

# BUSINESS PLAN GUIDE: BASIS FOR YOUR SUCCESS

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HAVING A GOOD BUSINESS IDEA IS ONE THING – PUTTING IT INTO PRACTICE IS A DIFFERENT ONE ALTOGETHER.

When young entrepreneurs break down, this is often explained by insufficient planning of the firm's creation. Hence, taking your time to be well prepared for your future as an entrepreneur is paramount. Evaluate different options for the setup of your enterprise and choose the best one. Inform yourself in detail. Estimate the chances and risks of your idea. You will see: The more concrete and detailed your plan is, the better and more realistic you can evaluate your chances of success. With a well thought-out business plan, it is considerably easier to become self-dependent, as you and the

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<sup>1</sup> This document is based on two publications: "Der Weg zum Erfolg in 8 Bausteinen - Sparkasse" and "Handbuch zur Businessplanerstellung - futureSAX". It is used for education purposes only.

capital providers can make a better evaluation and advise you competently. This handbook shows you how to prepare a professional business plan.

Here some rules that can help you:

### STAND OUT WITH CLARNESS AND OBJECTIVENESS

Your business plan must be structured so clearly, that the reader orients himself and finds answers to his questions as soon as possible; hence, bring your statements to the point. Focus on the essential and do not strain the reader with too much analysis and data. Stick to the default structure of the eight building blocks.

Try not to get excessively enthusiastic when you depict your idea. Despite all the desirable enthusiasm, you should stay accordingly businesslike and give the reader the possibility to criticize your comments objectively.

Similarly, avoid being too critical in your presentation of the project. To evaluate critical points of your project, you should always present planned measures to solve the problem.

### FORMULATE YOUR PLAN SO IT IS ALSO UNDERSTANDABLE FOR NON-EXPERTS

Some founders think that technical details, bulky construction plans and small-printed business-assessment-curves will leave an impression of competence in the minds of the evaluators and investors. However, experts prefer simplified demonstrations during the evaluation of business plans and, where necessary, an explanatory figure or picture. Only particularly important details of your product or service should be included in the annexes to the business plan. Nevertheless, tangible “proofs”, for example, an application for a patent, help to evaluate your concept’s maturity.

When writing a business plan, it can be difficult to avoid losing yourself in the individual details and analysis. Therefore, lean back from time to time and critically evaluate if the information is enough or if additional analysis is necessary.

FOCUS ON THE ESSENTIAL  
AND DO NOT STRAIN THE  
READER WITH TOO MUCH  
ANALYSIS AND DATA

EXPERTS PREFER SIMPLIFIED  
DEMONSTRATIONS DURING  
THE EVALUATION OF  
BUSINESS PLAN

UNDERSTANDABILITY AND  
COHERENCE ARE CRUCIAL  
FOR THE SUCCESS OF YOUR  
BUSINESS PLAN

WHILE WORKING ON A  
BUSINESS PLAN YOU  
SHOULD OBTAIN ADVICE  
AND TIPS FROM  
SPECIALISTS

### CREATE A ONE-PIECE DOCUMENT

When more people participate in the creation of the business plan, a colorful random document could emerge. While one of the authors gives a very detailed sector and market analysis, another gives perhaps just a simple overview of the marketing activities. However, all the single parts of a business plan must be joined together into a coherent whole. Hence, it is recommended that one person is responsible for the final draft.

A business plan should also follow visually a uniform line – after all, it is the enterprise’s signboard. Try, for this reason, to have a reader-friendly composition. Please select a uniform font (for example Times Roman) and apply uniform formats (for example titles should always be bold or in uppercase letters); establish understandable references between text and figures.

### TEST YOUR OUTLINE

Understandability and coherence are crucial for the success of your business plan. Therefore it is important that you face up to an audience. Outsiders that revise the documents often identify weak points surprisingly fast and can give helpful suggestions for furthering the work.

### WORK YOUR BUSINESS PLAN OVER AS OFTEN AS NECESSARY

A business plan “lives” – it matures step by step. Maybe at the beginning there is just a basic concept and your notion is still imprecise, with time it becomes a “round” business plan. Due to new findings in this process, several themes must be revised and updated often. Assumptions, forecasts and target values must also be adjusted. By doing this, you avoid mistakes in the content.

### LOOK FOR SUPPORT EARLY

While working on a business plan you should obtain advice and tips from specialists. Do not be afraid of appealing to external help (for example advisors of chambers and professional associations, tax counselors, notaries and attorneys-at-law), but do not allow third parties to write the documents completely. Literature on business start-up offers support too.

### DO NOT ALLOW YOURSELF TO BE DISCOURAGED

The creation of a business plan demands time and concentration. Using the presented helpful options and working your concept step-by-step with the eight building blocks, you will see: with every building block, you come one step forward and the mountain of work will not seem unconquerable any longer.

## YOUR BUSINESS PLAN'S SEVEN BUILDING BLOCKS

Your business plan should consist of seven building blocks and, if necessary, an annex. To ease the work for you, we have assigned central questions to the building blocks. The questions are for you to contemplate and are not required. That means: you decide which questions are important for your intended business and which ones should be answered. The questions are by no means complete, you may want to show answers to questions that are relevant for your business and are not present.

