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M07 Business plan

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Introduction

Anyone thinking about doing business should develop a business plan before it starts. This should be one of the first documents into which the future entrepreneur translates all his ideas and information and summarizes them into one strategic document. The elaboration of a business plan for a beginning entrepreneur is a necessity, because only when writing it will the entrepreneur clarify the vision, the idea of his future business and it will thus get real contours. When an entrepreneur "puts on paper" the details of his future business, he also reveals the strengths and weaknesses of his business idea, determines market opportunities and threats.

Thanks to the business plan, the beginning entrepreneur sets goals and especially ways to get there. It is therefore a document that summarizes the key elements of the company's strategy.

The business plan also analyses the competition, customers, their potential and also the marketing requirements. Last but not least, a financial plan is part of the business plan. It clearly defines what share capital is needed, what cash flow an entrepreneur can expect, whether his business has profit potential and what costs it will have.

However, it is also appropriate to develop a business plan in an already started business, when, for example, an entrepreneur wants to obtain financial support to expand his production or find a new strategic partner.

Keywords

- Business plan, Business, Methodology CANVAS, Finance.

Business Plan

A business plan is the intention or overview of a company's short-term and long-term goals.

What is a Business Plan

A business plan is a written document that shows the total business activities for the time period for which the business plan is developed.

We can also look at it as an internal planning tool and, e.g., in the area of small and medium-sized enterprises, it is usually the only planning document. The business plan fulfills 3 basic tasks:

1. represents business goals,
2. gives an idea of the future development of the company and
3. reflects the quality of business management.

Purpose of the Business Plan

There are many reasons why a business plan is drawn up. One of the most common reasons is to seek foreign financial resources, whether from investors, banks or other financial institutions, a silent partner or from various national and international projects. However, this is not the only reason, other reasons for compiling a business plan may also be:

- start of business activity,
- change in market situation (demand, price, competition),
- launching a new product on the market,
- penetration of foreign markets,
- fusion with another company,
- change of business owner (generational change, retirement, death of the owner), ...

The target group of the business plan thus becomes mainly:

- future investors,
- banks or other financial institutions,
- funds,
- European Union funds,
- board of directors but also
- key persons/employees of the company.

Therefore, with regard to whether it is a creation of a business plan before the actual start of the business, or whether the company already exists on the market, we can divide the business plans into:

- the founding business plan (business plan), and
- strategic business plan.

Both include a **financial plan**.

The business plan fulfils 2 basic **functions**:

1. ***internal function***, where the business plan:
   - is a part of the management and control of the company;
   - developed in global output indicators;
   - is drawn up on a monthly, quarterly and annual basis;
   - serves as a so-called domestic document.
2. ***external function***, when the business plan:
   - presents the company externally;
   - is developed for entities outside the company such as creditors, investors, silent partners, business partners.

Before an entrepreneur embarks on the creation of a business plan, he needs to have quality documents on which to base himself. The data he needs for quality processing of a business plan must come not only from his company, but also needs information about the market, competition, suppliers, customers, ... There may be too much information, the entrepreneur will have trouble sorting them and especially choose the essential and relevant. Therefore, when creating a business plan, it is appropriate to be able to distinguish between what is important and what is not, to work correctly with the information obtained and not to succumb to unnecessary stress.

CANVAS methodology – Focus on the Essentials

The Business Model Canvas concept is a technique aimed at helping the entrepreneur to organize his thoughts and ideas into clear parts.

The authors of the Business Model Canvas methodology are business theorists and entrepreneurs Yves Pigneur and Alexander Osterwalder. Their intention was to remove the complexity of large business models and streamline them into one clear document that answers all the important business questions, but at the same time fits on one A4 page. Mr. Osterwalder takes the view that long-term business plans often tend to fail. Their Business Model Canvas has become a stepping stone to the success of many startups, but it is also used by large and well-known companies such as Microsoft, Amazon, Tesla, GE or Mastercard.

The main advantages of Business Model Canvas include:

1. It focuses on the essentials.
2. It is practical, simple and concise.
3. It is targeted at the specific needs of customers.
4. Reduces the risk of failure.
5. Explains how the business will make money.

