



Planned to success



**Handbook for making the
efficient business plan**



OFFICIAL HANDBOOK OF START-UP SLOVENIA COMPETITION

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Foreword

You have already made two steps into entrepreneurship. The guide "Look before you leap" has helped you decide if entrepreneurial profession is the right one for you and the guide »Applying the rules of business" has acquainted you with some key business rules that anyone embarking on the entrepreneurial career should observe. You now have to take the third step, which is the preparation of the business plan. You have already gained some basic knowledge about the planning in the second step. You have thought about your product and about how much money you need for its production and for your life, how much you can charge your customers, etc. So far, you have established that you are not alone on your path to entrepreneurship. As before, the consultants from Tovarna podjemov will offer you advice during the development of your business plan.

"Can I see your business plan?"

Whenever you meet people interested in hearing about your business idea, you will sooner or later be asked the same question, i.e. "Can I see your business plan?". Namely, the business plan is the basic tool for a successful presentation and sale of your business idea and every business person (lawyer, banker, accountant), investor or potential business angel who has serious intentions will wish to learn more about it.

In order to prepare a good business plan, you will have to think thoroughly about your business idea so that you will be able to transform it to a good quality business plan. You must think through the business process flow and how you plan to combine different business functions so that they can adequately support the progress of your business. You have to define your own role in the company and determine your products or services, your supply and sales markets, your sources of finance, etc.

As an entrepreneur you will have to make sure that you will produce a good product or service and form such an organisation that will be able to realize it. That is why you will think about these issues again and again since only a goal-oriented thinking will help you find ever better combinations and eliminate potential problematic issues. All this should be done before you actually start your business in order to avoid unpleasant surprises. This is a good side of business planning.

"Get ready for 200 – 400 hours of work, ..."

Get ready for some bad news. Business planning will take a lot of your time. The preparation of a business plan is

not demanding only in terms of its contents, but also in terms of time. This is especially the case when you are developing it for the first time and you do not have a lot of experience with business operations of a company. Therefore, you have to get ready to invest about 200 to 400 hours of work to prepare a really good business plan. However, keep in mind that in the first 4 to 6 months after its completion, at least half of this business plan will be outdated. This is not due to bad planning but due to the ever changing market circumstances, which have to be re-evaluated.

The ultimate goal of business planning is to develop a tool which will help you control your company and help you sell your business idea professionally and convincingly to your business partners (financiers, buyers, suppliers, employees). A good quality business plan serves as a reliable compass for the management of company's business operations in the first few days or weeks. However, business circumstances usually change quite quickly, which requires changes and supplements of the business plan.

"... Tovarna podjemov will help you during the planning process"

There is some good news as well. First, business planning is a skill which can be learnt. It is true that your first business plan will require a couple of hundred hours of work, but the second one will take up half of this time, and so on. Finally, you will be able to prepare a useful business plan in one or two weeks. Second, a realistic business plan will show you which problems are likely to occur during your business operations and will help you prevent them. The plan will thus enable you to decide with greater competence and higher level of trust. Third, the experts in Tovarna podjemov will help you during the planning process to ensure a long-term success of your new venture regardless of whether you are preparing to take the first steps into entrepreneurship, whether you have just started with your business operations or whether you have been involved in entrepreneurship for a longer period of time. Apart from the assistance by our experts, the program tool developed by Tovarna podjemov will help you develop your business plan. This program will enable you to build your business plan effectively and comprehensively, which will result in a high-quality end product. The program is available from the web site www.tovarnapodjemov.org/toolkit.

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"If you have the will to win, you have achieved half your success; if you don't, you have achieved half your failure."

(David Ambrose)

From idea to company

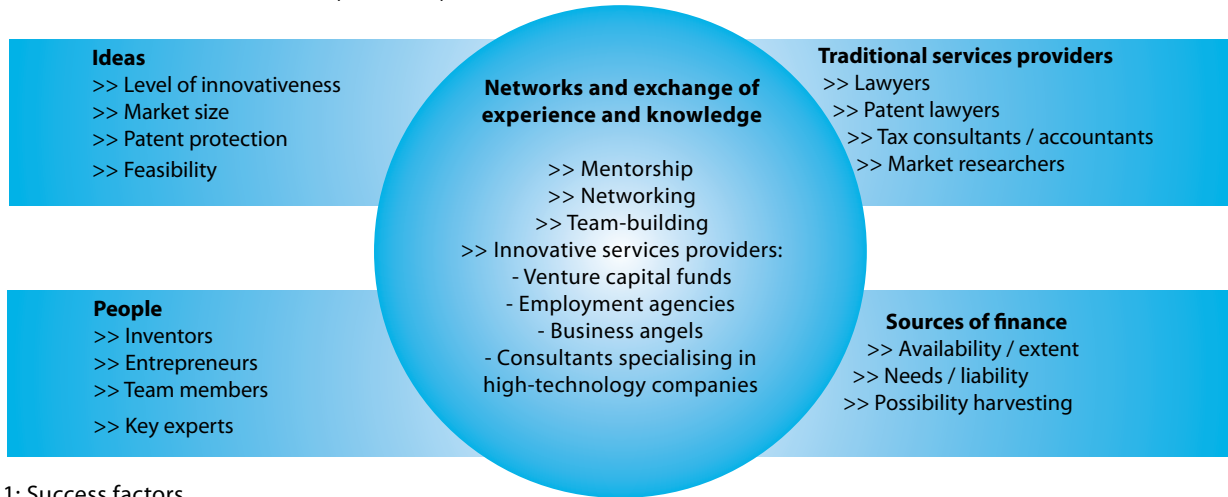
- >> **New venture success factors**
- >> **Development stages of a company**
- >> **Qualities of the entrepreneur and self-evaluation**



1.1 New venture success factors

Before we start looking at the business plan in great detail, let us spend some time thinking about the key success factors. Stories about an instant success can be found anywhere, but in general it takes a bit less than five years for the company to establish itself in the market from the day of its foundation. The success of companies depends on the combination of five factors (Picture1).

person. Entrepreneurial success is based on team work of a group of individuals (most often three to five) whose talents, knowledge and experience complement one another. Building a good and effective team is a highly demanding task which requires a lot of energy, time and the understanding of the diversity of human characteristics.



Picture 1: Success factors

>> There is no business without a business idea

The entrepreneurial idea is not equal to the business. It is merely the beginning of a creative process in which a product or a service and the organisation capable of providing it will be formed. At the start, many entrepreneurs are blinded by their entrepreneurial idea. Many of them do not understand that the entrepreneurial idea is just the basis for the start of a long process of its development. The idea has to meet numerous challenges before it is ready to attract external investors and achieve market success.

>> Sources of finance

One needs the resources to realize the business idea. An entrepreneurial idea cannot be tested in the market without the investor who believes in it and who provides the financial resources for its realization. That is why the entrepreneurial idea has to be assessed from the viewpoint of potential investors throughout the entire process of its development. This has to be carried out even when you have your own financial resources so that they are not spent unproductively. Further, this assessment is of even greater importance when you have to make external investors enthusiastic for providing the financial resources. You will have to explain your business idea in great detail and you need a business plan to do it.

>> There is no company without the entrepreneur and his/her team

The entrepreneur is no lone rider. The process of company development and growth exceeds the capacity of one

Namely, the team should comprise different experts who can contribute to the company's success from their individual perspectives. That is why this task requires a lot of attention already in the initial stages of new venture and, later on, throughout the entire process of company creation.

>> Entrepreneurial consultants and experts who will help you overcome initial obstacles

You do not have to know everything when you create the company. You can buy or get a lot of knowledge and skills from qualified entrepreneurial consultants for free. That is, at the beginning you will often need the advice by professional entrepreneurial consultants for patent law, intellectual property protection, taxation, market research, etc. Timely and correct information (e.g. on patent protection of a novelty) may greatly influence success or failure of the company in the later stages.

>> A developed network of contacts is of great help to any new company

The professional support to entrepreneurs for the formation of contacts with potential investors, partners, sponsors, entrepreneurs, venture capital providers, entrepreneurial consultants and other services providers is crucial for the transfer of a novelty into the entrepreneurial practice. You will get this support from Tovarňa podje-mov. There is a list of organisations giving usually free professional advice to entrepreneurs in the appendix of this guide. Of course, you should not forget about your acquaintances and friends who already have entrepreneurial experience. They were once in the same position as you are in now.

1.2 Development stages of a company

The company which is developing successfully goes through three stages as shown in Picture 2. If you wish to succeed in the transfer of the novelty into the entrepreneurial practice, you should take into account the characteristics and requirements of individual development stages when planning your activities and making decisions. At the same time, each stage presents an opportunity for venture capital providers to consider their investment. By knowing the process and the challenges of each stage of the new venture, you can save a lot of energy and avoid possible disappointments.

ment of a working prototype. Here, the external investors (venture capital providers) are usually not yet present. The new venture is thus financed by your own resources, by the help of your friends, any state subsidies, contributions by certain foundations or by other sources of finance. This type of capital is referred to as 'seed capital' because the idea is still maturing and it cannot be exposed to ruthless competitive environment yet. The primary goal of this stage of entrepreneurial process is as short and clear presentation of your entrepreneurial idea and potential market as possible in order to attract the attention and encourage the interest of potential investors to participate in the further development of your entrepreneurial idea.



Picture 2: Development stages of a company

1st stage: Birth of entrepreneurial idea

Everything begins with the birth of an entrepreneurial idea, which presents your solution of a certain problem that will bring a certain benefit to the customers. That is why it is necessary to assess if the idea actually presents the benefit for the customers and if it helps solve their problems, or if the market is big enough, what the potentials for its growth are, etc. The idea as such has no economic value; it acquires it only when it is successfully transferred to the entrepreneurial practice in accordance with the basic principles of business operations as defined in a business plan.

The initial activities of novelty transfer into the entrepreneurial practice are related primarily with the formation of the team of co-workers and selection of partners who will help you develop the product or service to the level which makes it ready for market commercialization. The process of this commercialization will largely depend on the nature of your product or service. In case of product development, this stage is usually related with the develop-

2nd stage: Business plan preparation

Our guide is entirely devoted to this stage. It requires you to have a clear focus on the entire picture regarding the entrepreneurial new venture and prevents you from 'not being able to see the wood for the trees'. When preparing your business plan, you will encounter many challenges which are connected with the evaluation of various types of risk related to the implementation of your new venture and with the assessment of the suitability of different business strategies. Apart from that, you will learn to recognise different business situations (scenarios) and how to manage them.

You will have to write your business plans in such a way that they will be easy to understand by non-experts as well. Also, you will have to develop a budget for the financing of the new venture's key activities (development, production, marketing, sales and finance). As you develop your business plan, you thus have to think about and make numerous business decisions regarding the product or service you plan to offer, the target customers or market segment you plan to satisfy with your products or servic-

es. Further, you should consider the pricing policy for your products or services, the company location and the mode of production as well as any other important issues.

During your business plan preparation you will come into contact with many people outside your entrepreneurial team. Apart from the investors, you will meet various others professionals (lawyers, tax consultants, entrepreneurs, managers, officials, etc.). However, the tasks related to finding out about the characteristics, wishes and problems of your company's potential clients are the most important ones. These tasks are essential to make as good an assessment of your market as possible. You must constantly keep in mind that your customers are the key to your new venture's success. That is, the customers are the ones for whom the product or service is developed. At this stage you must also examine the potential suppliers with whom you can sign your first contracts as well as the main competitors to help you position yourself on the competitive market better.

Like anything else in life, the entire process of business plan preparation is not free. It takes time and money to do it. In this stage, the financing of the entire team and the experts participating in the development of the business plan and the working prototype is predominantly assured from the same sources as in the first stage. However, it is possible that now the venture capital providers willing to give you an advance become involved. A successful termination of this stage can be determined by the emergence of an investor that is willing to give financial support to the entrepreneur's new venture and thus enable the realization of the entrepreneurial idea. This is especially important for the new ventures which are technologically intensive and which require a high amount of start-up capital.

3rd stage: Initiation of business operations and new venture's growth

The product is ready for production and in this stage you have to realize what you planned and wrote in the previous one. The launch of your product or service onto the market will show if the customers accept your products or services and if your plans and forecasts were realistic. The more you have planned the less unpleasant surprises you will now have to face.

