

III - The Business Plan

1. The importance of the Business Plan

The Business Plan is a detailed description of the company's planning.



5 Goals of a Business Plan

- To test the viability of a business concept;
- To guide the development of operations and strategy;
- To attract financial resources;
- To convey credibility;
- To develop a management team.



5 Reasons for elaborating a Business Plan:

- To devise and establish guidelines for the business;
- To run the company more effectively and take the right decisions;
- To supervise the everyday life of the company;
- To get financing and resources from banks, investors, venture capital, national and European funding programmes, among others;
- A business plan increases the possibility of success by 60% (source: Sahlman (1997) Harvard Business School professor).

Source: Dornelas (2005)

The Business Plan is therefore a really powerful and efficient management tool for:

- Learning and self knowledge: organisation and explanation of ideas;
- Cooperation: internal communication;
- Conviction: external communication, aiming at obtaining financing;
- Navigation: planning and monitorization the business.

Bearing in mind that the business plan is meant for the person who reads it (not for the person who creates it) it should be prepared with efficacy, respecting the following rules.

10 Useful Tips

Rule 1: Make sure the Business Plan is easy to read

- Remember that the potential reader of the business plan has plenty of other documents to read, the text must be well formatted and easy to understand;
- It should be no longer than 15 to 40 pages, plus appendices;
- It should focus on the essentials, in a clear and concise form; if necessary, create a glossary of the technical terms used in the plan;

Rule 2: Make the document look professional

- Paper quality;
- Cover design and material;
- Print quality;
- It should include an index, subtitles and page numbers.

Rule 3: Highlight the quality of the team

- Stress on the company's highly reliable, qualified staff, with the necessary skills and knowledge to overcome the possible problems and opportunities the company is exposed to;
- Show the cohesiveness and commitment of the company;
- Include the main team members' CV, highlighting their achievements.

Rule 4: Present a market focused approach

- Don't centre your presentation on the intrinsic product features (technical points, price, etc.).
- The plan must focus on how the product/service is going to be received by the market and how it will meet the needs of present and future consumers.

Rule 5: Tailor the Business Plan to the reader

- As the business plan can have various goals, it has to be aimed at various individuals or institutions;
- Several versions of the document can be prepared and adapted to each target reader.

Rule 6: Show that the business is unique

- Explain the critical success factor for the business, namely those features which make it more competitive over its current and potential competitors.

Rule 7: Mention the business risks

- The plan has to show the company's strengths, market opportunities, weaknesses and external threats;
- Mentioning the risks and how to prevent and reduce them shows that the company's managers are aware of the potential problems, which is positive for credibility.

Rule 8: Give realistic projections

- The plan must be realistic in terms of the company's capacity and market potential of its goods/services;
- Avoid overstatements on expected market size, turnover and market share, installed production capacity and understatement on production costs, competitors' number and size.

Rule 9: Finish the Plan with a positive note

- Stress what you are proposing: good business;
- Show confidence and finish the presentation clearly stating that you have an irresistible business.

Rule 10: Get a critical review

- Before finishing the business plan, you should show it to people you can trust, whose opinion could be relevant and incorporate their suggestions;
- A critical analysis can be just that extra touch needed for the perfect business plan.

A business plan may have various levels of complexity; it should always include the following essential points:

Structure of a Business Plan

1. Introduction/Executive Summary
 2. Company presentation
 3. Analysis of Industrial Context
 4. Market Analysis
 5. Company Strategies
 6. Marketing Plan
 7. Organisation and Human Resources Plan
 8. Production or Operating Plan
 9. Economic-financial Plan
 10. Implementation Schedule
- Appendices

2. How to elaborate a Business Plan

2.1. Introduction/Executive Summary

The executive summary is the most important part of the business plan, being the first thing that potential investors will read. Should it be unclear, it could discourage analysts from looking at the whole plan.

Despite its importance, it should not exceed 500 words (1 – 2 pages), it should just give an overall idea of the business. It could be useful to write the Executive Summary after the plan has been completely elaborated, in order to have a comprehensive idea of the information available in the document.

The summary should answer the following questions:

- What?
- Where?
- Why?
- How much?
- How?
- When?



