

GUIDELINE FOR WRITING A BUSINESS PLAN



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WRITING A BUSINESS PLAN

The purpose of this guideline is to address and clarify the main elements of a business plan and to serve as a basic guide, which can be consulted through the operative elements of the project. The main objective is to provide a guideline, which is both comprehensive and useable in both scale and scope, and which can also be handed out to people who come into contact with the project. It should however be stressed that the ambition of this document is not to provide a detailed guideline into the fine art of writing a business plan. There are many text books and more extensive guidelines, e.g. by national VC associations, which are highly recommended for further consultancy.

1. WHY YOU NEED A BUSINESS PLAN AND WHAT IT AIMS AT

Even though a business plan is mainly used for attracting investors, it is also of high use for other purposes, both internally and externally.

Internally: Your business plan will give you a starting point for development of your business in terms of current work as well as expansion and recruitment of a board of directors, executives and other members of the staff. The plan will provide guidance for management, as well as milestones and points of reference that will be useful when you want to gauge the progress you have made. Additionally, it forces you to rethink your idea and to see its strengths and weaknesses.

Externally: A business plan shows prospective investors, banks, potential partners for strategic reasons, mergers or acquisitions, customers and suppliers which you have included in the framework of your ideas. The facts and forecasts are based on documented information and factors that can be measured. The plan will help external parties evaluating the risk of investing in your business.

Different target groups will be interested in different aspects of your business. A venture capital firm may for instance mainly focus on the future potential of the company concerned, while a bank manager is more considering the current situation of the company applying for a bank loan. Thus, it is vital to know what the recipient of your business plan will value as important. When writing the business plan, you should place emphasis on different aspects of it following this insight. In practice, this means that you should have a number of different versions of your plan to present to different stakeholders. The basic framework can be adapted to suit your aim and target group.

Regardless the target group, your business plan must convincingly show:

- > How the idea/invention will be developed and successfully exploited;
- > The capability and experience of the team responsible;
- > How the cost of the project will be financed, including second and further rounds of finance;
- > The proposed exit mechanism and timing, and the expected realization value for the shareholders.

Other key questions that need to be addressed by the business plan are:

- > What is unique about the innovation and is it protected (e.g. patents)?
- > Who will buy it and why?
- > What price will the product be sold for and what are the costs for transportation to customer etc ?

- > How the concurrence on the market and what is is your competitive advantage?
- > When will the company start collecting revenues and when will it break even?

How to answer these questions in the business plan will be further explained as follows:

1.1. Instructions for writing a business plan

A business plan is a document containing specific information about your business idea. However, there are a few general important points to take into consideration:

- > The plan should be not longer than 30 pages including appendices.
- > Adapt the content of your business plan to your purpose and target group, however make sure you do not distort the information or tell lies.
- > Supporting facts and figures should be presented in appendices.
- > Your business plan must be easily written, understandable for a non-expert in the field.
- > Your business plan must be clear and well arranged for prompt understanding of the content.
- > All statements must be backed up by facts and figures, i.e. you need to give your source for your statements.
- > The information in your business plan should be concrete and strong enough to serve as basis for decisions.
- > Ask a person with competence in writing business plans for proof-reading of your document as it is advantageous to make use of external expertise. Be open to criticism and comments and whenever possible, collect advices from experts, investors, entrepreneurs, colleagues and potential customers.

The components which should be included in a business plan have to be adapted to the circumstances of your technology/business idea, goals and target groups. Many financiers do even have their own models for business plans and when you encounter these circumstances, make sure your business plan contains the headlines and information the potential investor is likely to look for. You should either revise your business plan or write a new one following the financier's model.

There are, however, certain criteria most investors are interested in when reading a business plan in order to evaluate a business idea. Considering these criteria, a business plan should consist of the following nine parts:

- | | | |
|----------------------|-------------------------------------|---------------|
| 1) Executive Summary | 4) Marketing | 7) Risks |
| 2) Business concept | 5) Business system and organisation | 8) Financing |
| 3) Management team | 6) Action plan | 9) Appendices |

In the following section, you will receive an idea on what information these parts of the business plan should contain. This will provide you with some guidance for preparing your individual business plan.

(1) Executive summary

The executive summary is not longer than two pages and gives a quick overview about the business plan. Its aim is to provide a concrete and easy understandable summary of the document for a fast though informative overview of the plan including the most important facts and ideas. The executive summary contains the purpose of the business plan as well as the key points of the subsequent chapters of the plan. The executive summary will also be the first part of the report presented to the reader so make sure it presented in a clear and attractive way so that you will catch their interest for further reading.

