing. It helps to highlight specific areas of your business that need special attention. Financial ratios and KPIs also help prepare you for what to expect in the near future. It is a powerful tool to help readers interpret your business's financial and operational performance.

KPIs are commonly used to measure business performance in the key areas such as productivity, quality, wastage, analysis of market share, gain or loss of key customers, product and customer profitability, customer satisfaction and etc.

Financial ratio analysis groups the ratios into categories, which tell us about different facets of a business's finances and operations. The following is an overview of some of the categories of primary ratios commonly used:

- Profitability ratios are used to compute the degree of the business's profitability and the extent of costs incurred in generating sales. To measure profitability either gross profit margin or net profit margin are used.

Gross Profit (GP) Margin = Gross Profit / Net Revenue

Gross Profit Margin shows how much is generated after deducting the cost of goods sold from net sales; GP is an operating efficiency measure of pricing and sales and marketing tactics.

Based on the financial examples in the preceding sections, for example:

$$(192,845 / 570,000) * 100 = 33.8\%$$

The above equation shows that for every dollar of revenue earned, 33.8 cents is your gross profit before indirect expenses are deducted.

Net Profit Margin = Net Profit Before Taxation / Net Revenue

This ratio measures the overall performance of the business's operations and tells you the net profit margin earned on every sales dollar.

Based on the financial examples in the preceding sections, for example:

$$(122,675 / 570,000) * 100 = 21.5\%$$

The above equation shows that for every dollar of revenue earned, 21.5 cents is your profit after deducting all expenses.

- Operational efficiency ratios are designed to assist in the evaluation of management performance. To calculate your business efficiency in employing tangible assets to generate returns, you can use the return on investment ratio shown below:

Return on Assets = Net Profit After Interest and Tax / Total Assets Based on

the financial examples in the preceding sections, for example:

$$(98,140 / 242,207) * 100 = 40.5\%$$

Rate of return on assets is equal to 40.5%.

- Liquidity ratios measure your business's ability to meet short-term debts. To calculate short-term liquidity ratio you can use the current ratio shown below:

Current Ratio = Current Assets / Current Liabilities

Based on the financial examples in the preceding sections, for example:

$$(158,007 / 89,067) = 1.77$$

This shows that the company is able to use its current assets to repay its current liabilities 1.77 times. A ratio of more than 1 says the business can meet its debts as they fall due from current or expected cash in the business.

- Funding companies with high level of debt are more vulnerable to financial downturns than companies with lower debt positions. To calculate your business's state of solvency or risk, you can use the debt-to-equity ratio shown below:

Debt-to-Equity Ratio = Non-Current Liabilities / Total Equity

Based on the financial examples in the preceding sections, for example:

$$(35,000 / 118,140) = 0.30$$

This means that the business is not highly geared and is not at risk. If the above ratio is more than one, then the business may have insolvency risks. It also shows the extent to which the business is funded by owner's funds or borrowed funds which must be repaid and serviced.

Interpreting and understanding a ratio requires a comparison with another ratio, be it the similar ratio of a competitor, or the similar ratio of your business over time. Ratios are also only as accurate as the numbers from which they are calculated.

9.7 Project Financing

Choosing which financing vehicle is best for your business is very important. Two broadly based types of financing are debt financing and equity financing. Both have their advantages and disadvantages depending on the financial strength and establishment of your business. Usually companies will try to get equity financing at the very early stage of business as they have little or no real assets to use as collateral, while more established companies use debt financing to fund their business as they have proven cash flows and business assets to support the debt.

9.7.1 Debt Financing

Debt financing is normally only available to you if you have something of value that the lender can instantly and realistically liquidate in the event your loan becomes uncollectible. Debt financing companies are in the business to make money from lending their money to you for a period of time. Traditional bankers will always ask for your tax returns over three to five year periods as an independent and verifiable document to demonstrate how steady and reliable your flows of profits have been. They also will look at your future projections and relate them to past performance. They will also look at your accounts to see how capable you are of servicing debts. Borrowing from the bankers relies on two variables, the collateral that secures your loan, and your ability to repay the loan based on your historical financial health. Therefore, it may be appropriate for new start-up companies to turn to venture capitalists to raise funds for their business. Venture capitalists have a bigger appetite for risk but they expect higher returns than banks. This makes borrowing from them more costly than borrowing from traditional banks.

9.7.2 Equity Financing

The equity value of your business today is the value of all your assets less all the liabilities that comes with it, plus the future value that the business will generate. Once you have determined the value of your equity, you may then be able to raise finance by selling a percentage of your equity to interested buyers. A venture capitalist will only be interested in investing in your company if your business shows great potential for growth. The venture capitalist will first of all examine your management team and your business idea and strategies. Once they find credibility in the team and business ideas, they will invest in your company and play an active role in the strategic decision-making of your company. As they have bought a stake in your business, they are now your partners, and how active they become will need to be agreed upon before the deal is done.

Appendix I

Business Plan Checklist

Below is a checklist to help you in the development of your business plan. It is intended as a self-assessment tool for the adoption of good business management practices that the SMEs should practice in order to successfully commence and operate their businesses.

	Executive Summary	YES	NO
1	<p>Executive Summary should briefly answer the following questions without going into details (1-2 pages):</p> <ul style="list-style-type: none"> - <i>What company is it?</i> - <i>What are your products and services?</i> - <i>What is the current trend in your industry?</i> - <i>What is the level of competition that your company is currently facing?</i> - <i>What is your strategic position in the market?</i> - <i>What is your marketing plan?</i> - <i>What are your financial statements?</i> - <i>How do you intend to utilize the proceeds?</i> 		
	The Business	YES	NO
1	<p>When preparing the Company Overview, do include the followings:</p> <ul style="list-style-type: none"> - <i>Who is your target market?</i> - <i>What are your differentiation strategies?</i> - <i>Who are your key personnel running the business?</i> - <i>What are your marketing strategies?</i> - <i>What are the business risks involved?</i> - <i>What is your strategic marketing plan?</i> - <i>What is your company's past history and achievements?</i> - <i>What are your company's competitive advantages?</i> 		
2	<p>Vision Statement:</p> <ul style="list-style-type: none"> - <i>Was your vision statement communicated across the entire organization?</i> - <i>How often do you monitor your company's growth to ensure that it is growing towards the company's set vision?</i> 		
3	<p>Do highlight the following when preparing your company's Mission Statement:</p> <ul style="list-style-type: none"> - <i>Business activities, targeted market, and products and services you provide.</i> - <i>Your competitive advantage.</i> - <i>Major accomplishments that your company have achieved over the past years.</i> 		
4	<p>The following are the elements that make up a Value Statement:</p> <ul style="list-style-type: none"> - <i>What are your beliefs?</i> - <i>What is your mission?</i> - <i>What are your philosophies?</i> 		