4th stage: Harvesting: investor/co-owner leaves the established company

If all goes according to the plans, your new venture, which was initially very fragile and insecure, develops into a stable and established company. If the company is financed by external sources, the exit of the initial investor/co-owner from the company is a usual step in the development of a new company. In its short life, the company has employed a number of new workers. In addition, the company's innovative solutions have made its customers enthusiastic and have helped solve a number of problems. In this stage, the company already has a wide range of customers and its value has increased. This increased company value creates the opportunity to pay off the entrepreneur's effort and financial investment as well as the investment of all other investors.

The key goal of venture capital providers is always a high return on their investment. When they achieve this goal, they leave the company. Thus, the change in the ownership structure of the company occurs in this stage and the place of the initial investor may be occupied by the competitor, supplier or customer. It is also possible that the management buy out the company, that the company issues shares or gets a stock exchange listing and thus acquires many new owners.



1.3 Qualities of the entrepreneur and self-evaluation

Despite numerous new ventures that emerge every year, not everyone can manage his/her own company. Self-employment has become very popular but experts ascertain that this form of employment is suitable predominantly for those who are willing to invest a lot of effort and take the risks, especially in the initial stages. That is, these two aspects cannot be avoided when undertaking a new business. The possibilities of success can be substantially increased by adequate research, good planning and preparation for the initiation of business operations.

Although the guide "Look before you leap" has already helped you realize that you have it in you to be an en-



trepreneur, you should spend some time learning about your characteristics and abilities. You will assess yourself in terms of your potentials and drawbacks you have as the future owner of a company. You will do this by the help of a self-assessment questionnaire in order to decide on your own if you have the potential for a successful start of a business venture.

Your personal goals

First, think about your personal goals:

- >> What are your personal needs?
- >> What are your financial goals?
- >> How will owning the company influence your standard of living?
- >> Are you mainly interested in money, power or flexibility?
- >> How much time are you prepared to devote to your job obligations?

Your talents

Your next task is to think about your own talents:

- >> Do you have any special knowledge and abilities in a particular field?
- >> How can these abilities help you in the development and the performance of your own company?
- >> How good are you at decision making, at planning and organising?
- >> Do you know how to sell?
- >> Do you like to sell? (Namely, you will have to know how to sell your abilities, your company as well as the products or services you plan to market.)

Your personal characteristics

- >> Are you a self-starter?
- >> Are you motivated enough?
- >> Are you an authoritative person?
- >> Do you prefer working alone or in a team?
- >> How well can you deal with different personal characteristics of individuals?
- >> Can you live with the fear of losing?

Answer the following questions and by choosing one answer for each question!

1. Are you a self-starter?

- a. I like doing things on my own initiative.
- b. If someone helps me start something, I can continue doing it.
- c. I don't like to be in the spotlight if I don't have to.

2. How do you feel about other people?

- a. I like people and I can get along with almost everyone.
- b. I have many friends and I don't need anyone else.
- c. Most of the time, people put me into a bad mood.

3. Can you lead others?

- a. I can attract most people into co-operation.
- b. I can give instructions to others if I am told what has to be done

- c. I entrust the initiation to someone else and I feel well while co-operating.

4. Can you take on the responsibility?

- a. I like to take on the responsibility for things.
- b. I take on the responsibility when I have to, but I prefer when someone else is responsible.
- c. There is always a go-getting person who wants to show what he/she can do. I let him/her.

5. How good are you at organizing things?

- a. I always make a plan before I start working.
- b. I'm doing just fine until things become too complicated; at that point I quit.
- c. I manage everything and then something comes up which presents problems that are too difficult to handle. That's why I take things as they are.

6. How good a worker are you?

- a. I can work hard for something I want.
- b. I can work hard but when I have enough, I stop.
- c. I disagree with the statement that you can achieve anything by hard work.

7. Can you make decisions?

- a. When I have to, I can make decisions very quickly. Usually, things work out well.
- b. I make decisions when I have enough time. When I have to make a quick decision, I later feel I should have decided differently.
- c. I don't like to be the one making decisions.

8. Can people trust your words?

- a. Of course they can. I always mean what I say.
- b. I try to maintain a certain level, but sometimes I simplify things.
- c. Why bother? People don't know the difference anyway.

9. Are you persistent?

- a. When I decide to do something, I don't allow anything to stop me.
- b. I usually finish what I've started – if things go well, of course.
- c. If I have problems already at the beginning, I quit. Why trouble myself with it?

10. How good is your health?

- a. I have a lot of stamina.
- b. I have enough energy for most things I wish to do.
- c. I lose all my energy sooner than the majority of my friends.

Now add your score, i.e. count how many times you chose answers a, b or c. If the majority of your answers is a, you most likely have a potential to run your own company. If not, you will probably have more problems than you can solve. In this case, you should find a partner who is strong in the areas you are not. In case you mostly chose answer c, not even a good partner can substitute for your weaknesses.

We advise you to read the guide "Look before you jump" once again and think if entrepreneurial career is the one that will bring you most satisfaction (and money).



"Imagine."

(Beatles)

2

Entrepreneurial idea

- >> **Developing entrepreneurial idea**
- >> **Elements of a good entrepreneurial idea**
- >> **Protection of entrepreneurial idea**

In order to establish a company, an individual or a group needs an entrepreneurial idea about what the company will be engaged in. It is the idea which guides the entrepreneur into thinking about how he/she will engage in a profitable activity by setting up a company. But most of all, you has to know what you will be selling and to whom.

The first step in changing an entrepreneurial brainwave into an entrepreneurial opportunity is to find a good idea. The importance of the idea is usually overrated, especially in the initial estimations about the sales and the rate of return of the new product or service. The businesses which excelled in uniqueness and innovativeness at their start are very scarce. The entrepreneurial idea is not something that just appears on its own; rather, it is the result of experience, knowledge, thinking and dreams.

is also an opportunity. However, every opportunity stems from a good idea.

If you therefore wish to become an entrepreneur, you will have to distinguish between an idea and an opportunity. Entrepreneurship is, namely, the search for and the creation of opportunities and their exploitation by taking into account scarce and limited production resources.

The sources of ideas are numerous. For example:

- >> the existing business,
- >> franchises,
- >> patents,
- >> licence,
- >> contacts on the market,



Picture 3: Idea and opportunity

There is no lack of ideas about new or improved products and services. However, there are much more new ideas than opportunities. Each idea does not guarantee a successful realization and a good business. That is, it is necessary to scrutinize every entrepreneurial idea prior to its realization. Yet, this is not an easy task since the most profitable ideas are very innovative and not much is known about them. Each of us has dozens of ideas, but not every idea

- >> business contacts,
- >> previous employment, ,
- >> professional contacts,
- >> consulting networks,
- >> hobbies, etc

The guides “Look before you leap” and »Applying the rule-sof business” gave you numerous guidelines how to find and assess business ideas. Because a good entrepreneurial idea is of great importance for the preparation of an effective business plan, we will look at it in more detail.



2.1 Developing entrepreneurial idea

»On résiste à l'invasion des armées; on ne résiste pas à l'invasion des idées.«

An invasion of armies can be resisted, but not the invasion of ideas

(Victor Hugo)

An idea as such has practically no value. Everyone has thousands of ideas. In order to create a successful company based on an entrepreneurial idea, a lot of knowledge and work has to be invested into the research and the development of the idea. Many people with different knowledge and experience have to be involved in this process. That is why this cannot be done overnight. Get ready to spend a lot of time developing the entrepreneurial idea.



If the multistage and multidisciplinary process of idea development is to be carried out professionally and properly, you cannot expect to do it in less than four weeks. The prerequisite for the financing of an entrepreneurial idea is that it is well developed. That is, you need to clearly define the activities and costs required for the development of



this idea to the level which makes it suitable for market commercialisation. In addition, you have to analyse potential risks. Of course, you have to estimate if the revenues will cover the costs of development and if you will be able to achieve the desired rate of return considering the acceptable level of risk. The investors speak of the initial stage of new venture financing; they finance the new venture with the 'seed capital', which assumes higher risk.

The length of this initial stage of new venture development depends on the innovativeness of the idea as well as on the development of the factors in the environment which are the basic requirement for the idea's market commercialisation. That is, even a very good product is useless unless all the complementary technologies or systems supporting its functioning are developed. A good example for this is the Internet. The introduction of the online sale of products or services cannot be developed to its full potential because the security systems for online payments have not yet been adequately developed.

Be practical and make a rough assessment of your entrepreneurial idea:

- >> Present and discuss your idea with your friends, professors, experts, experienced entrepreneurs and potential clients. Use their knowledge and experience. By discussing your entrepreneurial idea, you will be able to shed the light on it from different points of view and refine it so that you will have a broader view of its benefits and market potentials. In addition, you will be well prepared for its presentation to professional investors.



- >> Is your idea also a real novelty? Check if someone has not already developed this idea or even patented it.
- >> Is it possible to develop your idea in a reasonable time and within the justifiable costs to the extent that it would be ready for the commercialisation?

Let us examine the key elements of a promising entrepreneurial idea.

2.2 Elements of a good entrepreneurial idea

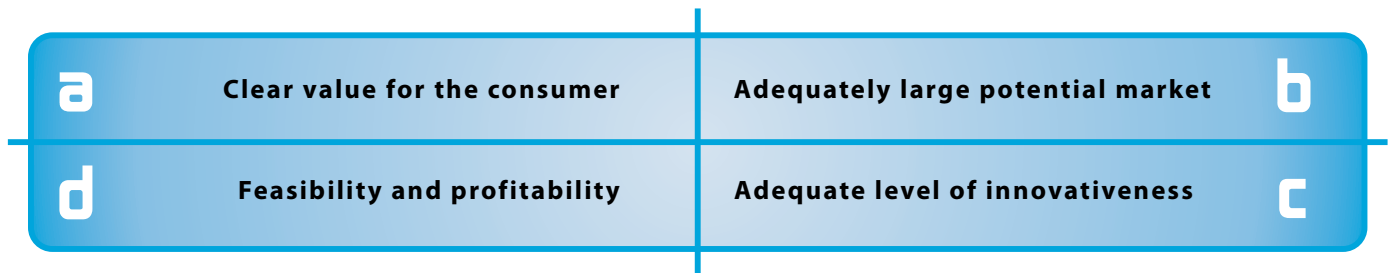
»Company has only two functions: innovation and marketing«
(Peter Drucker)

The creation of a good business plan takes a substantial period of time. Before you spend the following next few weeks or months of your time developing your entrepreneurial idea, you have to make sure it is worth it. The idea has to prove worthy of development in relation to the following four areas:

- >> value for the consumer,
- >> potential of breakthrough on an adequately large potential market
- >> level of innovativeness,
- >> feasibility assessment and in
- >> profitability of the idea

product or service provides. So what is the difference? For example, an innovator is concentrating on the product's characteristics when he says: "Our new machine is based on the latest technology and its capacity is 300 operations per minute.", or "Our new machine is 25% lighter." Contrary to that, the statement "Our new machine will save one quarter of the user's time and thus reduce costs by 20%." or "Our new solution enables the rise in productivity by 25%." stem from the consumer's viewpoint. The product must be useful for the consumer and must enable him/her to obtain more value with the same amount of money.

Therefore, the potential customers must be clearly presented with all the advantages and benefits the product or service brings to them and must be thus encouraged to purchase it. The level of the benefits for the consumer



Picture 4: Elements of an entrepreneurial idea

a) Clear value for the consumer

When we buy a product or service, we do it because it satisfies one of our needs or solves one of our problems. If we are satisfied with it, we will buy it (again). That is why an excellent product per se is not what it counts, what counts is a satisfied consumer! The customers do not seek an 'excellent', 'top-of-the range' or 'unique' product; rather, they seek a product or a service that will be useful to them. The first task in scrutinizing the entrepreneurial idea is therefore to show clearly which consumer's need it satisfies or which consumer's problem it solves. A frequent mistake made by the entrepreneurs is that, when pondering on their entrepreneurial idea, they are predominantly concerned with the technical characteristics of the product, its design and its production. But, in fact, the customers do not really care "if it's a white cat or a black cat, as long as it catches mice". They will spend their hard earned money on that product ore service which provides the best value for money.

The consumer's top priority is not the level of product's innovativeness, but the evaluation of the value that the

reflects the level of the product's or service's novelty or improvement in comparison with other products or services on the competitive market

b) Adequately large potential market

Since the production of the product includes certain (usually quite substantial) assets, it is necessary to sell enough to gain a return on this investment. This means that the entrepreneurial idea will create an economic value only with its successful commercialization. If you want your new venture to be successful, it is not irrelevant which target group you address with your products or services, how large the potential market is and how your offer differs (in a positive way) from the competitive offer. It is also important if you talk about new customer segments or if your product 'takes away' the buyers from our competitors.