(2) Business concept

In this chapter of the business plan you demonstrate in a clear and straightforward way how your business idea solves a particular problem. Your argumentation should be comprehensible also for non-experts and should include the following aspects:

- > Outline of the problem your idea is solving. Which is the customer need your idea meet?
- > Describe what kind of product or service you want to sell. What exactly are you offering?
- > Describe what is innovative with your idea. Explain to what extent your solution provides the customer with a unique benefit (*Unique Selling Proposition; USP*) and quantify this customer benefit. How do you want to protect the uniqueness?
- > Describe the patent situation and, if relevant, details of the patent.
- > Communicate visually. A picture of the product, the prototype, the service “in action”, or a flow diagram of the process will make it easier for the reader to get a clear idea of what you have in mind. It also documents the state of development the product has reached.
- > Go easy on the technical details, as they many times are of no interest to investors and also unlikely to have a positive effect on the decision whether or not to invest.

(3) Management team

Investors tend to be much more impressed by the people behind an idea than by the idea itself. The personality, professional and social competence, and motivation of the initiator and his or her team will often determine the investor’s decision for or against the project. In particular, investors are looking for the following aspects:

- > Who are the members of your management team, and what distinguishes them (education, work experience, success, and business reputation)?
- > What experiences and skills does the management team possess that would be useful for the realization of your business idea?
- > What experience and skills are lacking in the team? How and with whom should the team be expanded in order to fill these gaps?
- > What motivates the individual members to work on the project?

(4) Marketing

Your marketing plan should contain information about the total market, your target market and market share. You should also estimate the future development of these segments. This part of your business plan should answer the following questions:

- > Who are your customers or customer groups (“segmentation”)?
- > Which customers or customer groups are particularly attractive financially?
- > Who are your competitors? What substitutes are available for your product?
- > How can you differentiate yourself from the competitors for attractive customers (“positioning”)?
- > How large is the market? How large is the part of the market you are interested in and how will it develop?
- > What market share and what level of sales do you expect to achieve?

In addition you need to develop and describe a marketing strategy defining the measures you will employ to reach the objectives set out in the marketing plan, resulting in the sales. Generally speaking these measures can be divided into four groups (the 4Ps):

- > **Product:** What characteristics are important for your product to possess in order to meet the customer needs?
- > **Price:** What price can you take for your product and what goal are you pursuing with your pricing strategy?
- > **Place:** How are you going to reach customers with your product (distribution)?
- > **Promotion:** What means of communication will you use for convincing your customers of the benefit of your product?

(5) Business system and organisation

The business system describes the activities needed to be performed to produce a product and deliver it to the customers. Typically, it consists of the following five phases: (I) Research and development, (II) Production, (III) Marketing and sales, (IV) Distribution, and (V) Service. The business system is a useful framework for understanding the business activities of a company.

Use the typical model as a starting point for designing your own business system and apply it to your own specific situation before putting it into practice. You should answer the subsequent questions:

- > What does your company’s business system look like?
- > What activities within the business system will the company perform and which will it buy in (“make or buy”)?
- > What are you focusing on?

In addition to the business system, you will need to consider several organisational issues. For a start-up, it is not necessary to draw up a complicated blueprint of the whole organisation. What really matters is rather to start investigating if the responsibilities are clearly allocated and that you can design a simple organisation with only a few levels: chief executive, heads of department, and departmental staff.

- > What entrepreneurial functions make up your organisation, and how are they structured?

As well as giving thought to the formal aspects of the organisation, you will also need to consider the “soft” factors.

- > What values and standards characterize your organisation (corporate culture)?

Regarding the organisation of a start-up company, the question of how to work together with other companies is furthermore particularly relevant.

- > What partners will you work with? What are the advantages of this cooperation, for you and for your partners?