In order for Business Model Canvas to be really useful, it is necessary for the entrepreneur to be as honest as possible not only to himself but also to his future (potential) customers. In order to think carefully about what the individual columns "want to find out" from him, and thus answer the questions as realistically as possible. It is also good to realize that it is not a mistake for the author to modify, rewrite, delete his thoughts several times. On the contrary, the business plan needs to mature, and it is the gradual adjustments that will ensure this.

Table 1 shows the 9 main components of the Canvas Business Model.

<table>
<tr>
<td rowspan="2">Key Partners
Who do we need to work with to create and deliver our solution?</td>
<td>Key Activities
What do we need to order to manufacture, market and deliver our solution?</td>
<td rowspan="2">Value Proposition
What problem do we solve and how do we solve it?</td>
<td>Customer Relationship
How do we talk about our solutions in our market?
How do we get more customers?</td>
<td rowspan="2">Market and Customer Segments
Who needs our solution?
How many people need our solution right now?
How many people will eventually need it?</td>
</tr>
<tr>
<td>Key Resources
What do we need to be able to manufacture, market and deliver our solution?</td>
<td>Channels
How do we deliver our solutions to our customers?
Where will customers find our solutions?</td>
</tr>
<tr>
<td colspan="3">Cost Structure
How much will our key activities, resources and partners cost us?</td>
<td colspan="2">Revenue Streams
How do we get paid for the solution we provide?</td>
</tr>
</table>

Table 1: Business Model Canvas

The main activities are written in individual sections:

- **Key Partners** – This includes individuals or companies that can help run a business and minimize risk.
- **Key Activities** – those activities that make the company a reality (production, trade, advertising, internet, marketing, ...).
- **Key Resources** – here it is necessary to state everything that will be needed to perform key activities (through human resources, physical resources and mental resources to financial ones).
- **Value Proposition** – description of main products and services. It is necessary to focus mainly on how they will solve customer problems and what customers will gain from them. Here, the entrepreneur should answer the question why the customer should "spend his money" on offer product or service. The ideal situation is when there is no solution on the market that the entrepreneur offers.
- **Customer Relationships** – here the entrepreneur should focus on how he plans to build a long-term customer relationship. What other products and/or services will the customer still need.

- **Channels** – describes how the product or service will reach customers. What path will the entrepreneur take? Stone shop, e-shop, franchise? The distribution structure will then depend on what the organizational structure will look like.
- **Market and Customer Segments** – it is appropriate to divide customers into groups according to the specific characteristics that define them. Subsequently, special marketing attention should be paid to these groups.
- **Cost Structure** – what will be the costs associated with the business? It is necessary to break down all key costs and in the case of an already started business, then it is appropriate to think about whether the costs will be reduced or increased by creating new values.
- **Revenue Streams** – how and for what do customers pay – for the purchase of goods, use of services, rental or subscription?

Basic Parts of a Business Plan and Their Detailed Structuring

The business plan has its own structure, which should be followed, as it will make the entrepreneur forget nothing important and will address all relevant areas.

From a formal point of view:

- should be 20-30 pages long (without attachments),
- the title page providing the initial information about the company must definitely not be missing,
- content – i.e., chapter titles and page numbers,
- list of attachments (if any).

The business plan should be tied in a soft bond.

From the content point of view, it should:

- be concise, clear, precise,
- have general requirements,
- distinguish between actual and planned data,
- not to avoid mentioning the negative aspects and risks of the company,
- where relevant, do not forget to indicate the source (e.g., when referring to statistics, surveys, etc.)

The first, non-financial part of the business plan should include the following parts:

1. Cover page:

The cover page itself should impress with its design and attract the reader's attention. Its aim is to tell readers what they will read about, who wrote the plan and how to contact him.

The cover page should therefore contain the following information:

- company name,
- name of the business plan,
- company logo (if any),
- date of creation or modification of the document,
- company address,
- telephone number,
- e-mail,
- the website, and
- possibly other contact information (if any),
- contact person – the name, surname and contact of the person who created the business plan.

2. Content of the business plan:

The content of the business plan is intended to enable readers to quickly navigate the chapters and search for essential sections.

3. List of symbols and abbreviations:

All abbreviations, acronyms or technical abbreviations, as well as various terminology, must be given in one place and explained.