We would like to help you to avoid typical mistakes when you write your business plan with these practical tips.

## BUILDING BLOCK 1 – EXECUTIVE SUMMARY

The Executive Summary is the presentation card of your business plan. It communicates to potential investors and partners in brief comments the most important information of your business plan. It should make explicit the core of your business idea and point out the risk/success factors of your enterprise. And even more importantly, it should awaken the investor's interest.

The Executive Summary should be composed of the following parts:

### DESCRIPTION OF THE BUSINESS IDEA

Define briefly your product or service and make clear why the idea is coherent.

### MARKET OPPORTUNITIES

This accurate but short description of the markets must be completed with key information in your marketing strategy. Here you have to tell the reader how you are going to convince customers to buy your product or service.

### MARKETING AND DISTRIBUTION STRATEGY

Define how you will catch customers as well as how your customers can purchase your product/service and how it will be delivered to them.

### ENTERPRISE MANAGEMENT

Describe shortly your key management team of the start-up.

### FINANCIAL GOALS

Be optimistic and realistic at the same time (for example: by the year 2020 my enterprise should realize a turnover of 80,000 euros and generate a profit of more than 10,000 euros).

- ✓ Do not forget to clearly estimate sales, yield and capital requirement numbers.
- ✓ The reader reads the Executive Summary first. Through a clear, objective and coherent presentation of your start-up

plan you can show that you understand your business. The skill is demonstrating the essentials of your business idea in no more than two pages.

- ✓ The Executive Summary should be read and understood in five minutes. Try it out!
- ✓ Write the Executive Summary at the end. Only after the remaining seven building blocks are finished, you will be able to formulate your ideas and objectives precisely. It is not the introduction, but a compressed “compendium for the management”.

#### Guiding Questions:

- What is your business (product/service)?
- What is the customer benefit of your product/service?
- What are the unique selling points (USPs) of your business?
- Which market segment you are targeting?
- How you are going to convince customers to buy your product or service (marketing strategy)?
- Which knowledge and experience qualifies you for this start-up?
- How high is the required investment?
- What are the expected sales and profits for the next three years?

## BUILDING BLOCK 2 – PRODUCT/SERVICE

Your business is based on a product or service idea. Define your idea, describe the special benefits from the future customer's point of view and compare your products or services with those of your competitors. In addition, you should give an overview of the development status and the market-readiness of your product or service. Also, you should point out the preconditions for the implementation of your project.

### DESCRIPTION OF THE PRODUCT OR SERVICE

A business plan based on the idea of a new product or service makes sense when your product or service is superior to the already existing competing products at least in one aspect. For this reason, include in the description of your project the characteristics of your product or service that differentiates it from the existing competition in a sustainable way.

### CUSTOMER ADVANTAGES OR BENEFITS

If there are comparable products or services from the competition in the market, justify convincingly which additional benefits (or which costs savings) your product has. Evaluate the products and services of your competitors according to the same criteria. If you offer several products or services, try to consider the most important ones individually for the turnover and sum up the other ones in groups.

### STATUS OF DEVELOPMENT OF THE PRODUCTS AND SERVICES

Put yourself in the reader's place who wants to visualize the development status of your product or service without having technical or specialized knowledge. Try to explain everything as visually as possible. A short description, layout or photograph helps document the status of your planning. Keep in mind, attaching available patents or certificates is beneficial, if part of the plan. If problems or open questions about the development still exist, indicate how you will overcome these difficulties.



*PUT ON THE "GLASSES OF  
THE CUSTOMER" AND  
DESCRIBE WHICH  
BENEFIT THE CUSTOMER  
COULD HAVE FROM  
YOUR PRODUCT/SERVICE*

Whether your products or services fulfill the requirements of the legislation is also important for your investors. Describe which approvals, licenses or permits from the appropriate authorities that have been obtained and which ones are still required. Keep in mind the labor regulations.

#### Guiding Questions:

- Which are the most important attributes of your products or services?
- Which competing products already exist?
- Which services and attentions do you offer additionally?
- What kind of guarantees (terms, quality, product or fabrication guarantees) do you give?
- What are the customer needs in your market segment?
- What are the customer-oriented benefits of the product or service?
- To what extent must you still complete your services offer, in order to create these additional benefits? (for example customer's service expansion)
- Make a comparison of your products or services with the ones of the competitors based on selected criteria. Which strengths and weaknesses attract your attention?



## BUILDING BLOCK 3 – MARKET AND COMPETITOR ANALYSIS

Your enterprise can become successful only when the business idea is implemented in the marketplace. Check where and how your enterprise can be positioned in the sector and market. First, analyze the sector and the market precisely. Procure data on the sector (sales in units/turnover in thousands of Euros), on the competitors, their market strategies as well as their distribution channels. Consider the market's entry barriers, clientele, providers and the typical sector prices, costs and returns.