	The Business (Con't.)	YES	NO
5	Business Goals and Objectives: <ul style="list-style-type: none"> - <i>Did your management and your lower level staff take part in brainstorming the company's goals and objectives?</i> - <i>Have you included a time factor in achieving your goals and objectives?</i> 		
6	Corporate Strategy includes the following three parts: <ul style="list-style-type: none"> - <i>Have you appropriately described your Business Model?</i> - <i>Have you defined your Competitive Advantage?</i> - <i>Have you considered Strategic Initiatives?</i> - <i>Have you set up a Timeline for implementation of the business model?</i> 		

	Industry Analysis Using:	YES	NO
1	SWOT Analysis <ul style="list-style-type: none"> - <i>What are your major</i> <ul style="list-style-type: none"> - <i>Strengths?</i> - <i>Weaknesses?</i> - <i>Opportunities?</i> - <i>Threats/</i> 		
2	Porter's Five Forces <ul style="list-style-type: none"> - <i>What are the five forces affecting your business?</i> 		

	Market Analysis Checklist	YES	NO
1	Is the market in which the business is operating expanding, declining or stagnant? <ul style="list-style-type: none"> - <i>Has the business conducted a consumer profitability analysis for itself?</i> 		
2	Identify and describe your targeted market: <ul style="list-style-type: none"> - <i>Define your target market.</i> - <i>Briefly describe the demographics and psychographics of your targeted market.</i> - <i>Size of your target market.</i> - <i>Pricing and gross margins in your target market.</i> - <i>Marketing strategies you plan to use to get to your targeted audience.</i> 		
3	Market segmentation and positioning strategy: <ul style="list-style-type: none"> - <i>Who buys your product or service?</i> - <i>What do they buy?</i> - <i>Why do they buy?</i> - <i>How do consumers feel about your product or service?</i> - <i>What marketing strategies do you plan to use to change your customer's perception of your products or services?</i> 		
4	Competitor analysis: <ul style="list-style-type: none"> - <i>What are the various pricing strategies that your competitors have previously adopted?</i> - <i>Timing of your competitors' advertising and promotional campaigns.</i> - <i>Information on the strengths and weaknesses of your competitors.</i> - <i>Financial performance of competing firms.</i> - <i>Competitors' product development strategies.</i> 		

	<ul style="list-style-type: none"> - <i>Who are your closest competitors?</i> - <i>What percentage of the market do they currently control?</i> - <i>What are the business's major competitive advantages?</i> - <i>Does the business have a unique product or service?</i> - <i>Are there any other significant special factors which give the business protection against new players?</i> - <i>Has your organization conducted a review of its competitors' markets and marketing strategy?</i> 		
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	Marketing Strategy Checklist	YES	NO
1	<p>The 4 Ps of Marketing Strategy:</p> <ul style="list-style-type: none"> - <i>Product design and packaging strategy.</i> - <i>Pricing strategy.</i> - <i>Promotional strategy.</i> - <i>Place - distribution strategy.</i> 		
2	<p>Product design and packaging strategy:</p> <ul style="list-style-type: none"> - <i>Describe your products or services in terms of features and benefits to customers.</i> - <i>Describe the characteristics of your products that meet the need of customers.</i> 		
3	<p>Pricing strategy:</p> <ul style="list-style-type: none"> - <i>Impact of price on profitability.</i> - <i>Positioning of products in the market place.</i> - <i>Evaluate competitors' pricing strategies.</i> - <i>Competitors' product life cycle.</i> 		
4	<p>Promotional plan:</p> <ul style="list-style-type: none"> - <i>Describe your intended promotional plan.</i> - <i>What sort of perception you would like your products or services to be associated with?</i> - <i>Have you developed specific strategies to retain your most profitable customers?</i> 		
5	<p>Place - distribution strategy:</p> <ul style="list-style-type: none"> - <i>Describe your chosen distributional channel</i> - <i>Why?</i> 		

	Product and Services Checklist	YES	NO
1	<p>Product portfolio analysis (Use BCG Growth-Share Matrix):</p> <ul style="list-style-type: none"> - <i>Analyze each of your products by their market share and their growth rate.</i> - <i>Are your products or services in seasonal demand?</i> - <i>Does the business produce a homogeneous or a specialized product or service?</i> 		

	Organizational Structure and Management Checklist	YES	NO
1	Describe your organizational structure: <ul style="list-style-type: none"> - <i>Is it a small organization structure?</i> - <i>Is it a functional organization?</i> - <i>Is it a multidivisional organization?</i> - <i>Is it a holding company?</i> - <i>Is it a matrix organization?</i> - <i>Is it an innovative organization?</i> 		
2	Descriptions of each department or operating unit: <ul style="list-style-type: none"> - <i>Who is responsible for what?</i> - <i>Who communicates with whom?</i> - <i>How does this department or operating unit communicate with the rest of the organization?</i> - <i>Who has authority and control?</i> - <i>Who reports to whom?</i> 		
3	Flow charts of key processes within each department: <ul style="list-style-type: none"> - <i>How are each department's key processes linked to each other?</i> 		
4	Remuneration structure for employees: <ul style="list-style-type: none"> - <i>How do you plan to motivate and reward your employees?</i> 		
5	Employee count for each department or operating unit: <ul style="list-style-type: none"> - <i>Does all employees understand their roles in the company?</i> - <i>Are they constantly reminded of the company's vision and mission?</i> 		
6	Management roles, profiles and background: <ul style="list-style-type: none"> - <i>Who are the people who make up your management team?</i> - <i>Which part of the company are they appointed to manage?</i> - <i>What are their educational backgrounds and experiences?</i> - <i>Where were they previously employed?</i> - <i>What is the management remuneration structure?</i> - <i>Does the business have formal weekly/monthly management meetings?</i> 		
7	Shareholding structure and shareholders information: <ul style="list-style-type: none"> - <i>Who are your shareholders and their percentage of ownership?</i> - <i>What is the extent of their involvement with your company?</i> 		

	Operational Checklist	YES	NO
1	Operational checklist for the four functional areas: <ul style="list-style-type: none"> - <i>Production and operational management</i> - <i>Marketing</i> - <i>Human resource management</i> <ul style="list-style-type: none"> - <i>Are the current employees capable of keeping up with the proposed growth plans for the business?</i> - <i>What is the average staff turnover?</i> - <i>Does the business have any employee loyalty or motivation programs in place in the organization?</i> - <i>Financial management</i> <ul style="list-style-type: none"> - <i>Do you monitor your monthly accounts on a timely basis?</i> 		
2	What are the operational procedures of each individual department? <ul style="list-style-type: none"> - <i>Does the business have a formal planned process improvement program in place?</i> 		
3	What are the control systems in place? <ul style="list-style-type: none"> - <i>Do you have someone in place to monitor every department's processes so as to ensure that nothing goes wrong?</i> 		
4	What are the operational procedures when a crisis occurs? <ul style="list-style-type: none"> - <i>Does the business adopt a philosophy of preventive or breakdown maintenance?</i> 		
5	Who does what in each department? <ul style="list-style-type: none"> - <i>Does your company have up to date organization charts distributed across the business?</i> 		