4. Managerial summary:

This section should describe the purpose of the submitted document – the business plan. It can be said that this is the most important part of a business plan. Investors and stakeholders, but in fact all readers, are interested in the summary first. An entrepreneur can gain or lose the reader's attention here and should therefore be written in an engaging and factual way with relevant information.

After reading the summary, the investor often decides whether to continue reading and whether he is sufficiently interested in the business idea. It is necessary to take into account that investors usually have several business plans and offers to start another business on the table every day, but only a limited amount can choose to finance. Therefore, if he is not sufficiently interested in the summary, he will most likely not continue reading and reject the application for funding.

The summary should not exceed two sides.

In this context, one more caution is in place – it is appropriate to prepare a managerial summary until the end, when the entire business plan is ready.

Content of the manager's summary:

- brief description of the company;
- a brief description of the business activity – what the company will produce or provide – i.e., the subject of the business;
- how the product/service differs from the competition and what need they meet;
- how the company wants to succeed in a competitive environment;
- a description of the management team who will make it up, what experience, knowledge and skills these individuals have;
- an overview and structure of the required size of the input capital and its use.

In the managerial summary of the business plan, it is necessary to describe mainly the problem that is in the market. So give the answers to the questions:

- What problem needs to be solved?
- What problem or difficulty do customers have?
- When a problem is described, it is necessary to show the reader a unique solution to this problem.
- When describing a solution, it is necessary to describe the solution from several perspectives.

5. From history to the present – about the company:

This section should inform potential investors about the company's past or history, if the company is not established but already exists on the market. This past should continue on the future.

In the case of a new company, the following should be indicated:

- when, how and why the company was established;
- legal form of the company;
- motivation of founders.

6. Owners, management and employees:

A description of the ownership structure, which should include:

Who are the founders of the company:

- their brief CV, age;
- their qualifications;
- what professional and practical experience they have;
- their previous work experience;

- what role the founders will play in the company.

What will be the organizational structure (its graphic representation should be part of the appendix).

What employees (including their numbers) will be in the individual departments.

Description of the need for additional managers or key employees (may not be).

What further education system will be needed.

Estimated wage costs, wages of individual employees, mandatory contributions.

7. Product/Service:

It is necessary to look at the product or service mainly from the point of view and advantages of the user, to describe especially his (her) innovativeness in the given sector and uniqueness.

This section can be divided into even more detailed subchapters:

1. **Brief history and description of the product or service.**

   A brief description of the founder (or founders), his (their) experience, a description of how and why the product/service was created. Furthermore, it is possible to very briefly describe some of the milestones that the product/service has gone through to its current form. In this section, it is good to briefly explain a more detailed detail about the product/service, namely:

   - What does the product (service) look like?
   - What does it do?
   - How it will meet the needs of customers?
   - How does it work overall?
   - Have any variations or extensions?
   - What are the benefits?

   If possible, it is advisable to attach real pictures or photographs to the descriptions of the product or service, so that the reader has an idea of what it is specifically about and thus understands the product more quickly.

2. **Innovative and groundbreaking ideas.**

   This section describes what the uniqueness of a product/service is, what innovative elements it will bring and whether it has the power to change the current trend into something new and thus bring to the market a new challenge or replacement of existing solutions.

   The uniqueness of a product/service may be in its various features such as ease of use, low price, high quality, availability, customization or another element that distinguishes a product/service from other products and services on the market.

   It is this innovation and breakthrough that is a very important factor that all entities pay attention to, whether in the case of potential collaborators or providers of funds.

3. Product/service life cycle.

Both the product and the service have a life cycle, so it is important to describe the stage of the life cycle when entering the market.