The data required for the market and sector analyses is easier to obtain than what you might think. First, you have to list which data are required for your analysis and from which sources you can obtain this data. Available information sources are the publicly accessible statistics from public agencies, sector associations, unions, guilds, chambers of handicrafts, industry or commerce and last but not least, specialized industry press. Other information sources are sector reports and databanks (for example, the financial organizations). Conversations with experts and market rivals can also give valuable information.

*Be creative and use all available information in order to correctly evaluate the chances of success for your product or service in the market. Frequently, taking the telephone in your hands and calling is helpful. To prepare your telephone research, write brief guidelines, so that you determine the questions and their sequence. With pointed questions, you save not only time, but you increase the odds of getting the right answers from the call.*

### SECTOR

In order that potential investors can appreciate your idea and objectives, first give an overview over the sector that your firm will be joining. Describe the current situation of this sector and the future development of important factors like technical innovation, modification on legal bases or modifications in customer behavior. Describe factors that influence your enterprise.

## Guiding Questions:

- How big are the sales and turnover totals of the sector?
- Is the sector growing, so that turnover increases are reachable without displacing competition?
- Which current trends could favor or restrain your product?
- Which influence do the innovations on the sector have?
- Which other economic developments influence the sector?
- How do prices, costs and returns evolve in the sector?
- How is the growth of the sector determined?
- How can lawmaker initiatives affect the sector?
- Which environmental developments influence the sector?

*Do not underestimate the competition. Hence, explain and describe the current market position of all competitors.*

Your enterprise can exist in the market if the customers accept your products or services. To estimate your market potential and to target the customers, it is important to define your target group. For that, you should arrange your (future) customers in customer groups (segments). Segmentation criteria are e.g. customer benefits, buying behavior, regions, and usage of the products. You can choose the criteria for your segmentation freely, as long as you are sure that the customers in the same segment are reachable through the same sales strategy. For more information see also our Guide for Business Model Development.

**COMPETITORS**

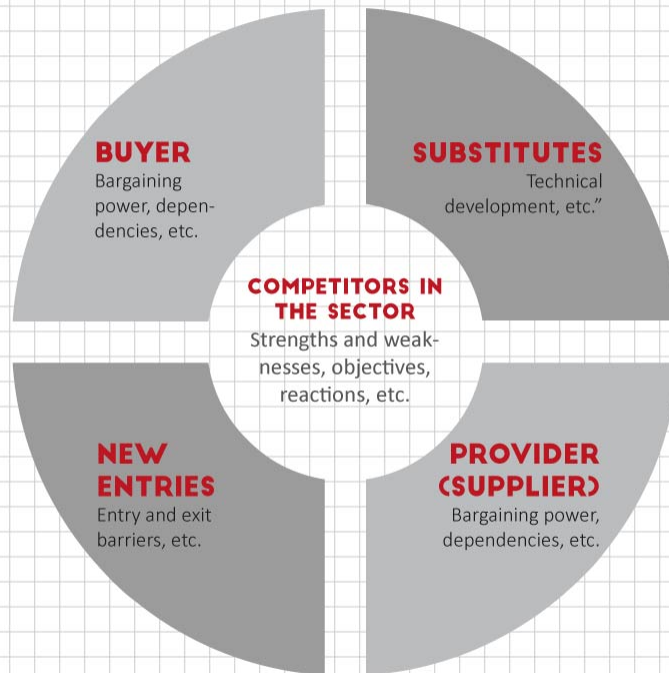
Do not underestimate the competition. Hence, explain and describe the current market position of all the competitors (actual and potential) based on the same criteria. Go into the sales, turnover, pricing, volume, growth, market share, costs situation, location, target groups, distribution channels and service. Then, evaluate your enterprise in the same way. Compare the strengths and weaknesses of your competitors to the ones of your enterprise and explain your competitive advantage. Compare the competitor profiles to your enterprise in a tabular overview. This can be relevant for your competitive advantage in terms of the location, closeness to customers or suppliers, availability of labor force, advisory

quality of the personnel, rent, labor costs and or regulatory obligations. Describe the environment of the target market, the competitive situation and the strengths of your enterprise as precisely as possible, so that the reader can have a comprehensive view of your market position.

#### Guiding Questions:

- Which important competitors offer comparable products or services?
- What is the market share of your competition?
- How profitable is your competition, now and in the future (estimation)?
- Which customer groups do your competitors target?
- Which marketing strategies do your competitors use?
- Which distribution channels do your competitors use?
- How is the pricing in general? Do you have price ranges?
- Which new developments are expected in this sector?
- How can you practice your competitive advantage?
- Are market entry barriers present and how can you overcome them?

In your market environment, besides your direct competition, there are other competitive forces. These are illustrated in the graphic below and are “Porter’s 5 Forces”, according to the Harvard Professor Michael Porter. Do not forget to have a clear idea of these factors during the analysis of your departure point. Possible dependencies of important clients or providers belong thereto; and hence, resultant influence like, for example, enforceability of prices, as well as the question about which substitutes or new entrants can endanger your business. Meditate during the analysis of your direct competition, how will they react to your entry into the market and what you must do to be prepared for this reaction and manage it.