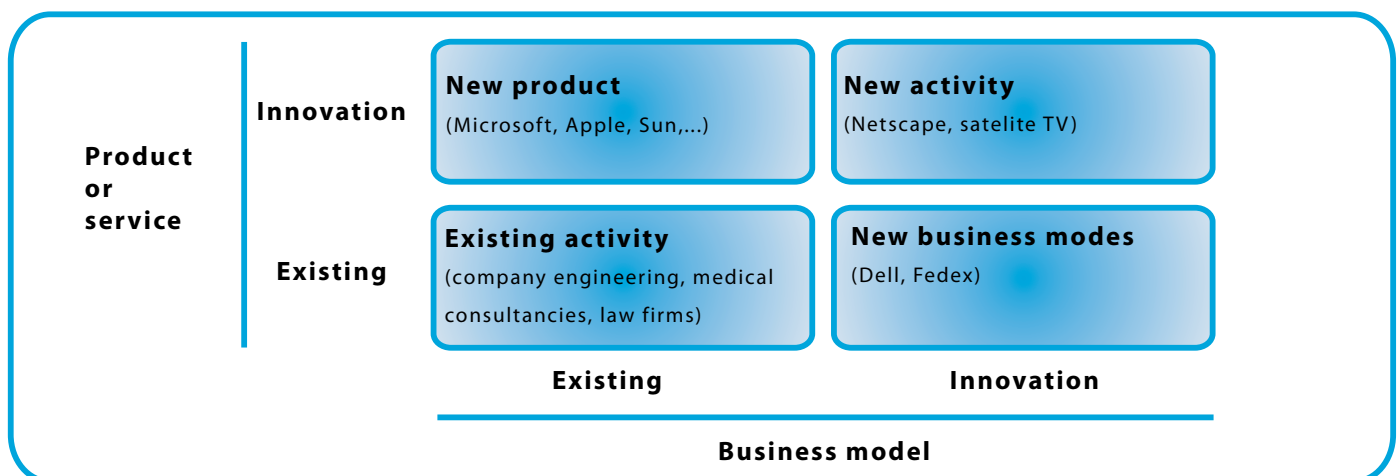
Almost all entrepreneurial activity is, namely, faced with competition. When the companies offer similar products or services for the satisfaction of the same need, the competition is direct. On the other hand, when the companies offer the substitutes for our products or services for the satisfaction of the same need, the competition is indirect.

For example, the producer of fruit juices does not compete in the market solely with other producers of fruit juices, but also with the producers of fizzy drinks, mineral waters and other non-alcoholic beverages that can substitute fruit juices. When assessing the entrepreneurial idea, it has to be clear that you know your competition and its characteristics so that you can evaluate how you will posi-

c) Adequate level of innovativeness

Entrepreneurial ideas can be judged from the following three aspects:

>> the design of the business process in which the



Picture 5: Innovation of products/services and business models

tion yourself and your offer on the competitive market and why you will be successful by doing it that way.

At this level of scrutinizing your entrepreneurial idea, it is not necessary to carry out a detailed market analysis. A rough estimate based on reliable, freely accessible data from various sources (e.g. statistical office data, various organisations, trade magazines articles, specialised newspapers and the Internet) will be enough. It should be possible to work out the size of the potential sales market based on these data. All findings from this research should be included in the presentation of the entrepreneurial idea.

A similar approach can be applied when defining the target customers. At this stage you can be satisfied with a rather loose definition of the target customers as well as the argumentation and the assessment of the value that the entrepreneurial idea brings to them together with the answer to the question why this target group is the most interesting from the financial viewpoint.

- >> product or service materializes,
- >> the characteristics of the product or service,
- >> the company's business model.

The innovativeness of the product or service is not always required. Sometimes a modernization of the production process, the introduction of new technology or a radical change in the managerial process may present a profitable opportunity.

When discussing the products or services characteristics, it is quite clear that they have to be evaluated from the customer's viewpoint, i.e. which needs do they satisfy and how. Are these needs new? Are the existing needs being satisfied in a new way? What will a customer benefit from purchasing and using our product? What makes us better than our competition?

The business model is the way a company generates its revenues and, in particular, how it produces and markets its products or services. Similarly to products, we may develop something new or exploit the existing business models.

The significance of business models is often unjustly neglected even though the business model innovation is

2.3 Protection of entrepreneurial idea

sometimes the very key to company's success. There are many examples of successful cases of business model innovation in the entrepreneurial practice. For example, the American company Dell achieved great success by the change in sales channels (direct orders and sales to consumers) and the reorganization of production model. Now, their main characteristic is the order-based building of computers in the shortest possible time.

While the development of new products and services is expected to bring the increase in the 'value for users', the business models improvements are usually related to the reduction of costs and, consequently, the possibilities of reduction in sales prices, the increased volume of sale, all of which also contributes to the increase of the company's competitive advantages.

There are only few examples of parallel innovation, i.e. the innovation of products or services and the innovation of business models at the same time. One successful case is Netscape, which greatly contributed to the popularity of the World Wide Web by offering its free browser. By doing so, the company gave up initial higher income, but it gained a rise in the number of users. A large number of companies later established the conditions for high income by selling advertising space on their websites. Skype and Google utilised similar innovative models as well.

d) Feasibility and profitability

Before the actual implementation of the entrepreneurial idea, you have to carry out the project's feasibility and profitability evaluation.

A ground-breaking entrepreneurial idea is not enough; its implementation requires suitable human and material resources. One has to predict potential obstacles. Apart from the factors that might hinder a successful realization of the entrepreneurial idea, one has to estimate the costs and time needed for the realization of the idea.

The project's profitability is closely related to its feasibility. The company has to be able to create profit in the long term. This fourth element of a successful entrepreneurial idea must thus show how much money can be made by the realization of the entrepreneurial idea and how fast.

Only few entrepreneurial ideas are truly innovative, because true novelties are the result of a difficult creative work and a long development process. All of this is related to costs, which can sometimes be really high. For that reason it is necessary to protect the results of your research work one way or another so that you can repay these costs. This is the basic logic behind the protection of your investment since you would not allow just anyone to reap the field you have sown either. Through your creative work and innovative products, you want to achieve more, that is, not only profit, but competitive advantage over other companies in the industry sector. It is therefore necessary to think about all forms of competitive advantage that your product or service has, how long they will last and how to protect them.

There are different categories of entrepreneurial idea protection:

- >> patenting, which protects the method of doing something,
- >> design registration, which protects the visual aspect of a product,
- >> copyright, which protects films, literary works and similar,
- >> brand registration, which protects the name of a product or service,
- >> business secret, which means the withholding or keeping key information secret, and
- >> fast realization of the idea, which enables a leading position in the market and fast harvesting.

In Slovenia, 'The Slovenian Intellectual Property Office' is responsible for the security and protection of entrepreneurial ideas and other types of intellectual property. You can find detailed information about the procedures, legal bases and possibilities of protecting your entrepreneurial idea on the Office's website (<http://www.uil-sipo.si/>).

2.3.1 Patenting

Patenting prevents anyone except you from using a particular procedure or from producing certain product characteristics. An early start of patenting procedure is highly advisable for innovative products and processes. Here, you have to consult an expert for the protection of industrial property because the future success of business operations is very much dependent on the very patent protection of the novelty.

A patent can be understood as the contract between an inventor and a country. The country makes an agreement with the inventor that if he/she is willing to publish the details of his/her innovation in an agreed form and if it turns out that the novelty is groundbreaking, the country guarantees the inventor the market monopoly for his/her innovation for a certain period of time (e.g. 10 years). That is, the inventor gains protection for disclosing the novelty. The patent holder can exploit his/her innovation by producing and selling products, he/she may agree to transfer the right to a competitive company based on the licence agreement. A patent is a legal and technical document. In its legal sense, the patent defines the rights of the patent holder. In its technical sense, the inventor explains the essence of his/her invention and its usage for experts to understand.

Patenting is not free of charge. It involves different costs:

- >> the cost of making patent application
- >> the cost of patent application translation
- >> the cost of patent application submission and the conduct of procedure
- >> the fees for patent application submission
- >> the fees for material test of patent application
- >> the costs of patent registration
- >> the costs of patent to remain in force (annual fee, replies to any lawsuits and complaints)

The process of innovation registration is thus a very expensive one. The patent usually relates to a product that may not be in the market for the next few months or even years. The profitability of the patent therefore depends on the long-term vision of the company management.

The decision regarding patenting is the result of the consideration whether the invention will become an innovation. This often depends on the industry sector. The decision will most likely be different in case of a product in the information technology sector, which has an extremely short production cycle, from the products in the ironwork industry or in the moulding of plastic materials sector. If you obtain patent protection for three years, the product has to earn more than it was invested in its development, including patenting, in three years from the day of its launch onto the market. Namely, after this period, anyone who has interest in it will be able to produce it.

Very often, companies do not even patent the novelties. Sometimes they simply do not have the financial means to invest in the protection of their own novelties or the entrepreneurs have little understanding of these matters and believe that only top scientific findings in a particular field can be patented.

It is possible to keep the contents of the invention as a business secret. In this case, the inventor gives up the public 'award' in the form of monopoly and keeps all possible advantages of the development to himself/herself. In this way, the country provides him/her with only a limited selection of instruments that the inventor can use in his/her protection.

2.3.2 Design registration

You can also register the form, the design or decorative features of a commercial product if they are new, original and previously not published or used for a particular product. The production should be used with industrial products that will be produced in the minimum quantity of 50. The protection lasts five years and can be renewed for the next two five-year periods.

2.3.3 Copyright

Copyright protects original artistic and creative works such as articles, books, paintings, films, plays, poems, music, industrial designs. Copyright protection lasts 50 years from the publication of the work or 50 years after the death of the copyright owner. Of course, it has to be taken into account that provisions differ from one country to another.

2.3.4 Corporate, product or service brands

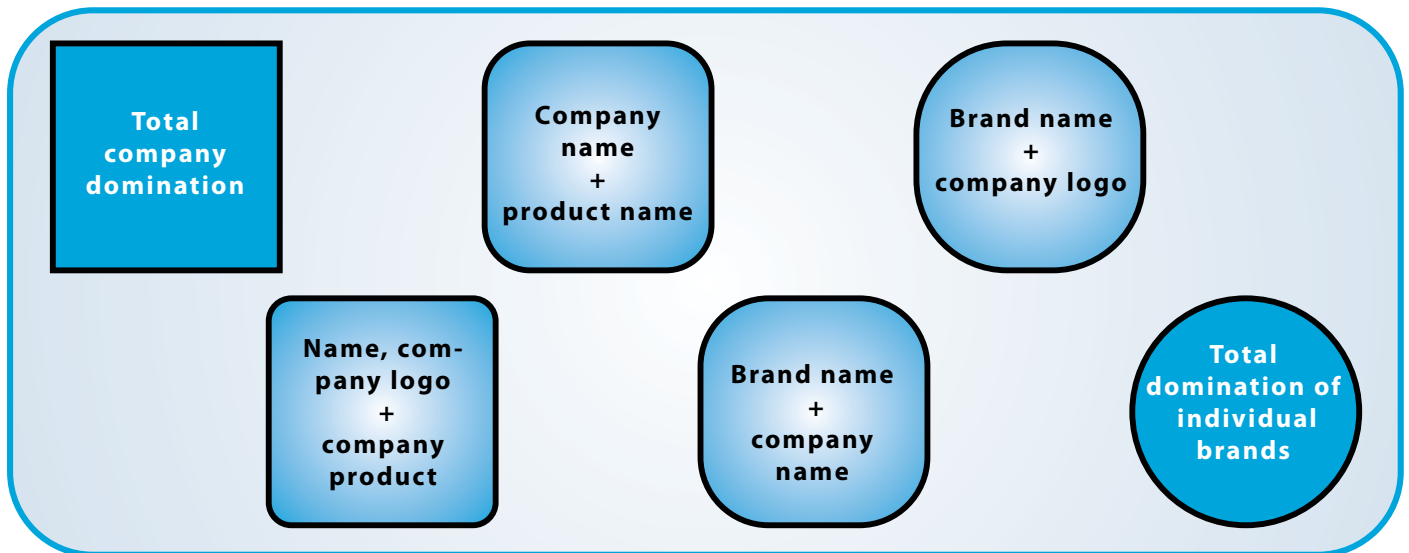
The brand is a symbol that helps us identify goods of a particular producer or merchant. Brands can be words, signatures, monograms, pictures, logos or the combination of these. They must differ from the ones used by other companies for the same types of products and in the same geographic area. However, the same names can be used for different products. Brands must not be misleading.

