

Part 7: How to write an Information Memorandum or Business Plan to Raise Capital – Basis of Operation

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In this continuing series of articles on how to write a business plan or Information Memorandum to raise capital, Part 7 discusses the business plan content specifically 'Basis of Operation'.

Basis of Operation

This section of the business plan describes the facilities, location, space requirements, equipment and labour necessary to produce the company's product or service. Again, the reader is not likely to be an expert in your field of activity, so it should be written with the layman in mind. Highlight features of the operation which yield an advantage over competitors.

Clearly, operational requirements vary from business to business. Although some of the following points may not be relevant to your venture they will provide a general guide:-

1. Location

Describe the present or planned location of the business, explaining the rationale for choosing that site and outlining both positive and negative features relating to:-

- Labour availability
- Level of wage rates
- Proximity of customers and suppliers
- Ease of distribution
- Availability of grants (should be of secondary importance and viewed as a bonus!)

2. Facilities

Details of current facilities and future requirements should be provided e.g. plant and office space, machinery, specialist tooling and other equipment. Future needs should be ascertained on the basis of the expansion of capacities necessary to meet the sales growth projected. Lease/buy options should be considered for both equipment and space and details of future capital expenditure should be given.

3. Manufacturing Plans

The manufacturing process involved in producing the company's products should be explained, together with the policy with regard to sub-contracting, i.e. make or buy decisions. It may be useful to present a production plan showing cost-volume details at various turnover levels, breaking down costs between raw materials, direct labour, factory overheads and purchased components. Stockholding at various turnover levels needs outlining as does stock control, production control and quality control. The latter is particularly important to minimize service problems and customer dissatisfaction. Purchasing should be explained, indicating purchase control procedures, to ensure efficient buying. In all cases detailed analyses should be relegated to an appendix.

4. Labour Force

Discuss whether the local labour force has the necessary skills in sufficient quantity and quality (high productivity, low absenteeism) to manufacture the product or supply the service of the company. If skills are inadequate outline the training that will be given and the cost.

The content of Business Plans will be further covered in subsequent articles by Len McDowall.

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23rd October, 2007

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About Len McDowall - Managing Director, Integral Capital Group Pty Ltd

Len McDowall was previously inaugural Chairman and Managing Partner of Bird Cameron Chartered Accountants (now known as RMS Bird Cameron), which employed 1000 people in 50 offices in Australia and Hong Kong. Len, who established Bird Cameron's mergers and acquisitions division, has extensive experience in all facets of financial management with a particular emphasis on structuring and negotiating joint ventures and capital raisings. Following his retirement from the accounting profession Len and his partners established the Integral Capital Group which specialises in mergers and acquisitions, public floatation's and capital raisings.