Source: Michael E. Porter, Competitive Strategy, New York, 1980, p. 4

## BUILDING BLOCK 4 – MARKETING AND DISTRIBUTION

Marketing is often equated to advertising. However, advertising is only an individual aspect of marketing. The idea of the marketing mix, which is illustrated below, makes this very clear. Besides the advertising, the marketing mix consists of the product with its attributes, the price of the products, the place where the clients can acquire it, and the people with whom the client will be in contact before, during and after the product-related buying process.

A more specific marketing mix is more successful and consistent. Therefore, please control the consistence of all the linkages (below in the figure) in your planned marketing mix.



*The most important difference between service and a physical product is the fact that the services cannot be stored.*

For example: If your product has a higher quality value than competing products, why should you launch it to the market at competing prices? When you sell luxury goods, is your service and in-store-environment adequate? Does it make sense to set-up internet distribution for a product whose advantages can only be perceived by client experience (e.g. particular comfortable grip, etc.)?

It is worthy to note some particularities in the case of services. Here, for the success, the direct contact with the clients is more important than for a physical product. In consequence, enhanced attention should be paid to the planning of the service.

However, the most important difference between service and a physical product is the fact that the services cannot be stored. A hotel room that was not leased today cannot be occupied twice tomorrow; an hour, in which today no haircut happened, could not be used twice tomorrow during a rush.

Hence, think how you could gainfully shift a part of the demand from peak times into flexible times. Interesting offers regarding price can make the mentioned times more attractive for your clients. Flexibility and creativity pay off here and provide the decisive advantage over your competitors. It is worth the effort to consider it.

For a successful marketing and distribution concept, you must first define as soon as possible your target group. Then, from the view of your customer try to evaluate the customer benefit precisely. For your product, distribution and communication strategy, you should never lose sight of the target group. If more customer advantages come to your mind, assess them to identify the primary customer benefit. Due to the information overflow in the market, you have at best the chance to place one message. Moreover, your sales success depends on the fact that this message is the decisive one.

**SALES-PROMOTING/ADVERTISING**

Briefly present how you want to attract the customer's attention to your product or service. Depending on the type and price of your product or service, you will choose among different sales-promoting measures, e.g. advertisements, placards and fair stands. The objective of the first advertising actions should be to communicate the singularity of your offered products. Ideally, the advertising manages the link between product and customer benefit so perfectly that your clients perceive only your product as the solution to their specific problems or necessities.

#### DISTRIBUTION CONCEPT

Demonstrate in detail how you want to bring your product to your customers. Present your distribution process and point out the planned distribution channels. Include the respective emerging costs (salaries, commissions or shares of the turnover, etc.) while choosing the distribution channels.

Highlight how you imagine the build-up of your distribution; explain the qualification requirements and the potential number of distribution employees.

Consider the future and think about how to adjust your distribution strategy to respond to changes in the products or customer's needs and preferences.

A complete distribution concept requires a determination of price. When the time comes to establish the price of the product or service, you should orientate yourself to the prices of comparable or currently-in-use products or services. Evaluate how valuable the additional benefit of your product or service for the customers can be and how convincingly you can make the additional benefit for them. If you should operate with dealers, incorporate their commissions into the calculation.

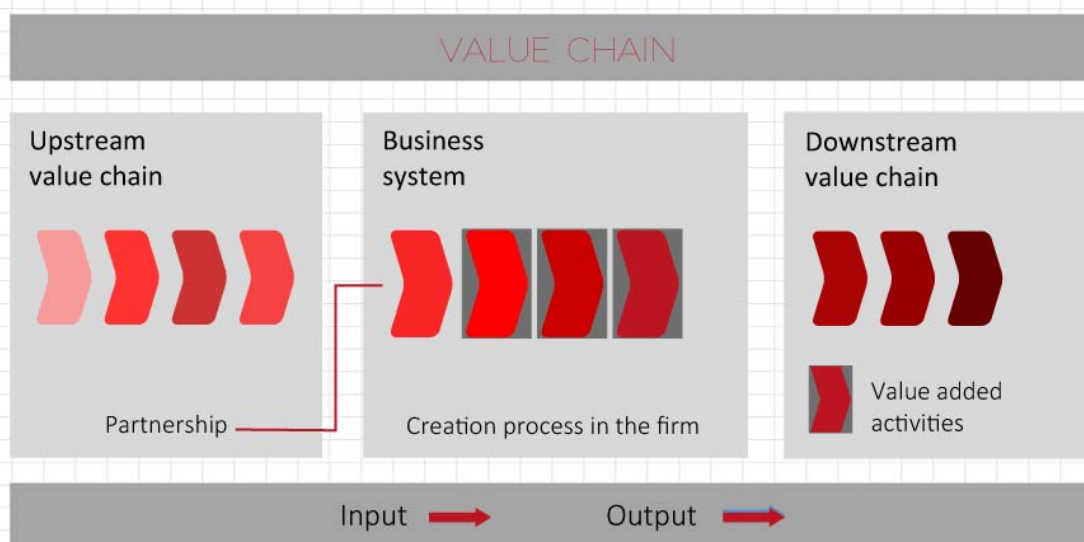
#### Guiding Questions:

