The Elements of Business Plan

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Business Plan

• Why do you write a business plan?
  • To inform about your intentions
  • To persuade a third party to provide resources or assistance
  • To set a goal and explain how you are going to achieve it
  • To set financial targets so you can forecast sales & control costs

• All real plans are unique

• Format: few page summary, slide presentation or around 15 page Word document

• There is software for facilitating business plan writing; prices vary from £25 to over £1000. For small/medium size business, expect to pay around £50 to £90
Business Plan

• Business plan outline
  • Executive summary
  • The Opportunity (Proposition or Business Objective)
  • The Market Analysis
  • The Technology/Product
  • Key People
  • Business Model (Operations)
  • Financials
  • Exit Strategy
  • IP Position
  • Risk Analysis
  • Appendix including: customer testimonials; product specifications; market research details; management CVs; supplier agreements
Executive Summary

• 2-3 pages

• Outlines the background and purpose of the business plan

• Should include the most important numbers
The Opportunity

• 2-3 pages long

• Should outline the need for the product

• Have to explain the potential return on investment

• Answers the question: Why would an investor/stakeholder fund/support this start up company?
The Market Analysis

- Long Section (5 to 10 pages)
- Market Analysis
  - Market size
  - Geography
- Outlines existing players
  - Discusses competition
  - Competitive advantage
- Target Market
The Technology/Product

- Describes the background of the invention
- Explains the technology/product characteristics
- Should include the technology advantages/benefits and KSP (key selling points)
- Explains how the KSP of the technology would fill a market gap or existing need
- How is the product better than existing (product comparison)
7P’s - Products

- Are the products or services of the business described in the plan?

- Does the plan describe features of the products or (better) does the plan set out the unique advantages the products have for the target customers?

- If there a mix of customers identified in the plan?

- Are there clear plans for the introduction of more than one product?

- #1 Tip: beware of top down plans “the total market size is £5bn, if we get just 1% of this market we will turnover £50m”
Key People

• Background of the founding team and their achievements
• Other mentors/stakeholders?
• New hires and proposed management team, experience and roles
7P’s - People

- Has the management run successful businesses before? Check the claims made in the business plan by asking and following up on references.

- Is the team well rounded (finance, marketing, operations, investment etc)?

- Are key sources of knowhow available to the business?

- Are key people incentivised to perform?

- Do the team have access to all necessary skills and network contacts?

- Is the team flexible?
Business Model

- Describes the route to market
  - Via license to existing player for joint commercial development
  - Via own production and distribution channels
  - Multiple license for usage/distribution

- Include potential pricing information

- Brief description on the production process and the technology supply chain

- Ways to reach profitability including a marketing summary
  - Depends on the business model chosen
7P’s - Promotion

• Are the printed materials (and website) consistent with the business plan?

• Do the materials concerning products clearly communicate the customer advantages?

• Will the company use distributors to access customers? Who are the distributors and who will manage them?

• Does the company have a realistic understanding of the costs and success rates of passive marketing (mailshots, web searches)?
7P’s - Production

- Does the plan set out how the company plans to produce its products?
- Does the company understand its value chain (Porter)?
  - A value chain is a chain of activities
  - Products pass through all activities of the chain in order
  - At each activity the product gains some value
  - The chain of activities gives the products more added value

Inbound logistics ➔ Operations ➔ Outbound logistics ➔ Marketing & Sales ➔ Service

<table>
<thead>
<tr>
<th>Firm infrastructure</th>
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<tbody>
<tr>
<td>HR Management</td>
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<tr>
<td>Technology development</td>
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<tr>
<td>Procurement</td>
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- Are appropriate activities outsourced?
- How does the company plan to manage quality?
- How does the company plan to support its products?
Financials

• Projected cash flows
  • Sales
  • Net Income (or EBIT)
  • Funding needs
  • Capital Structure

• Description and assumptions

• Provide at least 3 different scenarios:
  • Base case
  • Stressed case
  • Best case
7P’s - Profit

- Study the cashflow model – assuming delays in income how will the company cope (fixed versus variable costs)?

- Is turnover growth realistic – benchmark against other companies e.g. TechTrack 100
  - Britain’s fastest growing technology companies
  - Based on sales growth over the latest three years
  - Growth ranged from 36% pa to 422% pa
  - Sales typically between £5m and £30m

- Are the profitability estimates in the range of achievable figures (say 0-25%)?

- Pick on some figures you understand – does the figure look right?
  - E.g. what is the company paying for office/lab space or insurance?
Exit Strategy

• Explains the possible routes to exit
  • Listing
  • Trade Sale
  • Ongoing expansion through organic growth

• Describes the most viable exit route and explain

• Necessary steps to exit
IP Position

• Highlights patent status
• What is outstanding?
• Next steps
7P’s - Protection

- Does the company have any form of IP protection?

- If patents, what is there status, territory and do they protect the products?

- If trademarks, are the marks registered in key markets? Are the marks well known?

- Has critical knowhow been transferred into the business? Is the knowhow understood by more than one person (key-man)?

- Are contracts in place providing barriers to competition?
Risk Analysis

• What potential risk there are
  • Market
  • Technology
  • Financial
  • Sustainability

• Possible mitigations
Business Plan Financial Model

- Start with cash – expenditure and income
- Be realistic
- Use bottom-up approach
- Assume everyone gets paid properly from the start
- Build formal P&L, balance sheet from the cash flow
- Examine the biggest risks
- Be able to justify the smallest numbers
Business Plan: Mistakes

• Saying that the company has no competition or underestimating the strength of competitors

• No clear business model

• Disorganized and internally contradictory plan

• Miscalculation of market share and market size

• Being too close to the product

• Providing excessive detail

• Assuming that customer benefits are self-evident
Business Plan: Mistakes

• Failing to assess durability and sustainability

• Market (web) data unsupported by evidence

• Equating a large, growing market with ease of gaining share

• Too many spreadsheets

• Endless sensitivity analyses

• Disproportionate time devoted to financials in presentations

• Ignoring potential risks

• Inappropriate organizational structure
Video Presentation – The Sophos Story

• In the words of the co-founder Jan Hruska

• What lessons can we learn about the behaviour of successful businesses from Jan Hruska?

• Many of these lessons relate to the 7P’s

• We will discuss the lessons at the end of the video