	Financial Checklist	YES	NO
1	Projected income statement: <ul style="list-style-type: none"> - <i>Has the business maintained its profit margins over the past two years?</i> - <i>Is the business forecasting to maintain its profit margins over the next two years?</i> - <i>Does the business adopt full costing for all its products or services?</i> - <i>Does the business know its break-even point?</i> - <i>Has the business's growth in sales over the past five years been matched by a growth in shareholders funds?</i> - <i>Does the business prepare or receive monthly financial & management accounts?</i> - <i>Do you receive regular reports on the cost of all products or services and are they reviewed/addressed as necessary?</i> 		
2	Projected cash flow statement: <ul style="list-style-type: none"> - <i>Does the business have good cash management/control practices?</i> - <i>What are the business's current days debtors?</i> - <i>What are the business's current days creditors?</i> - <i>Does the business have a formal credit management policy?</i> - <i>Has the business experienced strong positive cash flows over the past two years?</i> 		
3	Projected balance sheet: <ul style="list-style-type: none"> - <i>Can the businesses fixed costs be easily adjusted downwards in times of fixed demand?</i> - <i>Does the business have the current capacity to increase the output of its product or services without any extra resources?</i> 		

4	<ul style="list-style-type: none"> - <i>Is the business's present liquidity ratio more or less than it was one or two years ago?</i> 		
5	<p>List your major financial assumptions used in constructing your financial projections.</p> <p>Financial ratios:</p> <ul style="list-style-type: none"> - <i>How are your profitability ratios as compared with competitors'?</i> - <i>What are the shareholders' returns?</i> - <i>Liquidity ratios.</i> - <i>Debt-to-equity ratios.</i> 		

Sample of a Business Plan

Disclaimer

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Statement of Purpose

The sample business plan shown in this appendix is intended for two purposes. Firstly, PAIB Sdn Bhd (“PAIB”) is in the process of positioning itself for expansion and business growth in the manufacturing and trading of polymeric and oleochemical compounds. In embarking on this journey, the Company is aware of the need to formulate a strategic blueprint for internal purposes in guiding the organization along its chosen path. Secondly, the information compiled and presented can also be used for financing purposes targeted at banks and financial institutions in its effort to source various financing packages for future expansion of the business of PAIB.

Executive Summary

PAIB Sdn Bhd (“PAIB”) was incorporated on 1 October 2002 with a paid-up capital of \$100,000. Its principal activity then was acting as a foreign manufacturers’ representative for Polyvinyl Chloride (“PVC”) compounds in Malaysia. In January 2006, PAIB ventured into the manufacturing of various types of PVC compounds.

The Company now principally focuses on the manufacturing and trading of polymeric and oleochemical compounds.

With the Company’s healthy growth to date, the management estimates that it currently holds approximately 3% and 2% respectively of the market share in the domestic polymeric and oleochemical compound industry in Malaysia.

The Company’s products consist of various types of PVC compounds and PVC color master batches, chemical stearates, one-pack lead systems, foam boosters, concentrated detergent paste, and detergents and shampoos. These products can be applied to various markets such as the consumer, cable, plastic, construction and telecommunication sectors.

The business strategy of the Company has always been to focus on providing high quality compounds at reasonable prices to its customers. It has been able to penetrate the polymeric and oleochemical compound industry, from a single customer base to 30 customers in the past three years. The Company’s prospects and growth have been highly promising and it has expanded its operations to manufacturing with a factory located in Kuala Lumpur.

1 The Business

1.1 Business Background

The Company's history dates back to 1 October 2002, when its founders, Dr. Wong Peng How and two other partners ventured into the business as a foreign manufacturers' representative for PVC compounds in Malaysia. Prior to that, Dr. Wong Peng How, who holds a Ph.D in Chemistry, had already been involved in the commercial PVC compound industry for a number of years. With Dr. Wong's vast experience in the trading of various chemical related products and sound technical knowledge, PAIB decided to venture into the manufacturing of PVC compounds in January 2006.

Today, the principal activities of PAIB include the manufacturing and trading of PVC products, plastic additives, stearates and one-pack lead system for PVC and other polymeric compounds, palm kernel diethanolamide and non-toxic and biodegradable semi-finished neutralizers, toiletries, cleaning liquids, chemicals and industrial products.

1.2 Vision

The Company's vision is 'To become the largest, most comprehensive and innovative polymeric and oleochemical compound producer in Malaysia.'

The Company has formulated its vision to become a leading compound producer in the market. Its business and development plans are therefore aimed at positioning the Company to capture the potential growth of these two industries.

1.3 Mission Statement

The Company's mission statement is 'To focus on continuous product development in order to provide a comprehensive and innovative range of high quality polymeric and oleochemical products to the customer.'

1.4 Corporate Strategy 1.4.1

Competitive Strategy

Organization Structure and Plant Efficiency	<ul style="list-style-type: none">▪ The present low overheads enable the Company to maintain its low pricing strategy, yet deliver high quality products.▪ The inherent strengths of creating a low cost high quality product allow the Company to hold a strategic position over other compound manufacturers, and achieve its target market share in the polymeric and oleochemical market.▪ The Company's low overheads are achieved through the employment of only fully qualified and capable personnel to perform the required task. This can be seen from the information given.▪ In addition, the current factory of the Company is kept simple in order to minimize cost. Its machines are also placed strategically.
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Technical Know-how	<ul style="list-style-type: none"> The main promoter, who has more than 15 years of experience in chemistry and marketing, has the ability to understand molecular structures. This enables the Company to develop new compounds, or to enhance existing compound formulas to suit customers' specifications. Having this technical knowledge and the ability to introduce new products has enabled the Company to increase its current market share in the compound industry. Having the technical know-how also enables the management to better understand the market trends of customers, suppliers and competitors. As such, the Company has the ability to adapt to market requirements, and customer specifications. The Company has grown from producing a single PVC type compound, to a range of
Customer Focus	<ul style="list-style-type: none"> The Company has the ability to deliver specific specifications of the type of compounds required by customers. With this, the Company is in a better position to be aware of customer needs and manage their supply chain more efficiently. Such an edge within the Company enables them to respond swiftly to changing market conditions, as seen from their rise from a single customer base in 2002 to 30
Strategic Alliances	<ul style="list-style-type: none"> The Company believes in the formation of strategic alliances with its customers. This allows informal partnerships to be formed. This has established relationships that provide the Company with a defined

1.4.2 Business Model 1.4.2.1

Growth Strategy

Quality in product and the production process has been one of the prime drivers behind the Company's growth strategies. The technical know-how of its founders has ensured that the simplicity of the production processes does not compromise product quality. Being technically sound in chemistry and molecular structures has also enabled the Company to consistently search for alternative raw materials at lower prices, thus enabling the Company to market its products cheaper than other manufacturers. However, the Company's product quality has never been compromised despite this strategy, as evident by the recurring orders from the Company's customer base over the years. In fact, the amount of each recurring purchase order has increased.