(6) Action plan

You need to plan as realistically as possible how you would like to realise your business idea. The realization plan has a significant influence on the financing and the risks of your business and a failure in the schedule is very likely to have fatal consequences for your business. You will be helping both yourself and your partners, if you plan the interactions in advance and analyze the effects of the various influences. Effective planning has an organizational and procedural aspect. Four simple rules will guide you here:

1. Group individual tasks into 'work packages'. The business plan should not, however, contain more than a dozen of these packages - the people concerned can subdivide their own packages further if they wish. Break each package down into simple steps, each of which should end with a 'milestone', i.e. a specific target.
2. Make use of expert knowledge when working on the important planning stages,
3. Follow the 'critical path', i.e. those series of activities in which a delay of any one activity means a delay for the entire project.
4. Try to reduce risks at the earliest possible stage, e.g. through early market research.

Concentrate the presentation of your realization plan on the significant milestones and the important interdependencies. Three elements will normally suffice: A chart showing your schedule, the important milestones, and the important interdependencies between the work packages.

Make sure to answer the following questions in this part of your business plan:

- > As your company grows, what tasks will it need to perform, and how can they best be grouped into work packages?
- > What are the most important milestones in the development of your enterprise, and by when must you reach them?
- > Which tasks and milestones are directly interconnected? What is the critical path?

(7) Risks

A thorough and open consideration of the risks involved will both win the confidence of your investors, and increase your own. Thus, try to answer the following questions when describing the risks of realising your business idea:

- > What business and financial risks can you see that might threaten the success of your enterprise?
- > How will you deal with these risks, and how will you minimize their impact? Describe mitigating actions.
- > What is the quantitative effect of the individual risks? What are the base case scenario (most likely to happen), the best case scenario (when your positive expectations are generally fulfilled) and the worst case scenario (when your negative expectations are generally fulfilled)?

- > How would the business survive the worst case?

(8) Financing

The cash flow will remain negative until the point at which the incoming payments equal the money going out - the cash break-even point. The total negative cash flow till break-even must be financed in advance. The business plan should thus contain information on the company's future financial development, backed up with a rough financial plan. Detailed financial calculations are not necessary, as forecasts are by their nature approximate, and even more so for a new company. Your business plan must answer the following questions:

- > What assumptions are your forecasts in the business plan based on?
- > How large is the company's capital requirement until break-even? How much cash will be needed in the worst case?
- > Where will that capital come from?
- > What does the deal look like for potential investors? (e.g. size of share of the company demanded in return for investment, period of time the return is required)
- > What return can investors expect, when the company is established?
- > How will investors realize their profits?

The minimum requirements for the financial planning in the business plan are:

- > Cash flow calculation, profit and loss statement, balance sheet;
- > Forecasts for the next three to five years, and at least one year beyond break-even;
- > The first two years should be shown quarterly or monthly, the rest annually.

(9) Appendices

Supporting facts and figures should be presented in appendices. Examples are pictures of the product/service in use, technical descriptions as well as economical calculations and diagrams.

While preparing your business plan, you can also use the checklists in appendices 2 and 3 to make sure that you described all main points that may be required from potential investors.

2. APPENDIX 1

TEMPLATE FOR THE DOCUMENTATION OF A TELEPHONE INTERVIEW

Date:	
Time:	
Length of the conversation:	
Interview partner:	Name:
	Profession:
	Organisation:
	Position:
Contact details of interview partner:	Telephone number: E-mail: Address:
Topic:	
Results:	

3. APPENDIX 2 CHECKLIST FOR THE EVALUATION OF A BUSINESS IDEA

3.1. Business idea

- Have you described the fundamental idea of your product/service?
- Is the customer value clearly described?
- What is unique for your product/service?
- Have you described the pricing of your product/service?

3.2. Market

- Have you calculated how big your market is and which growth potential it has?
- Have you described your customers?
- Have you described your competitors?

3.3. Business

- Have you described how your company will generate revenue? How will you make money?
- Have you identified your role within the company?
- Have you estimated the profit potential?

3.4. Thesaurus for this checklist

<i>Customer value</i>	Added advantages/value for customers using the product/service (as the solution solves an underlying problem for the customer).
<i>Pricing</i>	How much will you charge the customer for your product/service and how much will it cost you to provide it?
<i>Growth potential</i>	Prognosis for the future potential the market growth based on the possibility to attract new customers and trends among the existing clientele.
<i>Profit potential</i>	Assessed prospect of making a profit based on customer demand, market share, structural organisation of your company etc.

3.5. Tips

Business idea: Highlight three unique advantages for your product/service. Quantify the benefit for the customer in numbers. Do NOT put too much emphasis on technical issues.

Market: Describe who is going to buy your product/service. Find statistics for your market. Compare your product/service to what is available on the market.