A service brand is equal to a product brand but is used for services, while the product brands are used for products only. The right of brand use is obtained by its very use. The registration is not demanding but it can significantly in-

crease the possibility of avoiding certain unpleasant situations, such as the use of the brand by other companies. If this were to happen, you would have to fight such a company in court. But, if the brand/trademark is registered, you can initiate the claim against the company using your

2.3.5 Business secret

A company has a lot of information that wishes not to disclose to others, especially when this information refers to new ideas and concepts. Some experts (lawyers, repre-



Picture 6: Possible forms of brands

registered trademark more or less automatically. The first registration is valid for 7 years and it can be renewed for the unlimited number of 14-year time periods.

A company may choose among various forms of brands, as shown in Picture 3

In case of emerging and small companies whose assets for the development of individual brands are limited, the best formula for a steady growth of the company is to develop a strong corporate brand which is at the same time also product or service brand. The company should, therefore, more or less link its products or services to the name of the company.

The development of corporate brand requires building company's reputation in the eyes of different groups of stakeholders (buyers, employees, suppliers, local community, etc.). Company reputation cannot be considered separately from the concepts which are closely related to its formation: identity, identity system or the entire design, company image and communication. These elements are essential for corporate image management and, consequently, corporate brand building.

sentatives, bank officers) whom you meet at your work are bound legally or by their professional ethics to not disclose business secrets. Also, it is in the venture capitalists' interest to not disclose secrets related to ideas as hardly anyone would be willing to present them with any new ideas if they did so. The same rule applies for entrepreneurial consultants. It is, nevertheless, advisable to sign a special agreement or statement about the nondisclosure of business secrets with certain people. All mentors, organizers and evaluators working within the programmes of 'Tovarna podjemov' must sign such an agreement. Nevertheless, it has to be pointed out that it is extremely difficult to prove business secret disclosure. That is why all entrepreneurs must be very careful to whom and to what extent they trust their business secrets.

2.3.6 Fast realization of the idea

The best possible protection of the entrepreneurial idea is its fast realization. The path from the idea to an established company is a long and difficult one. It is related to a lot of intellectual and physical work, which is not easy to do. Such effort can stop potential imitators because the first one to close the new deal will always take the cream. Or, as an old saying goes: 'The early bird catches the worm'.

"If you don't know to which port you navigate, no wind is right."

(Seneca)

3

About business plans

- >> **The advantages of a business plan**
- >> **Characteristics of a good business plan**
- >> **The co-investors' expectations**
- >> **The last advice before we get down to business**

3.1 The advantages of a business plan

Business plans are a very old tool used by entrepreneurs to attract potential investors into cooperation for the realization of an entrepreneurial idea either as co-owners of a company (through equity) or as lenders of capital. The preparation and the presentation of a business plan has now become a part of daily business since it represents the basis for successful business operations of a company and good business relations with business partners, i.e. customers, suppliers, middlemen, not to mention their significance for good relations with banks and venture capitalists. Business plans are not developed for new ventures only but are used by big corporations as well when they examine, for example, the justification of investments into the research and marketing of a particular product or service. They can, of course, also be used as signposts to entrepreneurs in the realization of their business idea as well as the control mechanism to check the achievement of business goals.

A business plan is therefore used to:

- >> invite potential investors,
- >> plan and control company goals,
- >> present the company to its business partners, and
- >> present the development goals to co-workers.

In the following paragraphs we give a more detailed presentation of the advantages that a business plan brings, the basic characteristics of good business plans and the investors' expectations.

The practical experience shows that the great significance attributed to a business plan is more than justified. The entrepreneurs use it to show that they are able to analyse and handle different aspects of a new venture and its management. It helps them define the goal and the route to its achievement. An adequately designed and written business plan is therefore a key document for the evaluation and management of the new venture.

The business plan is a type of a planning instrument and is the result of the planning process which forces the entrepreneur to systematically break down the entrepreneurial idea. By doing so, the entrepreneur identifies any lacks in his/her knowledge, he/she faces all the crucial elements of the business plan and makes business decisions. The business plan thus forces the entrepreneur to think and act in a structural and strategic manner. It forces him/her to put down in writing and think about all the situations that he/she will have to deal with in his/her actual business in the future. That is, the business plan includes a detailed analysis of the business idea, which is the basis for the realization of the new venture. It presents all key economic circumstances of the new venture, the goals set and the resources needed for their achievement. During the business plan preparation, you are constantly faced with possible alternative solutions that have to be examined and assessed. In addition you have to find the optimal direction through all the identified pitfalls.

With its clear analysis of the situation, the business plan is an excellent tool for resolving problems on the way to the successful realization of the entrepreneurial idea and can greatly contribute to the increase of efficiency and success of company's business operations. It forces you to stay focused on the end goal of the new venture, which is satisfied customers and profitable company.



3.2 Characteristics of a good business plan

The extent and depth of the business plan depends on the type of the new venture and the purpose of its preparation. The business plan for a new company is structured differently from the one developed for the new product or service launch of the already existing company. For example, the business plan for a complex new product, e.g. the latest version of a satellite controlled communicator, will put more emphasis on different elements from the business plan which is developed for the vegetarian fast food bistro. Regardless of the product or service, the business plan must give clear answers about the customers, the profitability and the return on invested assets.

Although they are different in some aspects, all business plans have many common characteristics. They have the same structure, they are developed to give a clear, concise and overall assessment of the opportunities and threats related to the new venture. Further, they serve as one of the decision making tools in business.

Before you start preparing your business plan, read the following guidelines that will help you make a good business plan. These are the principles of dynamics, clarity, objectivity, comprehension, intelligibility and design.

1. A good business plan is dynamic.

The business plan develops and matures together with the progressive development and maturity of the entrepreneurial idea. At the beginning, the attention is focused on certain issues only, and these issues are continuously

supplemented by new ones. New insights force us to constantly adapt and update certain aspects. The assumptions, projections and results must, of course, be coordinated in order to avoid errors in terms of contents. We can make our work easy by applying a systematic approach. This means that we clearly mark the numbers of chapters and their contextual relations. In addition, this also includes sorting the sources of information chapter by chapter. That is why you will often hear that planning of the business plan is often more important than the end product, i.e. the business plan itself. This belief stems from practical experience which says that the developed business plan needs constant revising and supplementing as well.

2. A good business plan is distinguished for its clarity.

The business plan must have a clear structure which enables the readers to search through the contents very quickly and find what they are interested in. Moreover, they must be given the chance to find the adequate answers to their questions as quickly as possible and in a suitable way. The organisation of claims and the focus on logical conclusions and explanations of these claims, and not the scope of analyses and data, are the most important for the reader. The maximum length of a business plan is 30 pages (plus-minus 5 pages). When presenting its contents, we must not exclude any area that might be interesting to the reader. It goes without saying that you must be clear and concise. As the author is frequently not present when the business plan is being read in order to give explanations and answer questions, the business plan must be written unambiguously and must provide the answers to all key



questions. Before handing over your business plan to the potential investors or evaluators, you should present it to the qualified test group of readers and take into account their uncertainties and suggestions.

3. An objective business plan is convincing.

People tend to get carried away when they explain their favourite ideas. Of course, it is good to show enthusiasm when presenting your entrepreneurial idea, but one still has to make sure that the contents of the presentation remain professional and that the reader is allowed to think about the arguments presented on his/her own and to form his/her own opinion about them. The presentation which is too pretentious, like an advertisement, is more likely to keep the readers away than attract them because it makes them doubt its objectivity. Such a presentation also makes a lot of people think that you are underestimating them. On the other hand, avoid too much self-criticism originating in previous bad experience and mistakes. Such an approach can raise doubts about your capability and motivation about the realization of your business plan. The data and the claims that you present must be true and in compliance with the goals of the new venture. You can mention the weaknesses only in relation to the methods and plans of their minimization or resolution. Do not worry, there will not be enough experts in the audience to ask you about all the weaknesses. However, when they do ask you, do not try to pretend and do not try to disregard these weaknesses.

4. People without technical education must be able to understand the business plan.

There will always be a number of people in your audience who do not understand the technical aspect of your product or are not interested in it. They are interested in why and how the product will sell and in the profitability of the new venture. Unfortunately, some entrepreneurs are convinced that the readers can be made enthusiastic by presenting them all the technical details, extensive descriptions and analyses in the small print. But they are wrong. These technical details usually remain unanalysed because the evaluators most often do not understand them and they rarely employ technical experts for the detailed study of technical data. Very often a clear engineering drawing or a photograph is enough. If you really have to include technical details of your product or production process, put them in the appendix.

5. A good business plan is transparent and written in a smooth language.

Taking care of contents is not enough. It has to be presented fluently and in a smooth language. A frequent mistake of many business plans is that they are scattered and incoherent because usually more than one person covering different areas of expertise works on their development. The individual parts must then be integrated into a whole and must prevent it from looking like an incoherent patchwork of different styles and contents that are developed to different degrees. That is why the final version of the business plan must be revised by one person who unifies the styles and gives it the common thread.

6. A good business plan is a well designed product.

Most people have seen so many nicely designed documents that they are unwilling to pay attention to a business plan which is messy, badly designed and unclear. If we want our business plan to attract attention, we must not ignore an appropriate design of the entire document. The business plan's contents must be unified and presented with style. Here we refer to the text font and font size, line spacing, colour, margins, unified format of tables and graphs that supplement the text as well as the logo of the future company in the document's head. But do not exaggerate. A luxuriously printed business plan on a silky paper will be equally off-putting for the potential investors than sloppily bound sheets of badly printed paper.

3.3 The co-investors' expectations

The co-investors into your new venture are needed and useful in many ways. You will have to attract them into cooperation if you do not have enough financial resources to realize your entrepreneurial idea, or if you need valuable consulting or strategic partnership to break into certain markets. You will need the business plan to convince them to invest their money into your company or to form any other kind of business relationship with it. The professional investors' evaluation is thus the first stepping stone on the way from the idea to the successful company. Let us now examine how these people operate and what they pay attention to when they evaluate an entrepreneurial idea. The information presented here relates both to classic bank and public fund financing and, particularly, financing by venture capital companies or funds and financing by business angels. In the very initial stage of the new venture (i.e. just before the company establishment), many new and, in particular, technology-based companies need equity capital to take full advantage of the entire development and growth potential.

Apart from the capital, the newly established companies need intensive professional support in the first few years of their existence. At this stage, the private consultants are usually too expensive, while, on the other hand, local and regional promotion centres offer only limited support.

Although new high-technology companies are considered to be rather risky new ventures, they nevertheless have a relatively high survival rate when compared with companies in many other industry sectors. They also show a very high growth potential, which makes them very interesting for co-investors. The latest accomplishments of numerous new technology-based companies prove that it is possible to achieve a rather enviable company growth and relatively high returns even in countries, which are not among the most entrepreneurship-friendly countries. The companies of this kind are very interesting to the venture capital funds which are predominantly oriented towards the high growth potential activities. They provide the companies in their initial stages of development with necessary capital and professional assistance in return for equity share.

It seems that venture capital funds act in an unusual way. That is, they do not demand neither interests, neither the repayment of the principal nor any guarantees. But, when we examine their operations in more detail we find that this nevertheless makes economic sense. Namely, the co-

investor acquires the equity share in the company with high growth potential in return for his/her financial support. The experience shows that the average annual increase of invested capital value is between 25 and 50 per cent. Such supply of permanent financial resources is very important for young companies because they have difficulty in acquiring financial resources from banks, mainly due to their limited possibilities of guarantee and high risk. The venture capital funds provide not only the financial support but professional support in establishing business contacts and consulting as well. That is why we include the venture capital funds among the 'smart capital' providers.

Companies can obtain initial funding also through public, state and regional funds. Venture capital funds find this very appropriate since they are reluctant to enter into a company as the sole source of financing. Generally, the venture capital funds acquire 50 per cent share of the company and are thus perceived more like business partners than the exclusive owners. After five to seven years of company growth (or even sooner), the venture capital funds decide to sell their equity share and leave the company. Other company owners, other companies or even the competitive companies (if, of course, this is allowed in the agreement with company founders) can then present themselves as the buyers. In some cases, the company decides to make an initial public offering. The venture capital funds expect a very high return on their investment from selling their share. This return often exceeds the debt capital providers' return on investment by a few times.