With further expansion in the production capacity of its polymeric and oleochemical compound divisions, the Company aims to capture at least 20% of the domestic compound industry by

2010. Management is confident of achieving the targeted market share, based on the present market reputation and consistent product quality of the Company.

1.4.2.2 Strategic Initiatives

The Company is also looking into acquisitions of companies with complementary products and services in related areas. The Company will acquire businesses, products or technologies that the Company believes will be in the best interests of its shareholders. Any future acquisitions will, however, be studied carefully to reduce exposure of the Company to new risks, including those associated with the assimilation of new operations and personnel, the diversion of financial and management resources from existing operations, and the possible inability of management to integrate successfully acquired businesses, personnel, and technologies.

1.4.2.3 Timeline and Milestones

The major business development targets to be achieved over the next five years are as follows:

YEAR	TARGETS
2006	<ul style="list-style-type: none"> • Acquire factory, plant and machinery to start own manufacturing of polymeric and oleochemical compounds • Setting up major strategic marketing initiatives to improve the branding of the Company's product range. This will enable the Company to focus on building its presence in the domestic market and also gain international recognition in the coming years. • Allocation of \$300,000 over the next five years for marketing efforts, to build its name by way of: <ul style="list-style-type: none"> - product advertisements in specialized media and journals, both locally and internationally; - circulating brochures in the industry to educate customers on product specifications and applications; - participating in seminars, trade fairs and exhibitions, both locally and internationally, to promote products; and - setting up a website to provide general information about the company and all the products to the public. • Appointment of local distributors or agents to promote products and expand market share. By appointing distributors and agents, the Company will be able to expand its sales to other countries, as well as establishing its presence in the market. • Implementation of Quality Management System

2007	<ul style="list-style-type: none"> • To expand research and development activities to enable the Company to produce high quality and innovative products, as well as custom-designed compounds for specific customer requirements. • Increase qualified and technically based people for its marketing team. This is to ensure that the standards and customer support are always considered in its marketing strategies, to service existing and potential customers. • Continue to source markets for further growth, and target being appointed as contract manufacturers for multinational companies. • To achieve ISO 9001 Certification for Quality Management System. • Implementation of Occupational Health and Safety Assessment System (OSHAS) • Establishment of Enterprise Risk Management Framework/System
2008	<ul style="list-style-type: none"> • Create a brand name that associates the Company with the polymeric and oleochemical market in the Association of Southeast Asian Nations (ASEAN) region. • Acquire a new factory, plant and machinery to expand production capacity to meet the growing demand as the Company enters the foreign market. • Aim to be certified to ISO 14001 for Environmental Management System. • Implementation of Balance Scorecard and Key Performance Indicators.
2009	<ul style="list-style-type: none"> • Appointment of international distributors or agents to promote, market and expand sales of products to countries in ASEAN and other parts of the world. • A more aggressive marketing effort will be introduced to tap into foreign markets. • The Company will also focus on product quality by meeting all international standards.
2010	<ul style="list-style-type: none"> • To capture at least 20% of the domestic compound industry by end of 2010. • Sourcing for Enterprise Resource Planning System to be implemented in 2011. • Preparing for a new 5-year business plan from 2011 to 2015 to chart the next phase of business expansion. • Preparing for a public listing in 3 years.

2 Organizational Structure 2.1

Share Capital Structure

The authorized share capital of the Company is \$5,000,000, comprising 5,000,000 ordinary shares at \$1.00 each, whilst its issued and paid-up share capital is \$1,000,000, comprising 1,000,000 ordinary shares of \$1.00 each.

2.2 Office Location

The Company is presently operates from an office cum factory located on Lot 155, Golden Industrial Estate, Jalan P/2, 51688 Kuala Lumpur, Malaysia.

2.3 Shareholding Structure

Based on the Register of Members of PAIB as at 3 January 2006, the direct interests of the shareholders in the issued and paid-up share capital of the Company are as follows:

Shareholders	No. of Shares	%
Dr. Mustasa Rahimath Samad	200,000	20
Dr. Wong Peng How	200,000	20
Mr. Yang Te Long	200,000	20
Mr. Nik Jaslan Salleh	100,000	10
Mr. John William	100,000	10
Mr. Nathan Selvarajah	100,000	10
Ms. Marina Abdullah	50,000	5
Mr. Henri Robin	50,000	5
Total	1,000,000	100

2.4 Management

The board of directors of PAIB comprises

the following members:

Board of Directors

Dr. Mustasa Rahimath Samad Dr.
Wong Peng How
Mr. Yang Te Long
Mr. Nathan Selvarajah
Mr. John William

Position

Chairman
Chief Executive Officer
Chief Financial Officer
Director
Director

2.5 Directors' Profile

The key profiles of the directors of PAIB are as follows: **Dr.**

Mustasa Rahimath Samad – Chairman

Dr. Mustasa Rahimath Samad, Malaysian, aged 50, was appointed as the Chairman of PAIB on 1 October 2002. He graduated in 1980 with a degree in Accounting from the University of Malaya, Malaysia and subsequently in 1995, he obtained a Doctorate Degree in Business Administration from the same university. He obtained a Master Degree in Arts from Universiti Teknologi MARA in 1990. He is a fellow member of the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants of the United Kingdom. He is also a Chartered Accountant with the Malaysian Institute of Accountants and a member of the Malaysian Institute of Certified Public Accountants. He has more than 25 years of experience in lecturing, accounting, auditing, consulting, commerce and industry. He is currently the Managing Director of MRS Management Consultants Sdn Bhd.

Dr. Wong Peng How – Chief Executive Officer

Dr. Wong Peng How, Malaysian, aged 43, was appointed as the Chief Executive Officer of PAIB on 1 October 2002. He is responsible for the overall management of the Company, particularly marketing, operational, research and development activity. He graduated in 1985 with a degree in Chemistry from University of Paris, France. He subsequently obtained a Master Degree in Science from National University of Ireland, Ireland and a Doctorate Degree in Chemistry from University of London, United Kingdom in 1986 and 1989 respectively. He has more than 15 years of experience in technical, operations, marketing and sales, and general management. Prior to setting up PAIB, he was attached to Titun Compound & Chemical Sdn Bhd for 12 years holding executive and managerial positions in various functions such as quality assurance, production, technical, and sales.

Mr. Yang Te Long – Chief Financial Officer

Mr. Yang Te Long, Malaysian, aged 38, was appointed as the Chief Financial Officer of PAIB on 1 October 2002. He holds an Advanced Diploma in Commerce from Tunku Abdul Rahman College and is a fellow member of the Chartered Institute of Management Accountants, United Kingdom. He is also a Chartered Accountant with the Malaysian Institute of Accountants. He has more than 15 years of relevant PRACTICAL EXPERIENCE IN THE COMMERCE AND INDUSTRY and he is currently responsible for finance, treasury, banking, corporate affairs, corporate planning, risk management, regulatory, human resource and administrative matters. He is also a director of a publicly listed company in Malaysia.