- Which steps do you plan for the introduction of your product or service?
- What do the timetable and the milestones look like?
- What should the final (retail) price of your product or service (estimation) be?
- How do you regulate the payment for your product or service, what grace period or discount do you concede to your clients?
- What is the target sales level (estimation)?
- How do you attract customer attention to your product or service?
- Which advertising means do you use for that?
- Which expenditures for advertising and sales promotion come during the product introduction and which later?
- What does the typical distribution process look like?
- Which distribution channels do you use?
- What is the breakdown of sales between the different distribution channels?
- Which target groups can you reach and through which distribution channels?
- What are the distribution requirements? Which expenditures are you budgeting for?

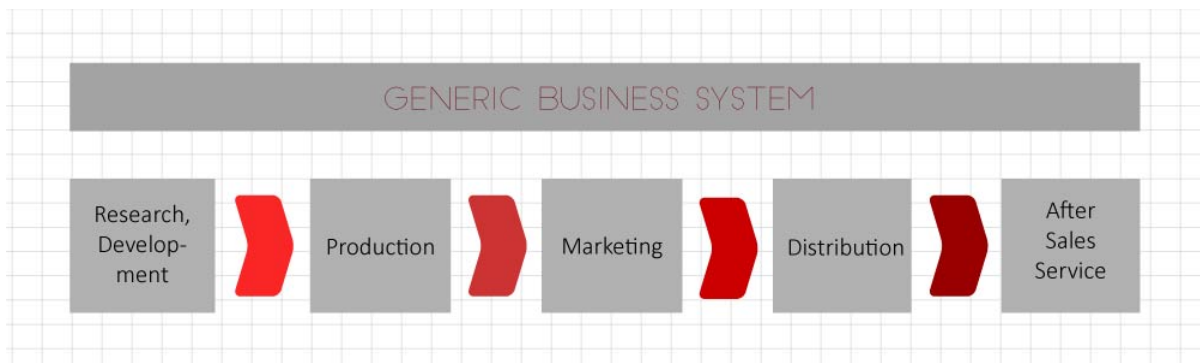


## BUILDING BLOCK 5 - BUSINESS SYSTEM

The company's business system is a part of the business model. Every business activity is composed of a number of individual activities. The systematic illustration of relevant relationships leads to the business system. The system model describes the business activities of a company that are necessary for the provision and delivery of a final product to a customer—summarized in "functional" blocks. It is a good way to understand and assess the business activities of a firm in a transparent manner. In the following figure we can see a typical generic business system in accordance with the value added chain.



Use the generic model as a starting point for designing your own business system. You have to adapt it to your own specific situation. For a manufacturing company, it is useful, for example to divide the step "production" into components such as purchasing, raw material processing, or sub-systems assembly. In addition, it could be necessary to divide the step "Distribution" into logistics, wholesale and retail.



*There are no general rules or standards. Your own business system should have a logical and clear design.*

What makes most sense depends heavily on the industry sector, and of course on your company itself. The business system of an IT manufacturer differs obviously from that of a fast-food chain. But also the business system of a department store will look significantly different compared to the one of a direct delivery company, although both can sell some of the same products. Avoid a too complex structure.

Focus on the essential parts of your business system. A team of three to five people will not be able to perform all tasks in a way that makes the most sense due to lack of skills, efficiency etc. Think carefully about what activities really create something new and how you want to use your time and the working hours of your employees to create customer benefits and to prevail over competitors. Focus is your key. Select those business system steps that you can perform even better than anyone else.

The development towards specialization is a general trend in the economy. The specialization of start-ups has been considered particularly important: you should concentrate on a few steps of your business system.

#### PRECONDITIONS FOR THE BUSINESS' ESTABLISHMENT/PRODUCTION'S REQUIREMENTS

Define how much material and personnel is required in the point establishment of your project. Determine the estimated production costs per unit and create a unit-cost calculation chart. Define the required space as well as the necessary stock

of inventory. Illustrate which capacity and enlargements are required for the intended sales volume.

Please take into consideration that in the start-up phase the production capacities and the volume of service provision are not working to full capacity. Therefore, with the determination of the addition to cover overhead calculation, please assume full capacity utilization costs.

#### Guiding Questions:

- What does the business system as a whole look like (services in the value chain, including suppliers and users)?
- What do you make yourself, what do you buy?
- With which partners do you work? What are the benefits for you and your partners?
- What should the production process look like? Which steps provide your services?
- What is the desired amount of produced units or service volume?
- What is the cost of an expansion of capacity?
- What is the required production machinery/equipment?
- How many employees do you need and which qualification should they bring?