The problems related to the acquisition of financial assets often occur in the initial stages of company formation. This is particularly true when the entrepreneurial idea is yet to be made more concrete, when it is necessary to deal with the needs and desires of potential customers and when the issues related to the industrial property protection together with other legal issues are to be resolved. In such situations, it is very difficult to expect financing by banks and venture capital funds alike. Here, private investors are the ideal solution since they have certain professional experience in a particular industry sector. They can help the company in this early stage of its development as financial and professional partners. These investors are called business angels. They are rich individuals with rich business experience who managed to put their companies successfully on the stock exchange or sell it and they now continue to invest their 'smart capital'. Apart from the capital,

they also provide knowledge and help the entrepreneur realize his/her new venture by using their experience and connections in the business world.

International experience shows that these individuals have lower expectations in terms of return on their investment and higher level of willingness to invest. They are more likely to be owners for a longer period of time than the venture capital funds. It is, therefore, almost impossible to imagine the success of many American high-technology companies without the aid of this informal equity capital, i.e. without business angels. For example, the globally recognised companies SAP and Microsoft were supported by such capital.

The co-investors are interested in the final business plan and not its creation. In fact, they really appreciate a well prepared document which gives them the ability to quickly find key opportunities and threats related to the new venture. When preparing the business plan, you must always have in mind the value our solutions have for your customers and the achievement of the desired rate of return that is demanded by the owners of the invested capital.

So, what do venture capital funds, business angels and evaluators from other financial institutions expect from a good business plan? Their attention is predominantly focused on the following:

- >> The entrepreneurial idea must bring value added to the consumers. This is seen through the reduced costs of solving a particular consumer need or solving a new need of the consumer with acceptable costs for the consumer.
- >> The company's products or services should have a large potential market and high growth potential. Entry on international markets is usually expected.
- >> The product or service should be new. New products or services, new ways of their production and their new useful value give the company competitive advantage in the market and provide it with a relative safety from the entry of competition.
- >> The market penetration plan must be prepared logically and in detail. The estimated sales must be based on a professional market analysis from which we can determine with a high degree of certainty the attitude of the customers towards our new product or service. A realistic estimate can reduce the dangers of insolvency and prevent possible bankruptcy of the company.
- >> The evaluators pay special attention to the entrepreneurial team on whom the success or failure of the new venture is highly dependent. The adequate structure of experts within different fields is especially important in high-technology companies. They will analyse key personnel in great detail in terms of their education, experience, creativity, motivation, psychological stability and their attitude towards money. Professional experience and the actual former results carry more weight than the level of education. The experience and the ability to work in a team are also very important. The team must be interdisciplinary and must be willing to accept outside investors as the new partners in the company.
- >> The safety of the investment and its outcome are also significant. Clearly, the co-investors are interested in harvesting as well as the speed and the methods of capitalizing on their investment into the new venture.

3.4 The last advice before we get down to business

We advise you to take into account the following useful guidelines when writing your business plan:

>> **Bear in mind the plan of work.**

The development of a business plan is a very complex task. You have to analyse many separate aspects and connect them into a logical whole in the following stages. For that reason, you have to approach the development of the business plan very systematically and by using a plan of work.

>> **Use key questions for guidance.**

When writing the business plan, it is good that you use the key questions, which help you check if you have included all the essential elements of a particular section. The key questions are similar or even identical to the ones that will be used by the co-investors when assessing your business idea.

>> **Always see the overall picture.**

Because the business plan is a very complex document, there is always the danger of getting caught in separate analyses and losing the overall view of the project. That is why it is advisable that we critically evaluate whether finding additional information makes sense and whether it has any value added. When working on the plan, it is advisable to take into account the recommendations about the scope of the business plan as a whole and its individual chapters. A good business plan must be 20 to 30 pages long, excluding any appendices.

>> **Find professional assistance.**

When you are working on your business plan, it is advisable to get any professional assistance you can. The first level of cooperation can be established within the project group, which should be interdisciplinary. It is advisable to share the obligations based on the knowledge and experience of the individual members. At the same time, the communication among the team members should enable all of them to have the whole view of the project. Later on, you can ask various institutions and individuals to help you resolve any questions pertaining to your business plan.

>> **Regularly test working versions of the business plan.**

The comprehensive presentation of your business idea is a key factor of the success of your business plan. Because of that, you must get the opinion of as wide readership as possible. They can state their opinion and contribute to the improvement of the document and to the explanation of your business idea.





toolkit:businessplan

Tovarna podjetjmov©

Toolkit for easy business planning!

Developed for entrepreneurs, enterprises and individuals, who are developing business plan for their innovative business ideas!



Features:

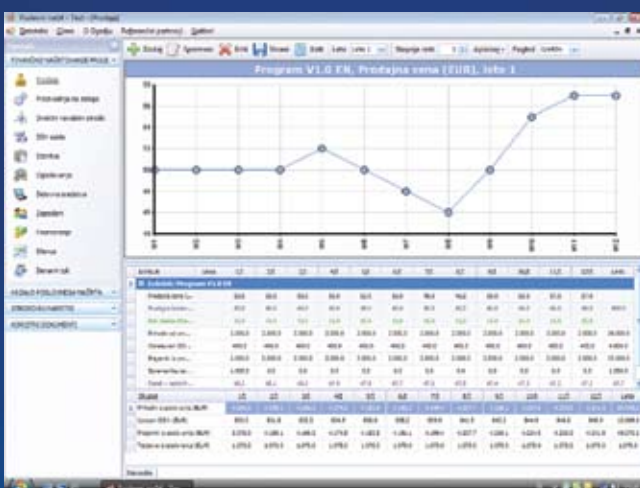
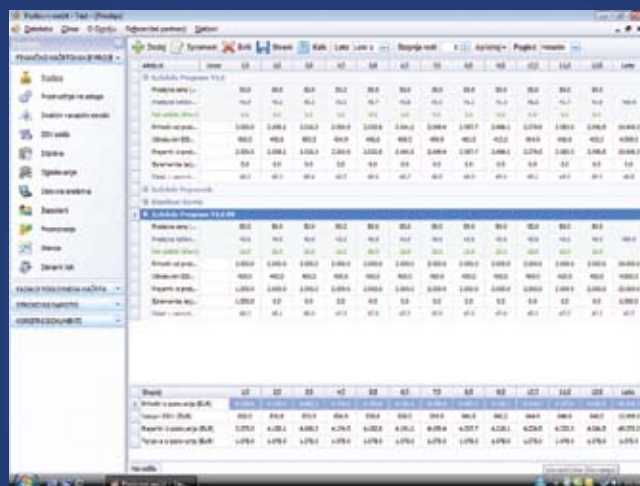
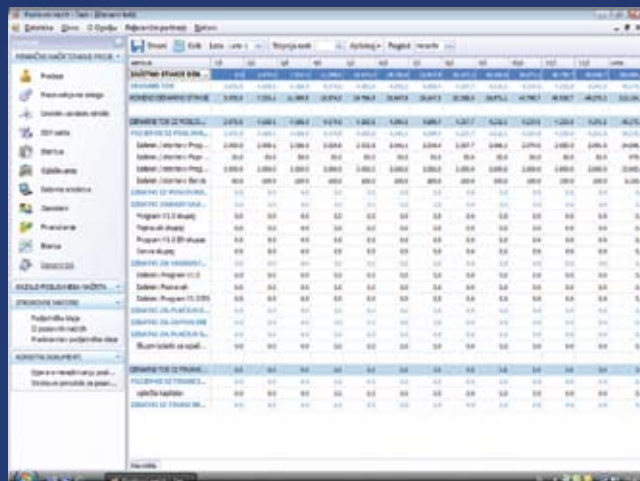
- easy to use,
- simple user interface,
- planning of all key elements of the business plan,
- integrated handbook for business planing with help and tips,

Planning elements:

- sales of your product or services,
- production and related costs,
- cost related to business and production,
- services planning,
- promotion and advertising planning,
- means of work planning,
- labour costs and outsourcing experts planning,
- financing sources of your business (credits, equity stakes,...)
- cash flow and balance sheets preview.

Key facts:

- more than 3000 registered users is using toolkit at the moment,
- it is available in Slovenian and English language,
- there are company descriptions and contacts of Start:up key partners available in the toolkit.



Toolkit is a windows based applet available free on: www.tovarnapodjemov.org/toolkit

"To be prepared is already half of victory!"

(Miguel de Cervantes Saaverda)

4

Structure and content of the business plan

- >> Key elements of business plan
- >> Description of individual elements, advises and warnings
- >> Key questions for individual chapters
- >> Advices regarding scope of the business plan

Every business plan, despite their colourful diversity, contains Executive Summary and ten main chapters, which are then further divided into subchapters. Structure of the business plan is shown in the Picture 7.

Building of your business plan is divided into three stages. At the beginning you work only on some chapters and elements. In further stages you proceed into other parts of your business plan. As you progress through stages the scale and scope of your planning is increasing, so slowly all the chapters are completed. At the end of third stage all the chapters are meld down into a big and complete picture, which is shortly represented in the executive summary.

The purpose of the first stage is analysis of your product or service and form of your organisation, which has to be built for fulfilling your entrepreneurial goals. If the entrepreneur does not know all the details and preferences of the product or service he wants to sell, he will hardly be capable of planning all the other necessary elements of his business (target market, sales channels, human resources, business model, financial aspect).

Second stage is aimed for analysis of market potential of the entrepreneurial idea (target market analysis, competition analysis and analysis of potential customers) and choosing the right marketing mix for market penetration and growth. This stage is also important from perspective of human resources and core team members, who will be able to realise the entrepreneurial idea.

The aim of third stage is to analyse the economic legitimacy for establishing new company. Final goal is to find out the market potential of risky investment and time line of achieving results. The most important result of this stage of business plan is financial plan, which serves as a starting point for estimation of investment opportunity and has to reflect entrepreneur's best vision of company's future - best results, which he believes that are realistic and achievable. Foundations for third stage are well-completed previous stages in which key elements of financial plan were defined.

To make your writing easier we have added key questions at the end of every chapter. These questions represent the content of each individual chapter. For additional help we have developed Business Planning Toolkit which will help you to easily and quickly plan all the elements of your business plan (sales plans, income plan, costs, labour costs,...). You can download toolkit for free from Tovarna podjemov web site (www.tovarnapodjemov.org/toolkit).

Despite the help, don't underestimate the time you will need to carefully investigate all the angles of the elements, especially in the stage 2 and 3.



Legend

	Focus of investigation is in this stage
	Investigation of the content
	Content copied from the previous stage
	Investigation is not necessarily in this stage

	1. stage	2. stage	3. stage
1. Executive summary			
2. Industry sector, products and services			
2.1 Industry sector			
2.2 Company and business			
2.3 Products or services			
3. Market research and analysis			
3.1 Customers (buyers)			
3.2 Market size and marketing			
3.3 Competition			
3.4 Continuous market assessment			
4. Marketing strategy			
4.1 Marketing strategy of market entry and growth			
4.2 Setting selling prices			
4.3 Saling channels			
4.4 Marketing communications			
5. Human resources and organisation			
5.1 Organisation			
5.2 Key managerial staff			
5.3 Management remuneration			
5.4 Other employees and external consultants			
6. Product or service development			
7. Business process and production planning			
7.1 Business process and production planning			
7.2 Geographic location			
7.3 Plan of engagement of the means of work			
7.4 Plan of materials utilisation			
7.5 Plan of services utilisation			
7.6 Legal requirements permits and environmental issues			
8. Time schedule			
9. Key threats and problems			
10. Financial plan for the next 5 years			
10.1 Cash flow estimate			
10.2 Profit and loss account estimate			
10.3 Balance sheet estimate			
10.4 Financial indicators			
10.5 New venture's economics			
11. Acquisition of financial assets			

Picture 7: Structure of the business plan

4.1 Executive summary

The purpose of the executive summary is to attract the reader's attention, in particular, the co-investors' attention. Therefore, it has to be presented in an attractive manner in order to show all the significant elements and include their brief description. These elements are: the explanation of the product or service, its value for the user, potential market and market segments, a planned volume of sale, the required skills of key team members, the need for financial resources, the estimation of expected return on invested assets and the safety of the investment for the co-investors.