Business: State clearly how your company is funded!

4. APPENDIX 3 – CHECKLIST FOR WRITING A BUSINESS PLAN

4.1. Executive summary

- Have you described the important parts in the business plan?
- Is the summary written in such a way that it stimulates further reading with regard to potential and uniqueness?
- Does it succeed in "selling" the idea to the reader?

4.2. Business concept

- Have you described the fundamental business idea of your product/service and the problem it solves?
- Is the customer value clearly described?
- What is unique for your product/service and in which way is it distinguished from your competitors?
- Have you described how your company will generate revenue?
- Have you described the developmental status of your product/service?

4.3. Management team

- Have you described key associates, roles within the company and who is behind the business idea?
- Have you described a recruitment plan, how will the experience and knowledge now lacking within the company be recruited?

4.4. Marketing plan

Market analysis

- Have you described the size of your market and its growth potential?
- Have you identified development trends in your market?
- Have you described market barriers and how you will circumvent these?
- Have you described your competitors?

Market strategy

- Have you described and motivated your choice of customers and target market segment?
- Have you described and motivated the pricing strategy for your product/service? (position on the market)
- Have you described the distribution channels of the company?
- Have you described the marketing strategy and costs for planned marketing actions?
- Have you described how you can protect your product/service and the situation with competing patents?

4.5. Business system and organisation

- Have you described your company's business system?
- Have you described and motivated which activities are performed within the company and which that are external?
- Have you described potential collaboration partners?
- How do you plan to build the company for the future?

4.6. Action plan

- Have you described which the critical activities are to carry out the strategy of your company?
- Have you established an implementation plan which considers cost and time aspects?
- Have you analysed which activities are dependent on each other and what constitutes the „critical line“ in your business?

4.7. Financing

- Have you made an analysis of total costs? (e.g. during 3 years)
- Have you made a income statement/budget?
- Have you presented a balance sheet?
- Have you made a cash flow budget?
- Have you commented your calculations in the text?
- How big is your capital requirement and from which sources do you obtain the required capital?
- What is your value proposition to potential investors and what return can an investor expect?
- Have you described a worst case scenario?

4.8. Risks

- Which risks do you see as critical to the development of your company?
- Have you described how you handle these risks and how you limit their potential negative impact?

4.9. Appendix

Appendices may for example contain:

- Pictures of the product/service in use,
- Technical descriptions,
- Economical calculations and diagrams.

4.10. Thesaurus for this checklist

<i>Customer value</i>	Added advantages/value for customers using the product/service.
<i>Target market segmentation</i>	Division of the total market in special groups (segments) with separate characteristics, for example geographical, demographical, social and/or behavioural.
<i>Distribution channel</i>	Physical transport route for a product/service from a company to a customer.
<i>Business system</i>	Description of the separate operations within your company and how they are dependent on each other. The business system shows the essential operations to be able to produce a product or deliver a service.
<i>Critical line</i>	A sequence of activities in your business where a delay inevitably affects the whole project.
<i>Income statement</i>	Disposition of gross intake and expenses during a period of time.
<i>Balance sheet</i>	A financial disposition of assets and debts at a given point of time.
<i>Cash flow statement</i>	A disposition of the cash flow situation in short terms, for example to show that a sufficient amount of money is available.
<i>Worst case scenario</i>	Assumption of a business scenario with a consequent negative course of events.

4.11. Tips

- > When looking at an executive summary, the customer value and how you are supposed to make money out of the idea ought to be obvious!
- > Highlight three unique advantages for your product/service. Quantify the benefit for the customer in numbers. Do NOT put too much emphasis on technical issues.
- > Management team: It is important to mix different competencies/persons within the company. Be honest, visualise the vacant positions and describe your strategy to fill these gaps. If you are running a small company, focus on the competencies you need to succeed.
- > Marketing plan: Build your description of the market on facts, collected data and market polls. Be careful to motivate the choices you make. Consider how you can protect your idea by patents, brand-, pattern- and source protection, secrecy clause or simply by fast execution. Remember, there is always competition in a market!

- > Business system and organisation: Illustrations are very useful in order to clearly visualise the business system.
- > Action plan: A time schedule, for example a Gantt scheme, is an excellent way to visualise milestones and ongoing activities.
- > Risks: Make a SWOT analysis. Be careful to indicate a solution to the risks you have identified. Account for all obvious risks, do NOT be ignorant.