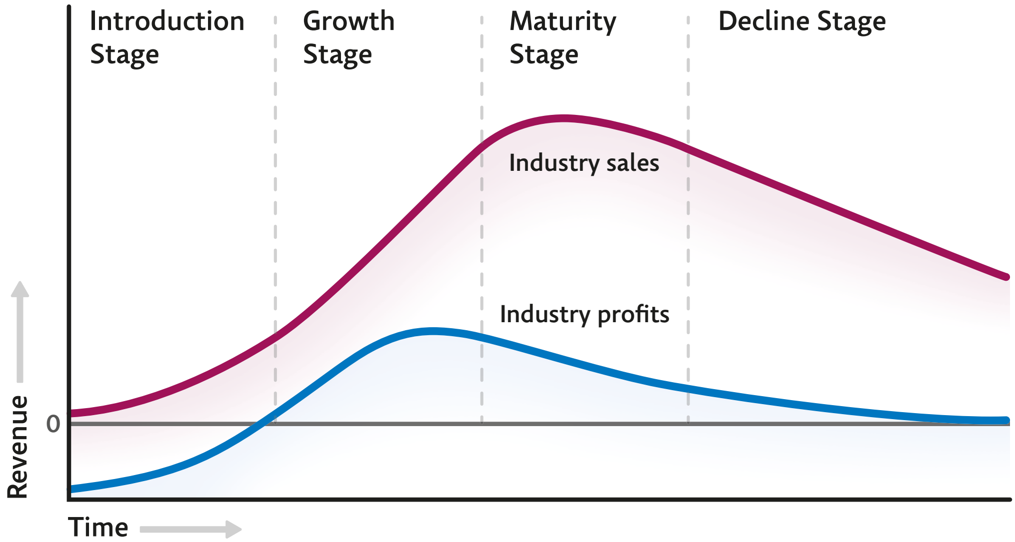

Figure 1: Product Life Cycle

The various phases of a product (or service) life cycle are called introduction, growth, maturity, and decline (or even decrease). Launch is a period of slow sales growth after the product is launched. No profit is achieved during this period because of the high costs associated with bringing the product to market. Growth is a period of rapid product adaptation in the market and significant profit growth. Maturity represents a period of declining sales growth due to the acceptance of the product by most potential customers. Profit is stable or declining due to increased marketing spending to defend against the competition. The last stage – the decline means that the profit decreases towards zero and begins to disappear. At this stage, it is necessary to decide whether it is appropriate to save the product/service, but rather to end their offer for the market.

By describing the life cycle stage of the product, the reader gets a clear picture of the product/service prospects for the future. It is appropriate to show not only the current position of the product/service but also where it will be located, e.g., in 5 years.

4. Difference from the competition.

A description of how the product/service differs from other products/services already on the market. Another very important piece of information for investors, because it points to the uniqueness of the product. There are usually more differences.

5. Current and desired state of the product.

In this section, it is useful to describe the current state of the product/service, what it contains and its essentials.

The product/service details described should include:

- state of research and development – whether innovations or improvements are being worked on, ...;
- market research;
- in the case of a new product, its planned launch;
- the share of the product/service in total sales;
- the expected life of the product/service on the market.

In this section it is also appropriate to state:

planned sale (number of products x price)

- calculation of the selling price (as the price was determined and what it includes);
- description of possible orders;
- details concerning orders (e.g., will quantity discounts be provided? will the minimum quantity required for the order be required? will it be possible to pay by cash on delivery?, on invoice ?, if it is possible to pay on the invoice, what will be the due date?, …).

8. Description of main customers:

Description of main customers – whether they are individuals or companies. What is their size, purchasing power, age, gender, …

How the marketing strategy will be targeted to the target market.

Where are the customers?

How customers behave:

- when do they buy the product/service?,
- why are they buying him/her?
- what form of purchase does the customer prefer?, ...

What influences customers' shopping behavior? What influences do they make?

What is the share of the main customers in the total sales?

Are customers regular or "random"?

If it is a new product/service – how was the survey of interest in this product/service conducted?

9. Market:

Market description:

- Is it regional?
- Extends beyond the region?
- Is it national?

- Is it international?
- its size;
- its potential.

What are the market trends?

Estimated (for an existing product/service current) market share of the product/service.

Legislation related to the business and the industry in which the company operates.

Does the product/service serve a specific segment or fills the market gap?

What is the situation in the downstream industries?

10. Competition:

Who are the main players in the market and how can they affect and influence the company?

Is it direct or indirect competition – that is, does it offer a substitute or the same product/service?

What are the competition's strengths and weaknesses? Which of these sites can significantly affect your business?

How will the competition take place? How will the product differ from the competition? What exceptional features will the product/service have for the customer?

Are there barriers to entry (or exit) to the market?

11. Marketing:

What will be the marketing strategy and goals?

Description of current potential market share.

How do customers find out about products/services?