## BUILDING BLOCK 6 - ENTERPRISE MANAGEMENT

*Convince through  
concise presentation  
of your key  
qualifications of your  
enterprise's business  
management*

A good business idea can be implemented successfully only when the necessary know-how exists in the management team. Understandably, the investors would like to know precisely whom they are entrusting their money to. Hence, explain your up to date background and that of your partner, and show clearly to which extent are the acquired qualifications important for the firm start-up.

### **SPECIALIZED/TECHNICAL QUALIFICATION**

In the presentation of your qualifications, point out the ones of particular importance for the establishment of your project. Convince through concise presentation of your key qualifications of your enterprise's business management.

### **PROFESSIONAL EXPERIENCE**

Successfully practiced specialized/technical know-how gives an important indication of the establishment chances of your start-up project and corroborates the credibility of your predicted market and sector's development. Describe if, and how long, you have already worked in the sector in which your enterprise will participate.

### **COMMERCIAL KNOW-HOW**

Show that you give significance to the commercial management of your business. Present also under this aspect, your specialized knowledge or show to whom you delegate the commercial tasks. Complete your comments with tabulated CVs for you and your partner according to the example shown below. The school and professional education, up to date professional activities, as well as additional qualifications should be in it.

## Guiding Questions:

- How do the specialized/technical qualifications and professional background of the enterprise management team and of the key-persons look?
- What kind of commercial knowledge/experience does the business management team have?
- Is there a necessity to strengthen some positions in the management level?
- To which extent do you depend on important employees?

**ORGANIZATION OF THE ENTERPRISE**

A successful enterprise organization requires a clear division of functions and assignment of responsibility areas. Present how the responsibilities are arranged in your enterprise and show an organizational chart, if necessary.



To bear responsibility for the firm does not mean “doing everything and anything”. Do not be afraid to integrate appropriate external advisors, e.g. tax consultants, accountants/auditors, patent agents, public relations agents, start-up or enterprise consultants.

In case experience in an important sub-area is missing, think about forming a team in which, for example, technical and commercial knowledge are combined.

**THE ENTERPRISE’S LEGAL FORM**

Normally, the legal form of the enterprise derives from the composition of the founding team and from the organizational structure. First, describe in this stage if you will be the sole owner of your enterprise or if you want to have partners to materialize the business idea. In the case of the latter, present the functions of the individual shareholders and the company’s structure (contribution of capital/responsibility, assumption of functions in the enterprise). Indicate which legal form you chose and why.

*Do not be afraid to  
integrate appropriate  
external advisors*

Guiding Questions:

- How does the organizational structure of your enterprise look?
- Who should manage which groups and firms' departments?
- Which legal form did you chose?
- How are the company's shares distributed?
- Does the legal form follow the interests of the shareholders?
- Is it possible to inject additional capital without problems?

## BUILDING BLOCK 7 - FINANCIAL PLANNING

Normally, after starting it is not possible to implement the planned data 1:1. Therefore, many entrepreneurs ask: what was the whole work for? The following aspects should motivate you to deal with the 3-year- financial plan in detail.

- As soon as your planned data is worked out, you can judge if your project is economically profitable and if it is worth the effort to invest time and money in it. This is an important basis to convince third parties of your project, e.g. capital providers.
- As you bring your calculations onto paper, set assessable objectives and define what you want to achieve.
- The numbers are your first instrument of control. Through comparison of planned numbers and effective (actual) numbers, you can determine and take corrective actions. Moreover, a thoughtful, businesslike-behavior will be expected from you.

*Make sure that all the investments, costs and expenses items are estimated realistically*

The 3-year-financial plan consists of the revenue projections, an investment and operating expenses planning (including human resources planning, marketing expenses plan and other operating expenses according with the needs of the company), profit and loss statement (or Income statement), cash flow planning (or liquidity planning) and sources of financing.

### STEP 1 - REVENUE PROJECTIONS

Please, document in the business plan all of the assumptions used in the compilation of the financial planning. Proceed by going step-by-step through the estimation of the objective's magnitudes. The turnover evolution, for example, derives from the market size defined by your target group, which is defined by the targeted market share, as well as by the planned unit prices. Please, avoid going in reverse to determine the target turnover (counting backwards from the targeted profit).

*Consider that the expansion of the business often requires more investments in the future*

## STEP 2 - INVESTMENT PLAN AND OTHER EXPENSES PLANNING

### INVESTMENT PLANNING



The investment planning provides, in conjunction with the human resources planning, the data basis for the profit and loss statement, as well as the liquidity or cash flow planning. In the investment planning all of the goods that you acquire to use them in your business in the long term (fixed assets: tangible and intangible) are included. There are, among other things, buildings, machines, vehicles, computers, software or the initial endowment of your stock. The amounts to be included correspond to the acquisition price without value-added-tax plus additional costs (e.g. for installation) minus discounts. Consider that the expansion of the business often requires more investments in the future.

High investments have costs and expenses that can burden the profitability of your business. On the other hand, the unobstructed implementation of your business idea must be guaranteed. Keep the costs and expenses as low as possible. Evaluate whether all of the acquisitions are necessary from the very beginning for an efficient and competitive business.