The executive summary says:

- Who am I
- What my strategy/vision is
- What am I doing and why
- What my market is
- How much money is needed and how it will be invested
- What my competitive advantages are

The executive summary should focus on the following:

- A brief description of the company – the name, the product/service, the target buyer..
- How the idea of setting up a company originated – how the idea arose, whether it was from a perceived market need, from legal changes, etc.
- Presentation of the business concept – mention what products/services will be sold, which customers and markets are targeted and point out the competitive advantage.
- Define the value proposal – what the customer will actually gain from acquiring the product/service.

2.2. Company Presentation

Introduction to the Company

- Name
- Logo
- Company address
- Contacts and website (if any)
- Economic activity code (CAE)
- Legal form
- Shareholdings and division among members (amount and percentage)

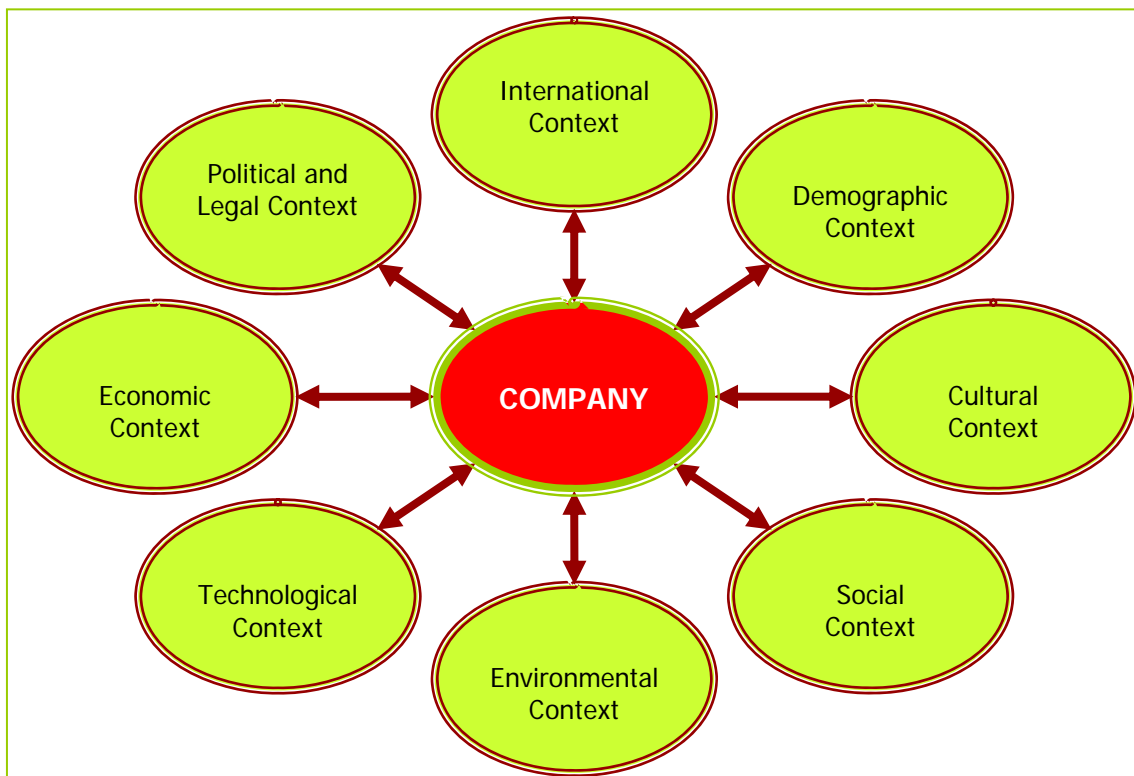
Promoters Presentation

- Personal data (Name, nationality, residence, etc.)
- Education
- Additional training
- Current profession
- Work experience
- Information relevant to demonstrate the entrepreneurs' personal skills.

2.3. Analysis of Industrial Context

This analysis allows the reader to know the company's market, highlighting the factors which generally affect companies. It is based on the knowledge of the following elements:

- **General** – elements which affect all companies, such as size, characteristics and future prospects of the domestic market/external markets;
- **Specific** – elements which affect the company operations.



External variables

External variables:

- **Demographic:** profile of the population by age, sex, occupation, education, housing, etc.
- **Cultural:** profile of values, standards, lifestyle, attitudes to work, beliefs and religion, etc.
- **Social:** evolution and division of income, claims, nature of social confrontations, habits and attitudes.
- **Environmental:** laws, environmental concerns.