How will the planned sale be achieved?

How is the marketing mix created (i.e., pricing policy, distribution policy, sales promotion)?

Marketing budget.

12. Technology:

Description of the technology at the company's disposal – its brief technical parameters (for examples dimensions of machines, their capacity, max. workpiece weight, …).

Machinery description:

- manufacturers of individual machines;
- years of production;
- years of acquisition;
- current status or need for reconstruction or replacement.

Ownership of patents, utility models, copyrights, etc., or if the costs are related to product protection.

The issue of new product development, how the development will be financed, whether this financing brings any risks, …

Partnerships with universities, other companies, …

13. Production process:

- Description of the buildings in which the production will take place.
- Description of the fundus on which the buildings are listed – to answer mainly to the question of whether the building is owned by the company or leased.
- Detailed description of the entire production process, including its length; if it is a production line, then its capacity and how much this capacity will be used.
- Who will be (are) the main supplier or suppliers (% share of main suppliers in total deliveries), such as secured alternative suppliers.
- What is the time it takes to produce a certain amount?
- What must be the minimum stock level to ensure a continuous production process?
- Is a special workforce needed? Is this workforce available?
- Are there industry standards that must be adhered to?
- Waste management process, or is the waste used for by-products?
- Does production have any advantage over competitive production?

14. Investments and other financing:

- How much has already been invested in the "project" and from what sources?
- What has it been invested in?
- Investment plan and forms of its financing (loan, EU funds, cash deposit, non-cash deposit, savings and profit).
- What will be the benefit of this investment (for example lower costs, production and sales growth, more space, higher quality)?

15. Risk factors and their possible mitigation or elimination (business plan may not include):

Development of SWOT analysis – SWOT analysis is one of the best known methods, thanks to which it is possible to rank and complete the internal strengths and weaknesses of the company and its external opportunities and threats according to importance. It is a strategic planning tool that is used for evaluation in a certain organization in an effort to achieve a certain goal. It creates an overview of the strategic situation in the company. It represents the basic point where the role of the strategy is to create a close match between the company's internal and external capabilities (its strengths and weaknesses) and its external environment, which is expressed in particular by its (opportunities and threats).

What risks can occur and, if they do occur, what are the possibilities for their elimination.

Does the management have previous specific experience in dealing with risk/crisis situations?

Another part, which does not have to be described in the business plan, resp. its description depends on the given fact is **intellectual property**, securing property rights – intangible property which includes licenses, trademarks, patents and other intellectual products. Therefore, if the company does not intend to own any patents, licenses or create trademarks, then it will not mention this part of the business plan.

On the other hand, if the company has some intellectual property, then it is appropriate to describe all patents and rights and also to indicate what advantage they provide in the market compared to the competition. The investor will thus see the potential in the product/service and strong added value.

For property rights, it is appropriate to focus on the following parts:

- IPR (Intellectual Property Rights) strategy and management.
- List of IPR properties.
- Exit protection and economic theft protection.

IPRs are very important information for banks, investors, co-workers, **etc., because they point to the** uniqueness of the product/service and its strong weight. Therefore, they need to be clearly included in the business plan.

Financial Plan as an Integral Part of a Business Plan

The key element of a business plan is the financial plan. All the above information is used to prepare it. It is important not only for the owner himself, but also for all stakeholders such as investors, banks, etc.

The interested reader can measure the performance of the product and the achievement of individual goals exactly according to the financial plan. All decisions depend on the assumptions made in the financial plan, as all market inputs, marketing activities, purchase or renewal of equipment or other capital expenditures ultimately affect the financial statements and those of the company's results. Therefore, the investor or bank wants to know exactly how the business owner will handle the money he produces, how he will manage costs and generate cash flow.

What Should the Financial Plan Contain?

Financial Information is an important part of the business plan. **If the company already exists**, the accounting documents for the last 3 years are submitted:

- profit and loss statements,
- balance sheets and

- cash flow statements.

For the purposes of the business plan, it is not necessary to submit these documents in the official version, which is submitted to the tax office (cash flow statement is not submitted), but a simpler version is sufficient.