The acquired goods should be depreciated according to their useful life. That means that their reduction in value, from use over time, is to be included in the profitability planning as expenses-block under the category of “Depreciation expenses” for every fixed asset (tangible and intangible).

### OPERATING COSTS AND EXPENSES PLAN

Make sure that all the costs and expenses items are estimated realistically. The costs are items related only with the production and/or commercialization of a product (if the company is a commercial and/or manufacturing firm). The expenses are items related with administration of the daily activities of the company and they are classified in sales and administration expenses (for example: rent, telephone, internet, utilities, depreciation, etc.).



*Outline which employees with the desired qualifications and remuneration you want to hire for the different times.*

#### HUMAN RESOURCES PLANNING

If you need qualified personal for your enterprise, make sure that is possible to get adequately skilled employees. Evaluate if you can work at full capacity with full-time employees or work initially with only part-time or temporary employees.

Outline which employees with the desired qualifications and remuneration you want to hire for the different times. Consider you have to include the total labor expenses. Factor in not only the hourly/monthly wage, but the non-wage labor expenses that you have to pay in pension, health, unemployment and nursing insurances. Vacation payment, workers' asset-formation funds, and voluntary social benefits additionally increase your non-wage labor expenses.

#### MARKETING EXPENSES PLANNING

For start-ups it is very important to inform your potential customers about your offer in the market. Therefore a detailed planning of your marketing expenses it is necessary. In some businesses (e.g. online business models) the marketing expenses can be even higher than the production costs.



## Guiding Questions:

- Which investments do you want to make in the short term?
- Are cost and expenses quotations/offers available?
- Have you included reserves for price increments and unforeseen events such as changes in the economic situation?
- Which investments will be necessary in the future?
- How many employees will you need in each area of your enterprise in the next 3 years?
- How high are the calculated annual gross salaries and the computed non-wage expenses?
- Are the calculated salaries in-line with the sector standard?
- Are all expenses of marketing activities considered?

**STEP 3- PROFIT AND LOSS (INCOME STATEMENT)**

It helps you estimate how much remains at the end of an operating year. Basically, this happens through the planning of the turnover (revenue projections) and the costs and expenses. The annual surplus (profit or earnings) or the annual deficit (loss) is computed by subtracting of all the costs and expenses from the annual revenues/incomes. For example, if you sell your product in the current year and the payment will occur not until the next year, you must enter the income of the sale although you have not received the money yet. This principle also counts for the expenditures that you do not have to pay immediately, but the next year.

**Important notes:**

- Notice that when the turnover grows, increase the costs and expenses as well. Critically approach all of the cost and expenses factors and consider that expansion will require further investments.
- Do you execute your enterprise as a capital company, e.g. a limited liability company? And your planned numbers show a loss? Then, consider whether your enterprise has enough of its own capital endowment. Otherwise excessive indebtedness and, therefore, insolvency threaten your enterprise!
- Compare your planned numbers with the actual (real) numbers of other enterprises. If there is a serious difference in the cost and expenses structures, this should be explained thoroughly in your business plan. This helps to convince third-parties of your project.

Structure the operating expenses in the areas of human resources expenses (salaries expenses), marketing expenses, material costs, and depreciations expenses for every fixed asset (tangible and intangible) and other expenses. The financial expenses (interest expenses) are shown separate from the operating expenses (after the EBITDA – Earnings before interests, taxes, depreciations and amortizations) in the Income Statement (or Profit and Loss Statement).

Think about how much turnover you have to produce in order to earn your living expenses with the enterprise. Include your salary under “personal expenses” when your enterprise is a company, e.g. a limited liability company. Stakeholders of a partnership take their private living expenses from the annual profit.

## Guiding Questions:

- Which developments do you expect from the turnovers and costs and expenses in the next 3 years?
- What does your planned turnover look like? Which sales volume, which prices, which products or services are the basis for your data?
- Are the predicted turnovers realizable according to the demand? Are there convincing arguments for that? Do first orders already exist?
- Is it possible to achieve the planned turnovers with the planned capacity employees/technique? How is the utilization of your capacity within the magnitude of these turnovers?
- How high is your quoted rent? Compare it with the conventional prices in the sector/area. Consider that these are fixed costs and expenses; you must pay them even if you cannot achieve the expected turnover! Under which conditions can you terminate the rent contract prematurely?
- What are the estimated advertising expenses? Are the amounts enough to finance the foreseen measures?
- Which insurance are you contracting with/considering? Are all the most important risks considered?
- Who assumes the accountancy/advisory in your enterprise and under which conditions?