On one or two pages, the executive summary presents the key points of the business plan, including key facts and figures. When writing the summary, imagine that you have only two minutes to present your business opportunity and company to a complete stranger. You must attract their attention and make them enthusiastic enough to pay attention. This consideration will help you decide which information to actually include in the executive summary of your business plan. The executive summary writing is far from being a simple task and is thus to be done at the end, after all other sections have been prepared. During the preparation of individual sections of the business plan, it is advisable to highlight one or two key sentences, key facts and figures to be included in the executive summary. You also have to consider if your presentation is interesting and attractive enough.

The executive summary of a business plan is particularly important for those new ventures which depend on the acquisition of foreign financial sources. The investors are always quite busy and need to decide rather quickly if the enterprise presenting its business plan is of interest to them. For that reason, it is important to take enough time to prepare an attractive, short and concise executive summary because it is the first, and, in case it is not attractive, also the last information about the company that the potential investor, banker, supplier or key manager whom you wish to invite into cooperation is going to read. You will usually not be able to present your business plan in person and answer more detailed questions or explain any misunderstandings and misinterpretations of your plan. The executive summary is therefore important for making a good first impression about the new venture and about you as the entrepreneur. Remember, take enough time to prepare the executive summary of your business plan. (When doing that, consider the fact that some really successful public speakers are famous for taking up to an

hour to prepare for every minute of their speech).

In order to provide clear information about your new venture, it is necessary that the executive summary includes a paragraph or two about the following characteristics of the new venture.

a. Short description of new venture:

In this part, you briefly describe the essence of the entrepreneurial idea you plan to realize. State what is unique about your product, service or technology and how it changes the offer for the consumers. In any case, place a clear and well-founded emphasis on which buyer's need it satisfies or which problem it solves. If the company is already in business, point out the key events in its history since its foundation (e.g. the foundation, purchase of patents, purchase of brands, employment of key personnel, acquisition of major financial resources, etc.). In addition, provide a brief presentation of the company's achievements and plans for the future.

b. Opportunity and strategy:

The description of business opportunity is one of the most important parts of the executive summary since it presents the business opportunity by explaining its strengths, potential weaknesses as well as gives the reasons for setting up the company in the first place. Here, it is also necessary to describe the company's strategy for a successful market penetration. The description of the business opportunity is supported by key facts and figures describing competitors, industry trends, buyers, materials, threats and other elements of a business opportunity. When providing the description of the business opportunity, be very explicit. The text should be attractive and fluent to attract the readers' attention and convince them to continue reading. In this section, you also explain possible plans for growth and expansion of the company to other areas of business. Try to avoid too technical presentation of the product or service you plan to offer. Namely, you have to understand that the audience is not interested at this stage in technical details and very often they are not familiar with them either. You will have time for this later on, after you have captured their attention and they will be willing to listen to you in more detail. At that stage, they will bring into their team technical experts and you will have the opportunity to explain all technical advantages of your idea.

c. Target markets and projections:

In this part of the business plan, you present your target markets and target customers and how you plan to gain them. Explain what it is that makes your product or service unique and worthy of purchase while differentiating it from competitive products. You may base your claim about why your product or service is different from the competitive one on its unique quality, product design, production technology, industrial property or price. Here, you should include key data acquired by market research, network inquiry or specific analyses of company's business environment. The reader should get a short presentation of the characteristics and dynamics of the industry sector in which your company operates. In this part, you have to convince the reader that you have a detailed understanding of target groups that are enthusiastically waiting for your product or service. You should also include the information concerning the scope and growth rate of market segments and market niches the company will concentrate on. You estimate annual sales volumes, market shares and price ranges of your products and services. You show the reader in which trade magazines and newsletters they can check your estimates and projections. You define if the industry in which your product or service will compete is growing, stagnating or declining.

d. Competitive advantages:

Present the key characteristics of your direct competition. Your knowledge of your competitors' weaknesses and strengths will convince the reader that you are capable of working out the strategies to face the competition and reach the planned sales targets. One of the gravest mistakes you can make is to claim that your product or service does not have competition. In this part, you give a short outline of the planned sales and price policy, sales channels, advertising and the planned company placement. You also define the stage of your product's life cycle, i.e. whether it is a completely new product or whether it is a mature product or service that the buyers already know in a similar form. You should take into account that there are very few genuinely new products.

e. Managerial team and personnel:

Give a short presentation of key members of the entrepreneurial team and key employees. Give information about

their formal and non-formal education, the experience which influences their managerial skills as well as their professional competencies that make them important for the company. Point out their particular distinctions, past achievements and results. Refer to previous (reputable) companies in which these individuals worked. The key element in successful entrepreneurial team building is in making sure that the members' characteristics complement one another. You may also describe the characteristics of other posts and employees in your company, any specific training and remuneration systems. In short, include everything that will convince the reader that your company employs top personnel.

f. Economics, profitability and harvesting potential:

Successful profitable business operations are the key goal of any company, which requires an adequate structure of resources. If the purpose of your presentation is to acquire investment funds, you must state the main purposes for which the acquired financial resources will be used. The fact is that investors wish to know what their money will be spent on. Write down the level of capacity utilization needed for the company to reach the break-even point and when it will start making profit. Take into consideration the fact that the increase in the production volume causes the rise not only in variable costs but frequently also in fixed costs since the increased production volume requires the increase in capacities. In addition, in this section describe the financial potential of your products and services. Present the expected gross profits and expected return on investment or return on capital in numbers. State the possibilities for the investor to gain the return on their investment, i.e. to sell, to reinvest or to gain the return on the investment through dividends. The fact is that your co-investor will like to know what the guarantees for the return of his/her contribution are.

g. Sources of finance and financial supply:

In this part give a brief outline of the of the required debt and equity financing of the company as well as the insurance and the price the company is willing to pay for crediting. Briefly state the required level of financial resources you will need for the realization of your new venture. Define the method of financing (debt or equity) and under what terms you are willing to accept co-financing. Also state what the potential investors expect.

The goal of the executive summary is to present the context within which the investor can understand everything you will explain about the product or the service and the market in the business plan. This part must give a clear presentation of the business area in which the company will operate, the product you will offer in the market, the characteristics of your industry sector and the opportunities that occur with the production and sales of your product or the rendering of the services. If you have read the above instructions very carefully, you know that the executive summary requires you to answer the following questions, the depth and scope of which can be presented in three stages.

Key questions in section EXECUTIVE SUMMARY:

1st stage

- >> How have you perceived the business idea?
- >> What is the essence and uniqueness of the business idea?
- >> Why do you think the idea will be successful?
- >> Which customer's needs does it satisfy, which of their problems does it solve?
- >> What is the value for customers?
- >> Who are the key customers and markets for your products or services at the start of your business operations?

2nd stage

- >> Which key buyers and markets for your products or services have you identified with market analysis?
- >> Which are the key competencies of the entrepreneurial team and how are these competencies complemented?
- >> What volume of revenue do you expect in the next five years (rough estimate)?
- >> What is the level of the planned investments in the next five years (rough estimate)?

3rd stage

- >> What return on revenue or capital employed can you create with the new venture?
- >> How much of external financial assets (equity or debt) will you have to acquire for a successful realization of the

new venture?

- >> According to your financial plan, what is the level of the planned investments in the next five years?
- >> What guarantees can you offer to the investors?
- >> According to your financial plan, what volume of revenue do you expect in the next five years?
- >> What is the risk level of your business?
- >> How will you motivate the employees in the initial period?
- >> Which criteria will you use when choosing the name of the company?
- >> Is it possible to further develop / differentiate the products / services?
- >> How will you guarantee adequate harvesting?

4.2 Industry sector, products and services

4.2.1 Industry sector

Present the current state and projections for the industry sector in which your future company will operate. Here, the industry sector should not be understood as a (statistical) NACE category but as a group of companies providing similar products or services which compete among themselves. Explain the new products and future activities in this field. In particular, think about the following: the achieved level of development in the industry sector (growth, maturity, decline) on local and global market, the number of direct and indirect competitors (define the industry in terms of market structure), absorption capacity of the market in this industry sector (will the market remain unchanged in the future, will it expand or shrink). In many cases, the term industry is too wide; therefore, try to define more narrow segments in which your company will operate. You may even define groups or subgroups of the industry sector according to the classification of industries. Consider product or service characteristics to establish how the product or service is submitted to direct and indirect global competition. Food service is only local, whereas in the field of computer programs or e-business any company anywhere in the world may be your competitor. The description of the industry sector should be both qualitative and quantitative. When describing it, calculate the performance indicators of the industry sector based on the aggregate financial data from annual financial statements of companies. State the sources of information you use for the description of industry sector resources.

Key questions in the section INDUSTRY SECTOR:

1st stage

- >> What are the key characteristics of your business (description of industry sector)?

2nd stage

- >> Who are your main competitors?
- >> Is your competition local, national, international, global?
- >> What is the size of the market and what are the trends?

3rd stage

- >> What are the main performance indicators of the industry sector (rate of return, market shares, etc.)?
- >> Are any significant changes affecting the industry likely to occur?

4.2.2 Company and business

Give a short description of the business concept, i.e. the kind of business your company is undertaking or is planning to enter into and how it will create revenues. Define the types of products and services it will offer and to which target groups. State the date of company registration and define the legal form of the organisation (limited liability company, sole proprietor, etc.) you will choose as well as any other key elements of company foundation. If your company has been present in the market for a longer period of time, give a short description of its business operations in the past and state the key planned changes.

Key questions in the section COMPANY AND BUSINESS:

1st stage

- >> What are the reasons for setting up or having set up your own company?
- >> Have you undertaken the business alone or with partners?

2nd stage

- >> What is the basic model for generating revenues?
- >> Which legal form of the organisation will you choose or have you chosen?

3rd stage

- >> Do you expect any major changes in the company in the next five years? Why?
- >> How will the company develop?

4.2.3 Products or services

The potential investor will be very keen to know what exactly you will be selling, what protection of your product or service you have and what the actual opportunities or potential threats are when selling your product or service. That is why it is necessary to:

Describe the product or service.

Describe the product or service you are planning to sell in great detail. Describe the use of each product or service, i.e. its primary use as well as any significant secondary use. Emphasise the particular features of the product or service and any differences between what is already available in the market and what you will offer and which can enable market penetration. State the need your product or service satisfies and how. Avoid too technical presentation of product features.

Define the current stage in product or service development.

For products, present the summary of functional specifications. Include photographs, if available. If the product is not quite ready for sale yet, state its further development and a clear time-frame when the product will be available to customers. State any risks as well.

Explain the state of industrial property.

Describe any patents, business secrets or other elements of intellectual property. Present the advantage you have and that enables you to take a favourable position in your industry sector and which is difficult for the competitors to reach.

Define the potential.

Describe those (as many as possible) characteristics of the product or service that give it competitive advantage. Make sure that you are realistic and do not exaggerate. Present the opportunities for the production line expansion (product diversification) or potentials for the development of related products or services. Emphasise your business opportunities and explain how you plan to realize them.

Key questions in the section PRODUCTS OR SERVICES:

1st stage

- >> What are your products or what are your services?
- >> Describe the products or services including the status of any patents, brands and copyright.
- >> How innovative is your new venture?
- >> What are the reasons that the kinds of products or services you offer are not yet present in the market? Define the market: local, national, international.
- >> Which stage of development is your product or service at?
- >> In what time period will your product be ready for the market?
- >> Is the novelty patented or are you the licence holder?
- >> Is the production of products or the rendering of services legally permitted?
- >> Is there a likelihood of the change in technology which could have an influence on your product?

2nd stage

- >> Which are the main milestones in the development of products or services?
- >> Is there the diversification of products and services for individual target groups?
- >> Which varieties of your products or services are meant for which target groups?
- >> How wide is your product range in comparison with the competition?
- >> Which resources will you need for the further development of your products or services?
- >> What quality guarantees do you offer to your customers?

3rd stage

- >> What proportion of revenues will you create with the individual product or service?
- >> What profitability do you predict for individual products?
- >> Which further steps in the development of your products or services do you plan?

4.3 Market research and analysis

4.3.1. Customers (buyers)

Consider the value chain you enter into with your product or service. Will you sell it to the end user or a company which will build it in or use it in the production of its own products? In case of selling to companies, consider the credibility of your potential buyers and their long-term performance. Show who the prospective customers for the product or service are, classify prospective customers in as homogenous groups as possible (large market segments) with identifiable common characteristics. For example, we sell car parts to car manufacturers or car parts vendors that supply the market with spare parts.