If the company already exists but is also new to the market, it is also necessary to submit:

- Estimate of future costs and revenues (this estimate should be prepared in detail (i.e., monthly) for the next year and then years for the entire period for which external funds are secured (i.e., if the company borrows, for example, for 3 years, then another 2 years, it should be clear from each item in the financial plan what the expected revenue and expenditure are).
- Expected sales plan and sales plan.
- Cash flow.
- Cost plan.
- Investment plan, including the use of externally obtained financial resources.
- Breakpoint = i.e., since when production begins to be profitable resp. how many minimum pieces must be sold for production to start paying off.
- Calculation of costs for the production of individual products (if this has not already been described in the 7. Product/Service section).
- Sources of Income – the main part of the business model that describes how a product/service generates profits. There are often several sources of income – one to two main and the other secondary.

Estimating turnover and costs is a very important part of a business plan. This section shows approximately how big the turnover will be for the coming years together with the costs. It is very important that the most accurate market inputs and other costs are taken into account. It is essential that all the individual costs sit together and match.

Working with the most accurate estimates possible is very important, because the accuracy of the whole modelling is based on them.

It is appropriate to develop 2-3 estimation scenarios – at least a realistic and pessimistic model. As a third model, it is also often optimistic. More models depend on the activities that the company will perform. It is also advisable to take into account the high risk, and thus count on several variants.

It needs to be especially careful and properly check the initial data in this part of the business plan. It is appropriate to substantiate the data, e.g., data from the sector. If the company already exists, it is advisable to use the company's historical data for the last 3-5 years for higher accuracy of the forecast. Also, the forecast should be for the next 3-5 years. Of course, if the investor does not require a longer period.

Calculations Suitable for the Financial Plan

Amount requested in EUR	7.000
Annual interest "p.a."	7%
The duration of the loan from the beginning of the annuity repayment	5 years
Number of installments per year	1
Loan drawdown date	31.12.2021
Postponement of the first principal payment	yes

Table 2: Example of loan payment

Installment number	Installment date	Initial balance of the loan principal	Installment	Total installment	Total Interest	Final loan balance
1	31.12.2021	7.000	0	490	490	7.000
2	31.12.2022	7.000	1.400	1.890	490	5.600
3	31.12.2023	5.600	1.400	1.792	392	4.200
4	31.12.2024	4.200	1.400	1.694	294	2.800
5	31.12.2025	2.800	1.400	1.596	196	1.400
6	31.12.2026	1.400	1.400	1.498	98	0
Summary			7.000	**8.960**	0	

Table 3: Loan payment calculation

When creating a business plan, the entrepreneur thinks about what source of financing he will use. There are more options than initial capital can raise. This fact should already be included in the financial part of the business plan, as the amount of the loan and the resulting regular costs in the form of loan repayments and interest are an important component of the financial plan. Potential investors are primarily interested in whether the entrepreneur will be able to meet its obligations to him on a regular basis.

Business Plan Annexes

The annexes are not mandatory, it is up to the submitting entrepreneur, which in his opinion needs to be supplemented and documented in the annex. The annex acts as a „bus system“ for more detailed data, which was provided in the main text of the business plan.

The following documents may be included in the annexes:

- CVs of key managers
- evidence of education of key employees,
- required certificates, attestations or other documents necessary for the performance of the job,
- organizational structure of the company,
- marketing researches,
- statistics,
- in the case of an existing company – profit and loss statements, balance sheets for the last 5 years,
- auditor's report (if the company is required to audit the auditor's financial statements),
- patents, industrial utility models, licenses,
- photos of the operation,
- additional tables and graphs,
- list of loans,
- list of leases and rentals,
- equipment documentation,
- list of contracts with customers,
- product/service images,
- letters of recommendation,
- others.

Conclusion

The business plan is, in essence, a summary of the entire business on several pages so that the reader gets a clear overview of what, why, how and when the entrepreneur will do in the company.

In addition to informing and planning future steps, the business plan serves mainly to present the business to investors, banks, strategic partners, funds and key collaborators.

In developing it, it is necessary to take into account that the individual parts (chapters) of the business plan should complement each other and be consistent. This is especially true for financial projections, because it is essential to know how much money is planned to spend and what activity.

Not all of the parts described above must necessarily contain a business plan, but the entrepreneur should pay more attention to managerial summary, product innovation, its difference from competing products, uniqueness and financial plan.

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