

Creating the future



Creating the future is a leap of faith - and a good jump requires a solid foundation.

In business part of that foundation is generally a business plan. It might be a plan ('budget') put forward within an organisation in which resources (people, finance, time) are requested; it might be a proposal for lending addressed to debt providers

or a prospectus for investment addressed to business angels, venture capitalists or institutional investors.

We've researched and written countless business plans. What do we believe are the essential elements of an attractive business plan?

Profiles

Strange as it may seem, perhaps the most important element of the business will be the **profiles** of the people who are behind the plan. Not only should there be a profile of the person who has generated the vision but also those others on the team, demonstrating that they too are engaged with the passion to design the business plan and to deliver the customer outcomes.

The profiles should demonstrate that individually and collectively the team has the experience and skills to deliver the plan within the budget constraints. The document should describe those previous business ideas that the team members have realised. If they've done something similar to the current proposal it should be described. If there is an opportunity, the plan should describe the team and its members' track record in innovation, in change management and in cost and time management.

But also the business plan should be honest in an assessment of the other skills and experience still need to be added to ensure that the team is balanced to meet the needs of the project.

Collateral

A key aspect of any business plan is likely to be the proposal to buy or develop assets. The plan needs to address how (or even if) such assets will hold their value for the long-term benefit of the business and how the **collateral** for the required investment will be provided.

Such a demonstration of value retention will come from describing how the investment value will be crystallised, probably on exit. The plan needs to detail whether the developed asset will be sold on as part of a trade sale or part of a future floatation – and, if so, detail of comparable transactions can be used to provide reassurance of value on exit.

In the case of some proposals - for example a rooms refurbishment programme - there may not, in fact, be any long-term value creation. Rather there will be an avoidance of value loss and this can be just as valuable, so long as it can be demonstrated.

Occasionally, the business plan will be proposing development of an asset that will create new intellectual property. In such circumstances, the plan should identify how intellectual property is going to be protected.

USP

The business plan also needs to clearly establish what is the **unique selling proposition (USP)** that the investment will deliver and, just as importantly, how the USP will be defended. In the case of a new build hotel, one of the USPs will, of course, relate to the location since this can't be replicated. Other aspects of the development may be capable of being copied, so the plan needs to establish how the business is going to defend itself.

Branding is one form of defence since a franchise will normally come with radius protection for a number of years. If the plan includes development of a signature restaurant, a plausible defence would be a restraint clause on the chef from running off and creating something similar down the road. Sometimes owners will see a 20-year management agreement as an encumbrance but, in the context of a long term funding request, such an agreement provides the lender with certainty that the brand's USP can be defended for the long term.

The management contract provides a further type of defence too as it offers the probability that the hotel's general manager will be qualified and suitably supervised throughout the life of the investment. This will more likely suggest a long-term defendable profit picture to an investor or lender than a situation where an individual hotel owner is proposing to borrow and operate an unbranded hotel by themselves.

Growth

The fourth topic that a business plan needs to address is the nature of the demand being targeted.

The investor or the bank will want assurance that the investment is targeted at meeting the needs of a **growth segment** of the market.

In the case of an investment driven by a brand's requirements to meet new needs better, evidence for the change in market needs will be provided by the licensor. In other cases, the team proposing the investment need to have researched the market themselves, or commissioned independent research, to provide evidence of the growth in market demand being targeted by the investment.

Some investment proposals will be necessary simply to enable the hotel to stay in business (e.g. the replacement of a kitchen stove) and, in this case, the plan needs to be frank, explaining that the investment is required simply to defend current profitability.

A mature management team will not seek to support an investment proposal that is essentially defensive with arguments that are suited to an investment targeted at expanding the business. And it may well be valid to target investment at an element of cost that is rapidly growing with a view to reducing the long-term cost as it is to target investment at a revenue stream with long-term growth potential.

Market demand

It's all very well to target a growth sector; market **demand** must also be demonstrated. The use of market research, focus groups, interviews with customers and intermediaries should produce evidence for the business plan that not only is investment being targeted at a growth segment but that there is also demonstrable demand.

Sometimes competitors will provide evidence of demand; sometimes experience in other markets and other countries will provide the evidence. An investor will typically fail to attract funding for a proposal that is all vision and no evidence, just as a management team will fail to attract support for a budget that is all evidence and no passion.

Scalable

A business plan addressed to lenders should adequately cap the exposure to lines of credit. By comparison, a business plan addressed to current or future investors will frequently be more successful if the proposal provides for the **scalability** of the proposal. Investors will not

want to be limited by a single location but will more inclined to invest in a new idea if it can be rolled out to other locations.

Emotion

Finally, and not to be forgotten in any plan, budget, board submission, loan application, etc., is to include - and repeat - the '**wow factor**'.

Even in today's hardened times, all the stakeholders - the investor, the board members, the lender and the employees - needs to be emotionally engaged by the idea, the opportunity, the vision.

Although it pains me as an accountant to say so, this almost certainly means that the business's conservative accountant should not be the plan's author.

Author: principal Ian Graham