Mr. Nathan Selvarajah – Director

Mr. Nathan Selvarajah, Malaysian, aged 56, was appointed as a Director of PAIB on 3 January 2006. He obtained his Bachelor Degree in Chemical Engineering from New York State University, USA in 1971. He has more than 25 years of working experience in research and development in chemical and oleochemical compound industry. He was the Senior Manager – Research and Development of Omega Oleochemical Bhd for 10 years until his retirement recently.

Mr. John William – Director

Mr John William, Malaysian, aged 53, was appointed as a Director of PAIB on 3 January 2006. He graduated in 1975 with a degree in marketing from the University of Sydney, Australia. He began his career as the marketing executive of Pentas Engineering Bhd in 1976 covering the state of Selangor. In 1990, he then joined Plasticon Industries Bhd as Marketing Manager, and subsequently was promoted to Marketing Director in 1995. He has more than 25 years of experience in the field of marketing and sales.

2.6 Management Team

Senior management of PAIB is led by the board of directors and assisted by the following team of experienced key managerial personnel.

Mr. Anandha Kumar Ganapathi – Plant Manager

Mr. Anandha Kumar Ganapathi, Malaysian, aged 33, joined PAIB on 16 November 2005 as its Plant Manager. He graduated from University of Kolkata, India,, with a Bachelor of Chemical Engineering (Hons) in 1997. He began his career in Jagat Compound Manufacturing Sdn Bhd in 1998 as a Trainee Engineer and was later promoted to the position of Production Manager in 2002. He is currently responsible for the overall smooth operation of the plant, production, maintenance, and research and development activity.

Ms Harveena Kaur - Quality Assurance Executive

Ms Harveena Kaur, Malaysian, aged 26, holds a Bachelor of Science (Chemistry) from University of Malaya, Malaysia. She joined PAIB on 3 January 2006 to oversee the quality assurance activities and quality management system. Prior to joining PAIB, she was attached to Alpha Polymeric Compound Sdn Bhd for two years as Quality Control Officer.

Ms. Selena Rachel Davies – Marketing Manager

Ms Selena Rachel Davies, Malaysian, aged 31, joined PAIB on 2 January 2003 as its Sales Manager and was promoted to Marketing Manager on 3 January 2006. She holds a Bachelors of Business Degree from the University of Hong Kong, Hong Kong and is a committee member of the Institute of Marketing, Malaysia. She began her career in Petrolcon Pte Ltd, Hong Kong as a marketing executive in 1997 and was promoted to senior marketing executive in 2001. Presently, she is responsible for implementing marketing strategies adopted by the board, managing PAIB's sales force, and setting sales and collection targets.

Ms Jane Chang – Accountant

Ms Jane Chang, Malaysian, aged 28, joined PAIB on 2 January 2005 as its Accounts Executive and was subsequently promoted to Accountant on 3 January 2006. She holds a Bachelor of Commerce Degree, majoring in Accounting from Curtin University of Technology, Western Australia. She is a member of the Malaysian Institute of Accountants and CPA Australia. She is currently responsible for PAIB's cash flow, credit control, financial and management accounting, budgeting, taxation, management and financial reporting, and IT matters. Prior to joining PAIB, she has worked in both external auditing and manufacturing industry for three years.

Ms Jamilah Bibie Roslan – Human Resource and Administration Executive

Ms Jamilah Bibie Roslan, Malaysian, aged 27, joined PAIB on 3 January 2006 as its Human Resource and Administration Executive. She graduated from Universiti Utara Malaysia, Malaysia with a Bachelors Degree in Business Administration. She started her career in Fortune Corporation Sdn Bhd in 2002 as an Assistant Administration Officer, and was later promoted to Human Resource and Administration Officer in 2004. She is presently responsible for PAIB’s human resource planning, recruitment, training, purchasing, and general administrative matters.

2.7 Staff Force

The current staff force of PAIB as at 3 January 2006 is as follows:

Finance & Administration	Marketing & Sales	Factory/ Production		Executive Directors, Managers & Executives	Total Staff
		Skilled	Others		
3	3	8	15	7	36

3 Operational Plan 3.1

Operational Strategy

The Company's key operational strategy has been to operate at near automation, thus simplifying its production processes. The nature of the Company's production is generally simple, but requires proper planning. PAIB's production line has been designed to operate with full automation, and only minimal supervision is required.

The other key strategy in the operations of the Company is to achieve economies of scale in its production process. The management's strong production knowledge has enabled the Company to streamline production processes to maximize the efficiency of its plant and equipment.

Human Resource

In realising its corporate vision, the Company will recruit the best talent from the field of Chemistry and re-engineer its products and move towards automation in the value chain with less dependency on conventional labour-intensive methods.

Automation Set Up

The set-up of its new factory in Kuala Lumpur with the purchase of the new machines for the production of PVC compound is run semi-automated. It is expected that with the new semi-automated factory, only two supervisors are required to monitor all the production lines. The Company also intends to set up individual production lines for each category of products. This will eliminate the need to halt and clean the entire production line when producing different types of PVC compounds. This will also improve operational efficiency by reducing start-up and/or warm-up time for each of its production lines.

For its stearates products, the management intends to set up additional mixers, and proposes to upgrade and automate the whole process. For oleochemicals products, the management intends to commence operations towards the semi-automation of the new factory.

3.2 Production Process

3.2.1 Polymeric Products

Manufacturing of PVC compound

The process for manufacturing PVC compounds consists of several major steps:

In the initial stage, major components consisting of PVC resin, filler and plasticizer are pumped into a hot mixer. As the ingredients are mixed, minor components such as stearates, lubricants and pigments are gradually pumped into the existing mixture through a funnel into a hot mixer. The ingredients are then mixed until they achieve a homogeneous mixture which will then be discharged into a cold mixer. When the mixing process has been completed, the mixture is discharged into the Feed Hopper of the extruder to achieve its pellet form. The pellets are then blown into the pellet cooler for cooling and subsequently flowed to the storage silo to await packing.

Manufacturing of stearates

Initially, the raw materials together with the catalyst are mixed in a super mixer. The mixing of the chemicals at high speed will initiate a chemical reaction. The heated mixture will then be cooled down for a few minutes before it is transferred into a pulverizer and milled until the required fineness is attained. The mixture, which by now will be in powder form, will then be transported for packaging.

Manufacturing of one-pack lead systems

Raw materials such as calcium stearates, together with other chemicals and antioxidants, are mixed in a super mixer until they are homogeneous. Similar to the manufacturing of stearates, the mixing of the chemicals at high speed will initiate a chemical reaction.

3.2.2 Oleochemical Products

Manufacturing of Palm Kernel Diethanolamide (commonly known as foam booster)

The manufacturing of Palm Kernel Diethanolamide basically requires raw materials such as amine, catalyst and palm oil. An initial mixture of amine and catalyst is heated by heating elements in a stainless steel mixing tank. Subsequently, oil is poured into the mixture and heated. The mixture will turn clear upon the completion of the reaction. The cooled mixture will then be transferred into a cooling tank and kept overnight. The finished goods are pumped into 200kg drums before they are distributed to customers.