Who are the major buyers of the product or service within each market segment and where are they from? Consider who the buyers and who the users of your product are. What is the basis for their purchasing decision: price, quality, service, personal contacts, political pressures, etc.?

Enumerate all potential customers that have shown their interest in your product or service and state why they have shown this interest. In addition, enumerate all potential customers who have not shown the interest in the presented product or service and explain why. Explain how you plan to surpass the negative reaction of the customers. If your company already exists, enumerate your current key clients and state the trend in your sales to current customers. Do you know the main developmental trend directions of your customers? State them.

Key questions in the section CUSTOMERS (BUYERS)

1st stage

- >> How do you segment your market?
- >> Who are your target customers?
- >> Are these target customers individuals or companies?
- >> Are the customers also the users of your products or services?

2nd stage

- >> What is the profile (characteristic) of your customers?
- >> Explain the value chain you are entering all the way to the end user.
- >> Which needs do customers have and how do your products or services satisfy them?

- >> What else can be done to increase customer satisfaction and how can this be done?
- >> Which are the key factors in purchasing decisions?
- >> How profitable are individual target groups?
- >> How loyal are the customers?
- >> What assumptions do you base your estimations on?

3rd stage

- >> To what extent does your success depend on high volume customers?
- >> What is your customer portfolio?
- >> What share of the market do you wish to cover?
- >> Is the market growing, stagnating or shrinking?

4.3.2. Market size and marketing

What is the entire current market size for the product or service you offer? That is, how many buyers are planning to purchase your product and on what territory are they primarily distributed? Use all possible available sources of market data (analyses, reports of competitive companies, trade magazines, trade-fair materials, etc.). For each large market segment, try to gain useful hints from the potential customers about their purchases of competitive products. Talking to potential distributors, representatives, sales agents and buyers when defining market size and trends may prove particularly useful.

Describe the entire market size both in terms of physical units and value. If you plan to sell regionally, show the size of regional markets, state the predicted market size. To be convincing, state the qualifications of the people who carried out market research. You will find it hard to convince potential investors if you have to admit that your market estimation is based on your discussions with your friends or that you simply believe it to be so and that you are an expert and they can trust you anyway.

As your business operations will initially most likely be on a small scale, describe potential annual growth for the entire market for your product or service for each large customer group. The entire market projections have to be carried out for the first five years of company's operations and you cannot do that off the cuff but you need reliable data.

Different factors always influence market growth (industry trends, changes in socioeconomic environment, government policy and migrations of population, measures of competition, the advances in technology). Describe these factors and present a brief overview of past market trends. You have to explain any differences between past and predicted annual growth rates. If the market growth in past years has been a rather modest one, or if the sales have decreased, it will be difficult to believe that you may obtain a 30% annual growth with your product. For that reason you have to state all the sources of information and describe the methods you used when making the projections.

Key questions in the section MARKET SIZE AND MARKETING:

1st stage

- >> How has your industry developed in the past?
- >> How dynamically is your industry changing?
- >> What is the role of innovativeness and technological advances?
- >> Is the industry old and mature or new and dynamic one?
- >> What influences the growth of the industry?
- >> What volume of sale do you plan in the next five years (rough estimate)?

2nd stage

- >> What have been the total sales in this industry in the past five years?
- >> What is the predicted future growth of this industry sector?
- >> How many new companies have entered this industry sector in the past three years?
- >> Which companies might be potentially interested in entering this industry sector?
- >> Which new products or services have recently been introduced into this industry sector?
- >> Which are the main obstacles to the entry into this industry sector and how can they be overcome?
- >> What is the average profitability in this industry sector?
- >> Which macroeconomic changes can influence this industry sector?
- >> What was the role of local, national and EU legislation in the development of this industry sector?
- >> What are current and future proportions of the sales that we create in terms of individual consumer groups?

3rd stage

- >> What are current trends in this industry sector?
- >> Are these trends favourable to your product or service?
- >> What is the movement of selling prices?
- >> What volume of sale do you plan for the next five years (accurate estimate)?

4.3.3 Competition

All those companies that can supply the buyers with identical or similar products are your competitors. That is, their products can satisfy the same need. Therefore, you should first focus on the products or services and make a realistic estimate of strengths and weaknesses of competitive products and services and enumerate the companies which supply them. State the sources of information you used to establish the advantages of products and the advantage of competition.

Compare the competitive products or services in terms of prices, characteristics, services, warranties and other relevant features. You can most effectively present these data in a table form. Find the justifications why the existing products do not meet the customers' needs. State any useful information about the competitors' activities that can present a significant encouragement for you or lead you to new or improved products and to more favourable market position.

Apart from the products, provide an overview of the strengths and weaknesses of competitive companies as well. For each of these companies, or at least for the most influential ones, define and explain the market share, number of products sold, their distribution channels and production capacities. In case you have the access to the data about the profitability of these companies and the movement of their profit, include them into the plan.

Which company is quality leader? Which company has the lowest prices? Explain why some companies have either entered or left this particular market in recent years.

For a few main competitors, provide an explanation why customers purchase from them. On the basis of what you know about their operations, think about why it is easy or difficult to compete with them. All this is needed so that you will be able to briefly justify in the conclusion which characteristics of your product or service will facilitate a better sale from the products or services of your competitors.

Key questions in the section COMPETITION:

1st stage

- >> Which important competitors offer the most comparable products or services?
- >> Which novelties are to be expected from the competitors?
- >> How many competitors control the market?
- >> How does your offer differentiate from that of the competitors?
- >> Which needs does your offer satisfy more and why?

2nd stage

- >> In what ways will your way of business operations be better from the existing one in the industry?
- >> What is the movement of sales of each of the main competitors (increases, stagnates, declines)?
- >> What are the strengths and weaknesses of each of the important competitors?
- >> Do the basic characteristics of your buyers differentiate from the competitor's buyers and how?
- >> Which patents or licences does your competition possess?

3rd stage

- >> How profitable is your company compared with your competition?
- >> Where do differences in profitability originate from?
- >> What will other financial indicators in comparison with the competition be?
- >> Will you compete mainly in terms of lower price or higher quality?



4.4 Marketing strategy

4.3.4. Continuous market assessment

Business operations are a very dynamic activity because the customers and competition change very quickly. For that reason, it is not enough to carry out market evaluation only when preparing the business plan. Such assessment has to form an integral part of your normal business operations. That is why you must create the concept of continuous evaluation of your target markets already at this stage. Explain how you will assess customers' needs and implement the product or service improvement programmes. You should also think about how you will introduce new production programmes, plan the expansion of your production capacities and carry out your pricing policy for your product or service. Of course, you do not know what will be happening in the years to come. Nevertheless, you may establish the general framework of such continuous assessment.

Key questions in the section CONTINUOUS MARKET ASSESSMENT:

1st stage

>> At this stage, the treatment is not required.

2nd stage

- >> How will you estimate consumer needs?
- >> How will you implement the products or services improvement programmes?

3rd stage

- >> How will you continue to evaluate your target markets?
- >> How will you introduce new product range?
- >> How will you plan the expansion of your production capacities?
- >> What price policy will you implement for your product or service?

4.4.1 Marketing strategy of market entry and growth

It is not unimportant how you first introduce yourself to the customers. Your success in business highly depends on how you enter the market. The selection of market entry strategy is very much related to the nature of your business opportunity. If you plan to sell a product which is similar to the one in the market at a lower price, then your presentation to the customers will have to be different from the presentation of a unique innovation or radical improvement of the product which you will be selling at a relatively high price. That is why the question how to enter the market and ensure a quick market penetration is a highly significant one. Your market entry strategy also depends on your competitive advantages and disadvantages (compared with your competitors) which you can make the most of. Perhaps your competitors are less innovative than you are, they may react more slowly to the activities in the market or inadequately exploit their production or business capacities. It is important that you state the key success factors of your marketing plan (e.g. the innovative approach to the product or marketing), describe your pricing policy, the ways of distribution, advertising and promotion. This is not important only because of the potential investors but it is equally important for you so that you have a clear picture of how you will manage your market. For that reason, give a short summary of how fast you expect to grow, what size you plan to reach in the first five years and what your plans of growth after the introduction of first products or services are.

Key questions in the section MARKETING STRATEGY OF MARKET ENTRY AND GROWTH:

1st stage

>> Define the vision that linked your product to customer needs!

2nd stage

- >> Which steps do you plan for the introduction of your product or service to the market?
- >> Which product or service feature (e.g. price, quality, delivery method, warranty, etc.) will you emphasise to ensure sales?
- >> Which pricing policy, which is totally dependent on the existing market structure, will you adopt?
- >> Is the market local, national, global?

- >> Which customer groups will you choose as the target groups for the initial intensive persuasion and for future sales efforts?
- >> How will you identify potential individual high volume consumers in these groups?
- >> Who will be your reference consumers?
- >> How will you acquire reference consumers?
- >> Will you use and innovative and less usual marketing approaches?

3rd stage

- >> How have you come across the existing business idea? Which consumer's need has triggered it?
- >> What is your future strategy of business operations growth?
- >> In which market segment do you primarily see the potentials of further growth?

4.4.2 Setting selling prices

The main factor influencing the price is neither your costs nor the revenues you need but the willingness of buyers to pay that price. This, of course, goes against the common belief that the price is primarily defined by costs. It is clear that costs are very important but they have a key role only when the company's sales of products or services are not high enough to cover all costs. The price you set is solely dependent on the value that the purchase of your product or service has for the customer. Believe it or not, the customer is really not interested in the costs you had in order to make the product. They are only interested in whether the product they are buying is worth their money.

Many start-up entrepreneurs claim that they intend to sell a better product at a lower price than that of their competition. There are at least two reasons why this would make a really bad impression on an experienced entrepreneur. Firstly, if the product is really as good as they claim, then they should be able to sell it at a higher price. This shows that the start-up entrepreneurs have a low opinion of themselves as regards the ability to sell. Further, they have a low opinion about the product as well. Why should someone sell something of a better quality at a lower price than that of something of a lower quality? What they are actually saying is that they will be offering a better product at a lower price than the competition. Secondly, the beginners usually underestimate costs. If you set out with low prices, you will create a low contribution to cover the costs and, consequently, a tight manoeuvring space when the costs begin to increase. It is, namely, much more difficult to raise prices than to lower them.

The pricing policy is undoubtedly one of the more significant areas you will have to handle. When setting it, the price has to enable a successful entry into the market as well as insure you the position in the market and create profit. If you have no prior experience in this area, it is advisable to devote some time to this subject and analyse different pricing strategies so you can convincingly justify your choice. That is, you have to explain the prices you set for your product or service and compare your pricing policy with that of your main competitors.

There are a number of pricing strategy options. Here, we will mention two:

1. Penetration pricing:

The company sets the prices for their products or services which are lower than those of the competitors. However, this reduction has to be big enough for the customer to notice. Lower prices enable the company a fast market penetration, which has to be simultaneously supported by aggressive marketing communications and investment into sales channels. This, of course, is not cheap and increases the total costs as well as related risk. This pricing strategy is effective if we expect a large market share that will enable us to lower average costs. However, it is of crucial importance that the low price does not raise any suspicions as regards the quality of the product or service. That is, people know from experience that quality costs money.

2. Market skimming:

This is the strategy of high initial prices which give the impression of exclusivity, of the uniqueness of the products. It is based on the assumption that our product is new and exclusive enough to attract customers who are not price sensitive. In order to implement this strategy, one needs a market segment that is large enough and in which the customers are ready to buy the product immediately after its emergence even if this means paying a high price. In addition, competitive companies should be scarce or even non-existent. With this strategy, it is equally dangerous to set the price either too high or too low. That is, further on you will have to gradually reduce the price to attract those customer groups that are more price sensitive. This is a short-term strategy which can be used with advanced technology products (e.g. personal computers, technical 'toys' such as i-Pod or i-Phone). It is also important to note that your company introduces innovations and development of technology, which in turn reduces production costs and this is in fact the only factor that really enables you to reduce costs.

If you set the selling price higher than your competition, it is sensible to use logical arguments to explain the novelties, better qualities, extended warranties or better services.

On the other hand, if you plan to sell your products at a lower price than your competition, then you will definitely have to explain how you plan to make adequate profit with lower prices. Since you will have approximately the same inputs as your competition, you will have to base your explanation on, for example, higher efficiency in the production and distribution of the product, better business model, more innovative business processes, etc.. In short, something that helps you realize lower costs. You may decide to outsource some activities, to make a strategic alliance with the producers who could help you operate with low costs.