- Technological: profile of scientific knowledge, scientific and technical research, technological development, spread of innovation and technology on a national and international level.
- Economic: profile the of production and distribution systems, both general and sectorial, of consumption, investment, employment level, prices, ease of getting loans, public spending, etc.
- Political: incidence of the economic and external policy, attitude towards private enterprise.
- Legal (Laws and Regulations): legal framework for company's business; existing law in the reference business sector; labour regulations, trade and competition.
- International Relations: evolution of the world trading; political stability; protectionism.

2.4. Market Analysis

The market analysis identifies the target market and the nature of the customer segmentation.

Firstly, the analysis of the current competitors, consumers and general market should be done. Then, it should be explained to what extent the market conditions are likely to help the product/service to succeed, presenting the market needs it will satisfy and how it differs from the competition (quality, price or other relevant variables).

This analysis also requires an analysis of demand and supply.

Demand Analysis

Potential Customers

- | | | |
|---------------------|---|-------------------------|
| ▪ Who buys | → | ▪ Customers/Consumers |
| ▪ What they buy | → | ▪ Products/Services |
| ▪ Why they buy | → | ▪ Reasons for buying |
| ▪ How much they buy | → | ▪ Market size |
| ▪ Where they buy | → | ▪ Distribution channels |
| ▪ How much they pay | → | ▪ Price levels |

Supply Analysis

Competition Analysis

- | | | |
|-------------------------|---|--------------------------------|
| ▪ Who manufactures | → | ▪ Competition |
| ▪ What they manufacture | → | ▪ Competing products |
| ▪ How much they sell | → | ▪ Market share |
| ▪ Where they sell | → | ▪ Distribution Channels |
| ▪ How they sell | → | ▪ Price and selling conditions |

After the analysis, it is possible to identify the target market, the type of customers and the market segmentation.

Who is buying?

- Where he/she lives,
- His/her profile;
- Lifestyle,
- Personality

What is he/she buying?

- The product characteristics;
- The product packaging;
- The price;
- The delivery options
- The deadlines



Why is he/she buying?

- Advantages;
- Special features

2.5. Company Strategies

The company strategies session will include the company's vision, mission, objectives, business differentiation, SWOT analysis and adopted strategy.

- *Goals and targets of the company*

Before the company's goals can be defined, its **vision** and **mission** must be defined.

The **vision** is the statement of the direction the company intends to take, namely a picture of what the firm wants to be. This part shouldn't set quantitative goals, but the motivation, the path to be followed, the image and philosophy guiding the company. The vision is the answers to these questions:

- Where are we going?
- What is our destination?

The vision is aimed at the external world (people who are not connected to the company).

The **mission** is a statement of the company's *raison d'être*, its vocation and what it is doing, saying why the firm has being constituted. The mission section is aimed at the the internal world (people who are connected to the company).

Once the vision and mission have been established, the goals and targets have to be defined.

The goals represent the general intention of the company and the basic steps for achieving them.

The targets are the specific, measurable actions by which the goals are achieved. They must be specific, measurable, achievable and relevant, setting clearly stated time horizons.

The targets have to be included into the wider goals context and have to be SMART: **S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**imed.

- *SWOT analysis (Strengths, Weaknesses, Opportunities, Threats)*

The SWOT analysis examines the scenario (or environment analysis) and is used as the basis for the company's management and strategic planning.

This analysis is divided into the **inside environment** (Strengths and Weaknesses) and **outside environment** (Opportunities and Threats) .

The strengths and weaknesses are determined by the company's current position and are related to internal factors. The opportunities and threats, meanwhile, are an anticipation of the future and are related to external factors.



The internal environment can be controlled by the company's managers/directors, as it is the result of the strategies defined by the members of the organisation. Should a Strength be identified during the course of the analysis, it should be stressed to the full; when a weakness is perceived, the organisation should control it or at least mitigate its impact.

The external environment is completely beyond the control of the organisation. Being unable to control it, the company has to know and often monitor it, in order to take advantage of the opportunities and avoid the threats.