Manufacturing of Concentrated Detergent Paste

A mixture of linear alkyl benzene, water, amine and emulsifier is stirred in a stainless steel tank. The process is completed when all the components are thoroughly mixed and a level of viscosity is attained. The thoroughly mixed blend is checked for viscosity and PH level before it is sent for packing. The finished goods are pumped into 180kg drums and delivered to customers.

4 Market Analysis

Based on the total industry sales of PVC compound in 2005 from the Department of Statistics, PAIB's estimated market share in the PVC compound segment stood at 3% of the total industry sales.

The polymer industry is poised to grow 7.5% in 2006 on the back of the expected growth in the electronics and electrical sectors, transport equipment, plastic products, and paint and coatings industries. For the oleochemical industry, the world demand is expected to increase for products derived from oleochemical base, as it exhibits many distinct advantages over other chemically based products, such as petrochemicals. In addition, oleochemical products are more biodegradable; therefore do not pose a threat to the environment.

4.1 Polymer Market

The polymer industry in Malaysia has increased by 10.4% annually over the period of 1995 to 2005. This is reflected in the rise of total resin exports by 18.3% in 2005, which represents \$1 billion in value. Polymer consumption in Malaysia has been fuelled by imports due to non-available grades and types in Malaysia. Local manufacturers managed a 5% export and import growth, which amounted to \$2 billion last year as compared to 2004.

The sales in the polymer industry are projected to grow by 7.5% in 2006 on the back of continuous demand from the key end-user industries such as electronics and electrical, transport equipment, plastic products and paints and coatings industries. Exports of polymer products grew by 18.3% in 2005, supported by the strongest growth from polymers of ethylene and styrene.

The growing trend of using polymer-based products in the substitution of products based on glass, metal and paper provides opportunities for compound manufacturers.

4.2 Oleochemical Market

With respect to the oleochemical industry, opportunities are also vast. Currently, Malaysia accounts for nearly 70% of the total oleochemical production capacity in the ASEAN region. As its end products are seen as necessary items, and with the imminent move from petrochemical-based products to natural oil-based products, growth appears certain for the oleochemical industry.

Oleochemicals are applicable to various industries and products, namely leather, metal work and foundry, mining, rubber, electronics, lubricants and hydraulic fluids, paints and coatings, printing and paper re-cycling, plastics, biofuels, waxes, soaps and detergents, health and personal care, food and animal feeds.

The current production capacity of oleochemicals in Malaysia is approximately 7.95 million tonnes, while the total production capacity in ASEAN is about 11.37 million tonnes. In light of this, Malaysia accounts for nearly 70% of the total oleochemical production capacities in the ASEAN region.

In connection with the above, the world production of basic oleochemicals has also increased from about 20.05 million tonnes in 2000 to 32.50 million tonnes in 2005, of which 35% came from the ASEAN region. It is anticipated that by 2010, the ASEAN region will contribute more than 50% of the world's estimated production of 52.50 million tonnes.

4.3 Competitors Analysis

Listed below are some of the main PVC compound manufacturers in Malaysia

Name of company	Type of compounds
Regal Plastics Malaysia Sdn Bhd	PVC compounds
INKO Dayabumi Sdn Bhd	PVC compounds
JD Compounds (M) Sdn Bhd	PVC compounds
Barangan Kimia Sdn Bhd	PVC compounds
Emprico Sdn Bhd	PVC and TPE compounds

From the above list of compound manufacturers, PAIB has identified Regal Plastics Malaysia Sdn Bhd, INKO Dayabumi Sdn Bhd and JD Compounds (M) Sdn Bhd as its closest business competitors in the PVC compound business.

5 Products

The Company's focus is on producing various PVC compounds, stearates, one-pack lead system, foam boosters and concentrated detergent paste. Generally, PAIB's products can be generally classified under two industries, namely the polymeric industry and the oleochemical industry.

- Polymeric Products

PVC products constitute part of the polymeric industry and play a complementary role in arriving at polymer-based products. The Company compounds polymer raw materials for manufacturers operating in this industry. Generally, compounding enables thermoplastic resins to effectively meet the heat and strength requirements for polymer or plastic products. The raw materials used for the production of compounds are derivatives of crude oil and natural gas. These building blocks of plastics are short-chain molecules called monomers. Monomers that are combined to create longer, more complex chains are known as polymers.

PAIB's focus is on producing PVC compounds. Basically the type of PVC compounds ranges from plasticized PVC compound to PVC color master batch. In addition, the Company also produces stearates and one-pack lead system. Stearates and one-pack lead systems are also used in the manufacturing of PVC and other polymeric materials. Apart from manufacturing for its internal use, PAIB also sells to external parties.

- Oleochemical Products

Oleochemicals refer to chemicals derived from natural oils and fats of both plants and animals. They refer to fatty acids and glycerol derived from the splitting of triglyceride structures of oils and fats. This also include derivatives from the subsequent modification of the carboxylic acid group of the fatty acids by chemical or biological means and other compounds obtained from the further reactions of such derivatives. Similar chemicals may be synthesized from petrochemicals but are classified as synthetic chemicals and not oleochemicals.

The main products under this category are:

- o Foam Boosters or palm kernel diethanolamide;
- o Concentrated detergent paste or non-toxic and biodegradable semi-finished neutralizer ("CDP"); and
- o Cleaning liquid and shampoo

5.1 Application of Polymeric Products

The application for the products that PAIB plans to develop in the future are as follows:

New products to be launched	Applications
PVC Rigid Compound	Transparent PVC bottle compounds.
	Transparent PVC compounds for I.C. tube for electronics industry.
	Rigid PVC compounds for pipe fittings, PVC doors and profiles
Low Smoke & Flame Retardant	Low-smoke, flame-retardant PVC compound for cable industry.
Cross Linked Polyethylene (“XLPE”)	For hot water piping systems, electrical insulation for cables.
Polyethylene (“PE”) Color Masterbatch	PE Color Masterbatch is widely used for extrusion and injection processors.
Thermoplastic Polyolefin Modified compound	Compounds used in the manufacturing of automotive body parts, shoe sole, toy, eraser and other plastic modification application.
Sodium Stearate	Pharmaceuticals and cosmetics, latex and rubber compound, polystyrene, chemical
One-Pack Lead Free System	One-pack stabilizers that contain calcium stearates to provide stabilizing lubricating properties for cable compounds. This product gives a good finish and increases productivity.
Bacteria killer chemical	Mainly used as an anti-fungus in cleaning products.

6 Marketing Strategy

The Company has been marketing its products via direct supply to end-users, i.e. manufacturers of polymer and oleochemical products. This strategy has allowed the management to be directly involved at problem-solving and identifying the requirements of its customers. The marketing team at present is headed by Ms Selena Rachel Davies, its Marketing Manager.

Through this strategy, the management is able to obtain feedback on its products, and continually improve on its compounds. As a result, the Company is able to continuously enhance its after-sales customer services and also provide for changes in the methodologies for the production of its compounds.

