

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



- 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 their 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