▪ *Adopted Strategy*

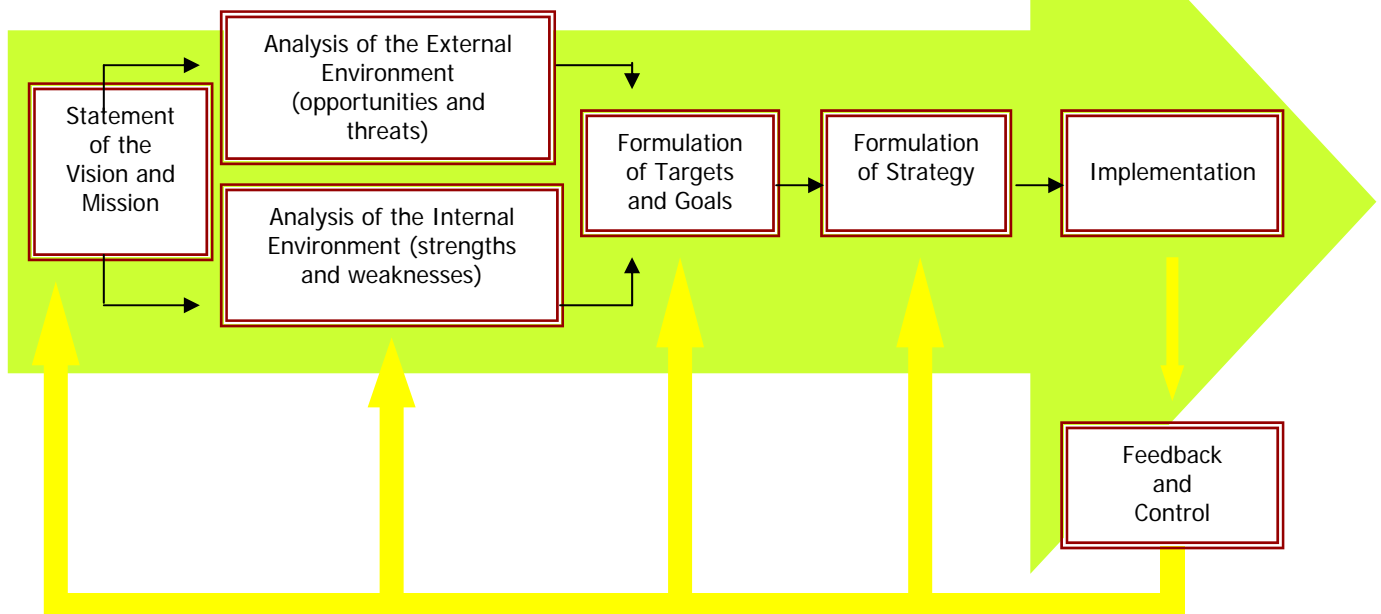
In this section, a plan which allows to achieve the stated goals is formulated.

Depending on the nature of the goal and according to Michael Porter (1980) one of the following general strategies should be followed:

- Total cost leadership: the company chooses to cut production and distribution costs as much as possible, in order to be able to offer the best prices to the customers;
- Differentiation: the company focuses on creating something unique (in a particular area which will benefit the customer) as for example by taking the lead in quality or design;
- Focus: the company directs to one or more minor market segments and tries to become the leader of it.

Once the strategies have been defined, they must be considered and adopted, namely they enter into the implementation, feedback and control stage.

Business Strategic Planning Process (Kotler 1999)



2.6. Marketing Plan

This point deals with the selling and marketing of the the product/service, i.e. it defines the business model.

The aim of this section is to define the overall marketing strategy and the different Marketing-Mix policies (Product, Price, Distribution and Communication) as follows:

- *Global Marketing Strategy* –includes the sales objective's quantification and the basis of these projections;
- *Product/Service Policy* – clear definition of the product/service produced and/or sold, as the packaging, brand, design, among others;
- *Price Policy* – sets the price and sales terms, explaining how they have been determined and the related goals;
- *Distribution Policy* – defines the distribution channel, i.e. the route used to get the product to the customer;
- *Communication Policy* – the use of several communication tools, such as advertising, promotions, public relations, in order to promote the business to its target public.