With key personnel possessing strong product development skills and the ability to provide continuous development for polymer manufacturers to pursue new products, business continuity is ensured and relationships with clients are further enhanced.

Due to the size of the Company and its proximity with its customers, the turnaround time to come up with a compound that suits its customers is very fast. In the polymer market, key buyers and end-users are often given formulation and technical assistance in order to build closer relationships. The Company's ability to meet the specifications and requirements of end-users opens the option for it to specialize in a niche market.

6.1 Distribution Network and Marketing

All of the Company's production will be carried out in Malaysia, but sales offices will be opened up in selected countries to handle marketing and distribution. With the introduction of ASEAN Free Trade Area (AFTA), the reduction of tariff and protection taxes will enable the Company to export its products to the ASEAN regional market with the least of difficulties.

Joint collaboration with reputable multinationals will enable the Company to gain recognition in the market, not only regionally, but also within the ASEAN and the world market.

The Company also plans to appoint distributors in selected ASEAN countries to promote and expand the Company's polymeric and oleochemical products. At present, the Company is already supplying to Singapore and the Middle East through its distributors.

6.2 Product Branding

The Company currently markets both its polymeric and oleochemical products by their generic name. However, it is the intention of the Company to create a brand name for its products. This is anticipated to materialize once the Company is able to increase the market coverage for its products, estimated to be by year 2007.

7 Financials

7.1 Profit Forecast and Projections

The projected income statements for the Company for the five financial years ending 31 December are as follows:

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
	\$	\$	\$	\$	\$
Revenue					
Sales	3,612,000	4,695,600	6,573,840	10,518,144	18,932,659
Sales Returns and Allowance	(12,000)	(13,800)	(15,870)	(18,250)	(20,988)
Net Revenue	3,600,000	4,681,800	6,557,970	10,499,894	18,911,671
Less: Cost of Goods Sold					
Opening Inventory - Finished Goods	-	342,100	422,558	579,159	902,816
Cost of Materials Consumed:					
Opening Inventory - Raw Materials	-	298,187	372,331	530,101	834,235
Purchases	2,400,000	2,700,000	3,900,000	6,200,000	11,900,000
Freight	12,000	13,559	15,595	17,934	20,623
	2,412,000	3,011,746	4,287,926	6,748,035	12,754,858
Closing Inventory - Raw Materials	(298,187)	(372,331)	(530,101)	(834,235)	(1,576,837)
Cost of Materials Consumed	2,113,813	2,639,415	3,757,825	5,913,800	11,178,021
Direct Labor	270,000	324,000	388,800	505,440	657,072
Power utilities & other direct cost	120,000	144,000	172,800	224,640	292,032
Prime Cost	2,503,813	3,107,415	4,319,425	6,643,880	12,127,125
Factory overhead cost	180,000	216,000	259,200	336,960	438,048
Depreciation	91,000	104,000	119,000	342,000	345,000
<i>Cost of Goods Manufactured For Sale</i>	<i>2,774,813</i>	<i>3,427,415</i>	<i>4,697,625</i>	<i>7,322,840</i>	<i>12,910,173</i>
Closing Inventory - Finished Goods	(342,100)	(422,557)	(579,159)	(902,816)	(1,591,665)
Cost of Goods Sold	2,432,713	3,346,958	4,541,024	6,999,183	12,221,324
Gross Profit	1,167,287	1,334,842	2,016,946	3,500,711	6,690,347
<i>Gross Profit Margin</i>	<i>32%</i>	<i>29%</i>	<i>31%</i>	<i>33%</i>	<i>35%</i>

Expenses**Selling & Distribution**

Advertising	60,000	61,200	62,424	63,672	64,945
Commissions	12,530	16,295	22,825	36,545	65,823
Shipping and Transportation	36,000	43,200	51,840	67,392	87,610
Salaries and Benefits	150,000	157,500	165,375	214,988	279,484
<i>Total Selling & Distribution Expenses</i>	<i>258,530</i>	<i>278,195</i>	<i>302,464</i>	<i>382,597</i>	<i>497,862</i>

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
	\$	\$	\$	\$	\$
Administrative & General					
Depreciation	32,000	33,000	37,400	60,400	64,800
Salaries and Benefits	210,000	220,500	231,525	300,983	391,277
Bad Debts	-	70,227	98,370	157,498	283,675
Telephone, telecommunication and fax charges	36,000	36,000	37,800	39,690	41,675
Vehicle Expenses	8,800	8,976	9,156	9,339	9,525
Insurance	13,000	13,650	14,333	28,665	30,098
Charitable Contributions	-	2,000	3,000	3,000	3,000
Office Utilities	14,000	14,280	14,566	14,857	15,154
Office Maintenance and Repairs	4,500	4,725	4,961	5,209	5,470
General Expenses Courier Expenses	5,500	5,610	5,722	5,837	5,953
<i>Total Administrative & General Expenses</i>	2,800	2,856	2,912	2,971	3,031
Research & Development Costs	326,600	411,824	459,745	628,449	853,658
Salaries and Benefits					
<i>Total Research & Development Costs</i>	90,000	94,500	99,225	104,186	109,396
Finance Costs	90,000	94,500	99,225	104,186	109,396
Interest Expenses					
Bank Charges	51,000	45,500	40,000	150,400	120,800
<i>Total Finance Costs</i>	3,000	3,600	4,320	5,184	6,220
<i>Total Expenses</i>	54,000	49,100	44,320	155,584	127,020
Other Income	729,130	833,619	905,754	1,270,816	1,587,936
Profit Before Taxation	-	2,000	3,000	3,000	5,000
Less : Taxation	438,157	503,223	1,114,1	2,232,8	5,107,41
Profit After Taxation	(92,431)	(105,541)	(227,832)	(519,424)	(1,334,681)
Retained Profit b/f					
Retained Profit c/f	345,726	397,682	886,360	1,713,471	3,772,730
	49,800	395,526	793,208	1,679,568	3,393,039
	395,526	793,208	1,679,568	3,393,039	7,165,769

The Company expects its sales to grow at an annual rate of 30% in 2007, and gradually up to 80% in 2010, as a result of its increased marketing efforts and distribution plans.

Product margins are expected to average between 30% to 35%. The average gross profit margin is expected to improve over the years from 32% IN 2006 TO 35% in 2010 as a result of improved cost efficiencies arising from economies of scale. Consistent with the Company's strategy to provide continuous training to its staff, direct labour costs as a percentage of costs of goods sold are expected to improve from 11% in 2006 to 5% in 2010. On the same token, factory overheads as a percentage of cost of goods sold are expected to reduce from 7% in 2006 to 4% in 2010.

Selling and distribution costs are forecasted at 7% of sales in 2006, but will only be 3% of sales in 2010, given the heavier marketing efforts required in the earlier years of operations. Administration and general costs are forecasted at 9% of sales in 2006 and will drop to 5% of sales in 2010. Research and development costs, comprising essentially salaries for technical staff, will form approximately 13% of total salaries & wages in 2006, but 8% of total salaries and wages in 2010. Finance costs are expected to range between 9% and 15% against borrowings, whilst the effective rate of taxation is expected to range between 20% to 26% over the projected periods.