**STEP 4 - CASH FLOW PLAN (OR LIQUIDITY PLAN)**

You take care to keep watch over the income, costs, expenses and expenditure payments. The expenditures are directly related with the investments in fixed assets; this is the main difference between the Income Statement and the Cash Flow statement: the Cash Flow statement includes the investments in fixed assets. Other important difference is that the Cash Flow statement shows the cash flows of the firm classified in operating, investment and financing cash flows. Take care not to be suddenly with empty pockets, which finally could be the consequence of not being able to pay and subsequently head to insolvency. The principle of liquidity planning is simple:

*What happens when some of your clients do not pay? Consider insuring your receivable against failures*

estimate the timeframe and amount for the cash flows (income, costs, expenses and expenditures). Your enterprise remains “liquid” when the amount of incomes is higher than the amount of costs, expenses and expenditures at any moment. For periods in which this is not the case, you must add or incorporate capital. The total of all the amounts to be added or incorporated is the capital requirement for the respective period. The liquidity planning should also include a safety reserve for temporally delayed or cancelled incomes – for example, from clients that do not pay their bills on time (at least 10% of the total capital requirement).

Check to see if you have considered the start-up expenses in your planning (fees for notary, lawyer, registrations, leasing/rent expenses).

Do you know the payment behavior of your future clients? Compare your estimations with the debt-duration of the corresponding sector reports. What happens when some of your clients do not pay? Consider seasonal factors that can influence income, costs, expenses and expenditures. Consider insuring your receivables against failures.

In the starting phase, low incomes will flow. Estimate this period accurately (not too short in the plan). Consider implementing an up-to-the-minute accounting system that gives you information about obligations and receivables all the time.

#### Guiding Questions:

- How will the short-term liquidity evolve in regard to the business activity (detailed planning for the first 12 months)?
- How will the medium-term liquidity evolve (approximate planning for the quarters of the second and third year)?

### CREATING A MILESTONE PLAN

Investors want to know exactly the development stages of your firm. A realistic 3 year plan gives you credibility among investors and business partners. In addition, it helps you to rethink in detail all activities, processes and dependencies. Incorrect or too optimistic plan targets risk the future of your firm. Focus on important milestones and their relationships.

#### Guiding Questions:

- What are the key milestones in the development of your business and when which targets are to be achieved?
- Which tasks and milestones are directly linked?
- Which implementation is used (working packages)?

### CHANCES AND RISKS

In young and fast-growing enterprises, quick decisions about chances and risks that appear suddenly must be made very often. These can have big consequences for the future of the firm. If you do not want to be surprised by such situations, you should hypothetically anticipate possible chances and risks and prepare the respective decisions.

You should also evaluate the liquidity and profit/loss statements in light of external influences. Calculate, for example, in how much your turnover will decrease if a whole customer's group is suddenly not interested in your product anymore. How would this affect your profit?

The "winning-concept" is shown through an appropriate presentation of chances and risks. There is no risk-free start-up, and a too optimistic planning underestimates existing risks. Hence, test your business model with realistic worst-case scenarios. Attach an independent worst-case scenario financial plan to your business plan in the annex. Assume for example lower turnovers and/or higher costs and expenses. Choose a scenario that you consider improbable but possible (try to judge how improbable it is). Document all the estimations and test

how much the moment of break-even-point is deferred in this situation. Run more scenarios for yourself. With these strategies, you develop the best sense of how sustainable your business model is and which indicators are particularly critical for your success.

#### Guiding Questions:

- When do you reach the break-even point (with which amount of units and capacity utilization)?
- Which fundamental risks (market, competition and technologies) exist for the development of your enterprise? How much could the turnover decrease, e.g. because of a worst case scenario?
- How do you plan to limit these risks?
- Which action alternatives will you have when the risks occur? How fast and with which financial expenses will you be able to implement these actions?
- When will it be necessary to make important decisions and for which business area?
- Which additional chances do you see for your enterprise?
- To which extent could additional capital make it possible to take advantage of these chances?
- Do you have other assets to access if the implementation phase lasts more than expected, besides the assets that you already included?

## STEP 5 - SOURCES OF FINANCING (CAPITAL REQUIREMENT)

From the liquidity/cash flow planning, you know how much capital and for which moment you need, but not where it comes from.

Test first which own resources you can introduce and how much external capital is required to cover the remaining gap. Enterprise start-ups are in only few cases realizable without external capital. In any case, own assets should be included in an adequate proportion to the total costs and expenses.

When the first version of your business plan is ready, you should establish contact with investors and consult with them about the optimal financing for your project. You can incorporate the results in your business plan. Enquire about advisors who are specialized in start-up projects.

In order that investors can advise you competently and decide on your financial requirement from the very beginning, it is important to make available your business idea for the advisor already in the first conversation. Here it could be a “first version” that you develop further after the conversation. Calculate approximately 2 hours for this conversation and prepare yourself so that you have ready the most important parts of your project, e.g. the planned numbers.

Your chances for a financing agreement can be tested ex-ante. Do you fulfill the mentioned criteria? Incidentally, for a promissory project, insufficient own resources can be compensated through private venture capital, that from the fiscal point of view is considered as own capital.

Venture capital providers are interested, most of times, exclusively in projects that are promising and with a strong growth potential. Some venture capital-organizations restrict themselves to the financing of determined sectors and set a determined minimum capital requirement.





Guiding Questions:

- Are your planned numbers realistic and convincing for the profitability of your project?
- How are your private resources?
- Can you include them immediately and document their existence?
- Who assumes external financing responsibility?