2.7. Organisation Plan and Human Resources

This section of the Business Plan involves the presentation of the structure and the planning of human resources:

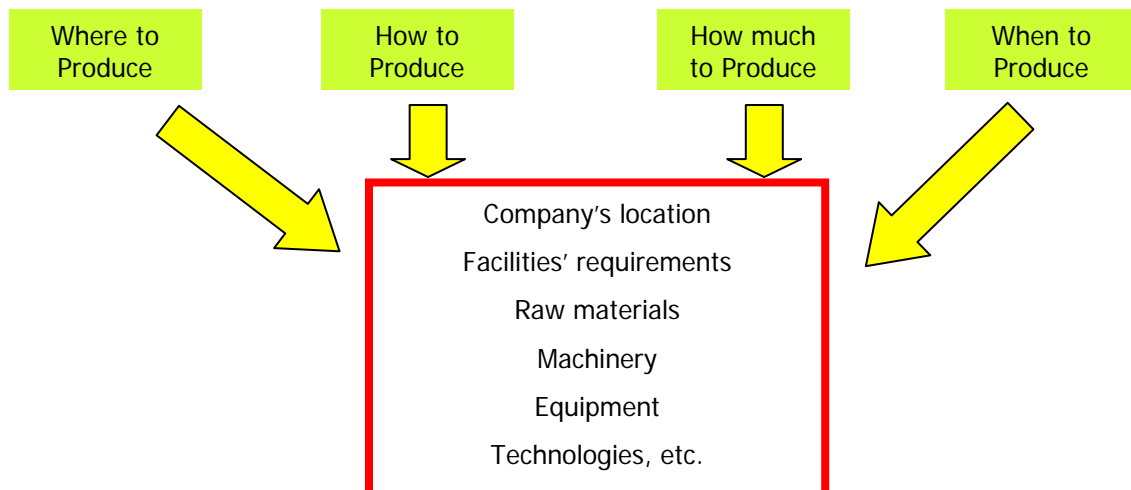
- Introduces the working team, the number of employees, staff's duties and structure;
- Flowchart;
- Skills and profile needed in a member of staff;
- Human Resources policy, how to hire, select and contract employees;
- Staff training programme.

It should also show:

- the key areas of the company, linking the contacts of those who work in the related positions;
- explain the external competences needed;
- make a prediction on the human resources needed as the firm grows explaining the human resources policies;
- attach the main executives' CVs to the document and stress on their ability to tackle challenges.

2.8. Production or Operations Plan

Define how the products are to be produced and/or the services provided, i.e. explain the production layout and each phase of the production/service provision process.



2.9. Economic–financial Plan

This section aims at appraising the viability of the business and the likelihood of success. It should therefore include all the financial documentation (balance sheet, profit and loss statements, investment chart and source of funds), for both an historic analysis and a forecast of the next few years' future of the business (usually three to five years).

A budget for at least the first year of activity should be included (prediction of incomes and outcomes over a fixed period) together with a breakeven point (value and amount of sales turnover for the firm to have "zero profit").

The financial-economic plan embraces the investment and financing plans.

The Investment Plan explains where the investments will be made to achieve the Business Plan and how much is involved, presenting material/physical resources the company will need for its activity.

The tangible and intangible investments needed must therefore be calculated.



Tangible fixed assets

- Land;
- Constructions and premises;
- Machinery and equipment;
- Loading and transport materials;
- Vehicles.

Intangible fixed assets

- Studies and designs
- Set-up expenses;
- Patents, trademarks and licences;
- Staff training.

The *Financing Plan* describes the financial resources the company will need, as follows

- Share Capital – Equity and other resources  Own funds, family and friends
- Debt Capital – Long/medium term loans, supplier credit and other credit  Banks, Business Angels, Venture Capital, Portuguese and EU financing programmes.

The *Economic – Financial Plan* includes:

- Liquidity Plan (Budget) – in order to control the liquid assets available in the company, analysing the overall volume and nature of the financial operations. – “How are we using our liquid assets?”
- Trading Plan (Profit and Loss Statement) – gauges whether the business is profitable or not. -“What is our performance or what do we expect it to be?”
- Financial Situation (Balance Sheet) – shows the company's asset, offering a picture of the assets situation. – “What are our resources and how are we allocating them?”
- Management Indicators (Ratio Analysis) – analyses the viability of the business, namely: return on sales; breakeven point; invoicing per employee; net present value (NPV); internal rate of return (IRR); capital recovery period (PRC), among others.
- Sensitivity Analysis (Scenarios Generation) – analyses the viability of the business when certain factors in the industrial context suffer a change, measuring the business risks in a changing environment.

2.10 Implementation Schedule

In the last section of the Business Plan, the main activities necessary to implement the business are scheduled.

The *Gantt Diagram* is used to illustrate the progress of the various stages of a project. The time periods represent the beginning and the end of each phase and are pictured as coloured beams on the horizontal axis.