7.2 Cash Flow

The projected cash flows for the Company for the five (5) financial years ending 31 December are as follows:

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
	\$				\$
Cash Flows From Operating Activities					
Profit before taxation	438,157	503,223	1,114,192	2,232,895	5,107,411
Adjustment for:					
Provision for bad debts	-	70,227	98,370	157,498	283,675
Depreciation	123,000	137,000	156,400	402,400	409,800
Operating profit before working capital changes	561,157	710,450	1,368,962	2,792,793	5,800,886
Increase in inventories	(640,287)	(154,602)	(314,370)	(627,791)	(1,431,451)
Increase in receivables	(446,315)	(203,822)	(329,933)	(643,782)	(1,321,081)
Increase in liabilities	401,898	150,287	196,284	404,081	858,433
Cash (used in)/ generated from operations	(123,547)	502,313	920,943	1,925,301	3,906,787
Taxes paid	(92,431)	(105,541)	(227,832)	(519,424)	(1,334,681)
Net cash (used in) / generated from operating activities	(215,978)	396,772	693,111	1,405,877	2,572,106
Cash Flows From Investing Activities					
Purchase of fixed assets	(1,710,000)	(135,000)	(172,000)	(3,145,000)	(52,000)
Net cash used in investing activities	(1,710,000)	(135,000)	(172,000)	(3,145,000)	(52,000)
Cash Flows From Financing Activities					
Proceeds from issuance of ordinary shares	900,000	-	-	-	-
Drawdown of long-term debt	350,000	-	-	750,000	-
Repayment of long-term debt	-	(25,000)	(25,000)	(110,000)	(110,000)
Drawdown of mortgages	600,000	-	-	1,900,000	-
Repayment of mortgages	-	(80,000)	(80,000)	(460,000)	(460,000)
Net cash generated from / (used in) financing activities	1,850,000	(105,000)	(105,000)	2,080,000	(570,000)
Net increase in cash & cash equivalents					
Cash & cash equivalents at beginning of period	(75,978)	156,772	416,111	340,877	1,950,106
Cash & cash equivalents at end of period	149,800	73,822	230,594	646,705	987,582
Cash & cash equivalents comprise					
Cash & bank balance	73,822	251,094	664,705	1,003,582	2,950,188
Bank overdrafts	-	(20,500)	(18,000)	(16,000)	(12,500)
	73,822	230,594	646,705	987,582	2,937,688

There will be heavier costs at the start of the projected period, resulting in a net utilization of cash for the business in 2006. However, the Company expects to generate positive cash flow in the subsequent years of about \$157,000 in 2007 and up to \$1.95 million in 2010.

The Company also expects to borrow and invest over \$3million in another factory and plant to increase its production capacity in 2009.

7.3 Balance Sheet

The balance sheet for the Company for the five financial years as at 31 December are as follows:

	<i>2006</i> <i>Forecast</i>	<i>2007</i> <i>Projection</i>	<i>2008</i> <i>Projection</i>	<i>2009</i> <i>Projection</i>	<i>2010</i> <i>Projection</i>
Assets	\$	\$	\$	\$	\$
Non-current Assets					
Property, Plant & Equipment	1,587,000	1,585,000	1,600,600	4,343,200	3,985,400
Current Assets					
Inventories	640,287	794,889	1,109,261	1,737,052	3,168,504
Accounts Receivable & Deposits & Prepayments	445,315	578,910	810,472	1,296,756	2,334,162
	1,000	1,000	1,000	1,000	1,000
Cash & bank balances	73,822	251,094	664,705	1,003,582	2,950,188
	1,160,424	1,625,893	2,585,438	4,038,390	8,453,854
Total Assets	2,747,424	3,210,893	4,186,038	8,381,590	12,439,254
Equity & Liabilities					
Capital & Reserves					
Share Capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Reserves	395,526	793,208	1,679,568	3,393,039	7,165,769
	1,395,526	1,793,208	2,679,568	4,393,039	8,165,769
Non-current Liabilities					
Term Loan	350,000	300,000	275,000	830,000	720,000
Mortgages	600,000	440,000	360,000	1,420,000	960,000
	950,000	740,000	635,000	2,250,000	1,680,000
Current Liabilities					
Accounts payable	399,898	550,185	746,470	1,150,551	2,008,985
Other liabilities	2,000	2,000	2,000	2,000	2,000
Borrowings	-	105,000	105,000	570,000	570,000
Bank overdrafts	-	20,500	18,000	16,000	12,500
	401,898	677,685	871,470	1,738,551	2,593,485
Total Equity & Liabilities	2,747,424	3,210,893	4,186,038	8,381,590	12,439,254

7.4 Bases and Assumptions

The projected profit and loss and cash flows for the Company are premised on the following bases and assumptions:

1. Revenue growth at:

2007	2008	2009	2010
30%	40%	60%	80%

2. Annual depreciation rates are at:

Land and building	2%
Plant & machinery	10%
Motor vehicles	20%
Office, furniture & fittings	20%

3. Inventory turnover at 45 days, trade debtor turnover at 45 days, and trade payable turnover at 60 days.

7.5 Financial Ratios

7.5.1 Profitability Ratios

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
Gross Profit Margin (computed as Gross Profit / Net Revenue)	32.4%	28.5%	30.7%	33.3%	35.3%

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
Net Profit Margin (computed as Net Profit Before Taxation / Net Revenue)	12.1%	10.7%	17.0%	21.3%	27.0%

Profit margins are expected to improve over the period with increased sales growth, reduced direct overheads and other operational expenses as a result of improving economies of scale. There will be however a slight dip in the margins in 2007 as a result of rationalization in the production process.

7.5.2 Rate of Return Ratio

	2006 <i>Forecast</i>	2007 <i>Projection</i>	2008 <i>Projection</i>	2009 <i>Projection</i>	2010 <i>Projection</i>
Return on Asset (computed as Net Profit After Interest and Taxation / Total Assets)	12.6%	12.4%	21.2%	20.4%	30.3%

The improving profit trend over the period is expected to translate to improved return on assets for shareholders from 12.6% in 2006 and gradually up to 30.3% in 2010.

7.5.3 Liquidity Ratio

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>Forecast</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>
Current Ratio	2.9	2.4	3.0	2.3	3.3

(computed as Current Assets / Current Liabilities)

The Company is expected to maintain its financial position at a liquidity ratio of between 2 to 3 times during the projected periods.

7.5.4 Solvency Ratio

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>Forecast</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>
Debt-to-Equity Ratio	0.7	0.4	0.2	0.5	0.2

(computed as Non-current Liabilities / Total Equity)

The Company's solvency will be maintained at a debt-to-equity ratio of no more than 1 over the projected periods. This ratio is expected to rise in 2009 as a result of envisaged gearing requirements for the investment of the additional factory and plant, but will reduce in subsequent years.