In the section on setting the selling price, explain the relationship between the price, market share and profit. For instance, a high price may lower the volume of sales but may lead to a higher gross profit. Think about the impact of any discounts, rebates or mark-downs on immediate payment or on bulk orders.

Key questions in the section SETTING SELLING PRICES:

1st stage

- >> Which pricing strategy will you pursue?
- >> What are the reasons for choosing a particular strategy?
- >> Which strategies are used by your most important competitors?

2nd stage

- >> What should be the selling prices of your products or services (an estimate)?
- >> How do these prices compare to those of the competition?

3rd stage

- >> Is it possible to offer different varieties of the products or services and to apply price differentiation?

4.4.3 Sales channels

You must get your product to the customer. You can do this through retail, by mail, via the telephone, from a vending machine, by door-to-door selling, by wholesale, via the Internet, etc. In this part of the marketing plan the company has to decide which sales channels and distribution network it will choose for the product to reach the company's target customers. Of course, the sales channels are closely dependent on the product characteristics, but in general, we distinguish between direct and indirect sales channels. Direct sales channels establish a direct link between the producer and consumer while indirect sales channels include one or more intermediary companies who provide the link between the producer and the consumer (wholesale companies, retail companies).

When deciding on the most suitable sales channel, consider the following questions:

- >> Does it make sense to establish your own sales network (warehouses, agencies)?
- >> What are the benefits and drawbacks as well as the costs of your own sales network?
- >> Will you be selling via retail or via wholesale?
- >> Should you carry out the overseas sales on our own?
- >> Which representatives should be used for overseas distribution of products?
- >> Is it possible to outsource certain activities related to sales channels?

When the company decides on the most suitable sales channel, it has to solve the question of how to physically get the product from the point of sale to the end user. It has to take into account that the costs of physical distribution may significantly increase the selling price of the product. The basic elements of physical distribution are: warehousing, stock management, transport and follow-up of orders. Obviously, the ways of product or service distribution are totally dependent on the product or service itself. If you have a cleaning service, your employees (cleaners) will have to be physically present on site. If you have a digital product, e.g. new software or videogame, you may automatically distribute it throughout the world via the Internet 24 hours a day.

Key questions in the section SALES CHANNELS:

1st stage

- >> At this stage, the treatment is not required.

2nd stage

- >> How does a typical process of selling your products or rendering of your services look like?
- >> Which sales channels are you using?
- >> Which sales channels are used by your most important competitors?
- >> Do you have more target groups?
- >> Do you use the same sales channels for different target groups?
- >> Which terms of sale do you plan to offer to different consumer groups?
- >> What volume of sales do are you planning to achieve (detailed statements)?
- >> Where does this share rank you in the local, national, global framework?

3rd stage

- >> What requirements do you set to the sales function and what costs of sale do you plan?
- >> What market share do you wish to gain through individual sales channels?
- >> What sales margins will you decide on for the products or services for individual sales channels (an estimate)?
- >> What revenues and financial results do you plan to achieve with individual sales channels?
- >> What scope, education and equipment of sales personnel do you plan?
- >> How and where will you train your sales personnel?
- >> How will you organise your sales staff?
- >> How will you ensure the coordinated operations of sales, production and financial function in the company?

4.4.4 Marketing communications

The company has to establish and maintain customer relations. Marketing communications are the company's communications with its target customers. They comprise the following basic areas:

- >> advertising,
- >> public relations,
- >> personal selling,
- >> sales promotion.

Describe the methods the company is going to use to notify future buyers about their product or service. It is necessary to devise a plan for the participation at trade fairs, Internet advertising, advertising in specialised newspapers and magazines, direct mail advertising. In addition, you need a plan for the preparation of product or service description and promotional literature, e-mail advertising and cooperation with advertising agencies. State what kind of promotional campaign you will use to launch the product onto the market. If your product will be sold in shops, state what kind of sales tools you will provide the shops with. If your product is meant directly for companies, consider whom you will have to present it (engineers, manager, designers, purchasing department). Adapt your marketing communication accordingly.

You should add the presentation of marketing communication costs in table form to the text. If these costs present a significant share in company's expenditure, include the information on how and when they will occur as they have a direct impact on your cash flow.

Key questions in the section **MARKETING COMMUNICATIONS:**

1st stage

- >> At this stage, the treatment is not required.

2nd stage

- >> Whom exactly are you selling to?
- >> How will you gain the attention of the customers for your products and services?
- >> What efforts (costs and time) are related to customer acquisition?
- >> What methods of marketing communications will you be using?
- >> What is the significance of additional services (e.g. service, on-line support) for the customer?
- >> In what ways can you guarantee the quality of your products?
- >> Which advertising media will you use? How often?

3rd stage

- >> What is the scope of marketing communications costs when entering into the market and later on?
- >> Which target groups are the most expensive from the marketing communications viewpoint?
- >> What will be your payment policy, what will be your payment terms, your rebates or mark-downs and discounts?
- >> Have you already got the central advertisement for your product or service?
- >> Do you also plan to use PR communication tools?
- >> Are the shares of sales according to individual target groups proportional to the funds invested into marketing communications?

4.5 Human resources and Organisation

4.5.1 Organisation

You cannot work on your product or service alone. You need co-workers whom you assign individual tasks. You have to form an organisation. In the same way as the entrepreneur has to devise a product or service, they must also form an organisation. A number of factors have the impact on the organisation structure: company's production process, number of employees and, in particular, the life-cycle stage the company has reached. In the initial stage, the company business functions are rather simple, which makes the organisation structure simple and managerial group small – it comprises the founder or, in case there is more than one, the founders of the company. They divide among themselves the supervision over all the employees and processes involved in the business operations. The founders themselves manage the production, sales, marketing and other business functions and perform all administrative tasks. In table form, present the key managerial posts and individuals who will occupy them. Later on, as the company grows you may even need one or more associates to manage organisational matters only.

Key questions in the section ORGANISATION:

1st stage

>> At this stage, the treatment is not required.

2nd stage

- >> Which are the key managerial roles and who are the individuals who will fill these posts?
- >> How many contractors do you need and what skills will they be required to have?

3rd stage

>> What will the organisation structure look like?

4.5.2 Key managerial staff

You cannot do all the work in the company alone. You need to delegate some tasks. Describe in detail all duties and responsibilities of each key member of managerial team. Present their competencies which qualify them for a particular managerial function. Include a short description (three to four sentences) of the main achievement in every individual's career, focusing on the achievements that show their ability to carry out the predicted task in the new company. You should include full CVs for each key member of the managerial team in the appendix. Their CVs have to emphasise the training, the experience and the achievements in the implementation of tasks similar to their role in your company. They have to raise the reader's trust that the company will be run by people who are dedicated to this business and have the necessary skills and experience to run it.

Key questions in the section KEY MANAGERIAL STAFF:

1st stage

>> At this stage, the treatment is not required.

2nd stage

- >> Which business functions will require the establishment of a managerial position (production, finance, marketing, development)?
- >> What will be the responsibilities of individual team members?
- >> What competencies do individual team members have?
- >> Who (name and surname) is in the managerial team and what are their experiences, education and references?
- >> Has the team cooperated before or why do you think their cooperation will be a productive one?

3rd stage

- >> Will you need any additional skills or people to carry out the business?
- >> How and when will the team expand?

4.5.3 Management remuneration

At the beginning of its business operations, the company usually has modest financial resources and the likelihood of funding is little. For that reason, the founding team should be prepared to accept moderate initial salaries. The modesty in one's own remuneration is also a very good signal to other investors. If the founders demand salaries higher than the ones they had in their previous employments, the potential investor will probably conclude that their loyalty to a new company is not as strong as it should be.

State how you will remunerate the managerial team. State the salaries that have to be paid to each key personnel individually. In case there are more co-owners or if you plan to introduce co-ownership as the element of managerial team's remuneration and motivation, state the plan of shareholder (ownership) structure you plan for the key personnel, the scope of their investment in equity if there is one as well as all share options linked to performance or the plan of bonuses you are prepared to award.

Key questions in the section MANAGEMENT REMUNERATION:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

>> What will be the salaries, bonuses and other forms of management remuneration?

>> What ownership structure will you introduce? In what time period will you introduce it?

4.5.4 Other employees and external consultants

To make and sell the product, you need people. You will employ some, contract others and obtain some inputs by having other organisations carry out particular activity for you. State the legal (including patents), accounting, advertising and banking institutions you have selected for your company and, if applicable, the names and links as well as former contacts with any of the consultants you have had a close cooperation with. Capable, reliable and well know individuals and organisations that are able to provide support will ensure you not only an important direct professional help but can also significantly contribute to the credibility of your new venture. Apart from that, well chosen professional organisations may help make contacts in the business community, identify potential investors and ensure financing. State the experience for any people you intend to employ.

Key questions in the section OTHER EMPLOYEES AND EXTERNAL CONSULTANTS:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

>> In what time sequence will you employ new staff?

>> Where will you get qualified workers?

>> How will you select them?

>> The services of which external organisations and individuals will you use?

>> Why did you choose these organisations and individuals?

4.6 Product or service development

Perhaps your product is not yet finished and you still need to develop and improve it in order for it to be ready for the market. If this is the case, describe in detail the type, nature and scope of such work. The investor will like to have detailed information about the costs of the establishment of documentation, the formation and development as well as time needed to prepare the product or service to the extent that it can be launched onto the market. The longer the development period is, the more risky it is to invest money in your company. In this section it is necessary to explain the following fields:

- a) Current level of development and future tasks:**
Describe the current level of product or service development and what still has to be done so that the product will be ready for the market. Give a short description of the skills or specialised knowledge your team has for the completion of the development, or how you will acquire this knowledge.
- b) Problems and risks:**
Think about potential problems with design and development and how you plan to solve them. Explain any possible effects on costs of design and development and the date of launch. Nevertheless, do not forget that the consumer needs change and that the competition is most likely considering similar solutions.
- c) Product or service improvement and development of new ones:**
If the product is already ready for market, describe what your plans for the development are and present the current and future work on the development in order to keep your products or services competitive. In addition, describe the plans for product differentiation as well as the development of new products and services for the existing or new target groups.
- d) Development costs:**
The development costs money because it engages people and material assets, for which you need a budget. Present and describe the design and development budget. The costs must include work, material, consulting services, etc. The development costs are often undervalued and this can have a serious impact on the cash flow and success projections. That is why it is necessary to forecast certain cost reserve

(between 15 to 30 percent).

- e) Issues concerning intellectual property:**
In case of a new product, check if the idea is perhaps copyrighted. Check if you can copyright it. Describe all patents, brands and all intellectual property rights whose owner you are or would like to become. State all the unresolved issues concerning your intellectual property and any other rights over industrial property that may affect deadlines and your competitiveness. State all possible actions related to intellectual property, e.g. ownership rights lawsuits. Think about whether anyone can endanger your property and start to produce identical product or service.

Key questions in the section PRODUCT OR SERVICE DEVELOPMENT:

1st stage

- >> At this stage, the treatment is not required.

2nd stage

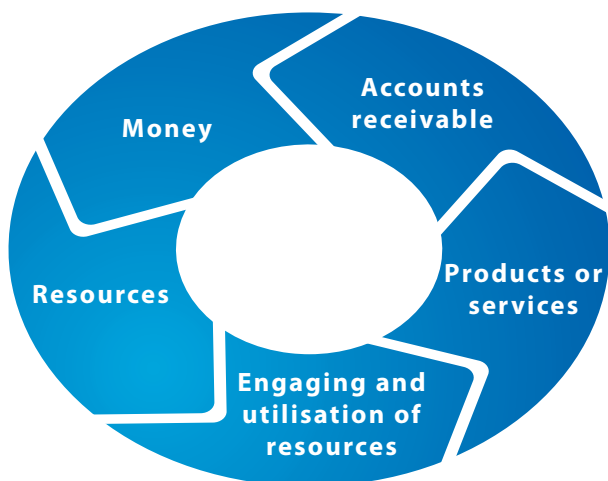
- >> What else needs to be done to launch the product or service onto the market?
- >> How much time do you need to provide the customers with the product in the quality and quantity they are willing to buy?
- >> Have you resolved all the issues related to intellectual property?

3rd stage

- >> Are you planning the improvements of the existing products and services?
- >> Will you also develop new products or services?
- >> How much funds will you invest in the development?
- >> What will be the dynamics of these investments?

4.7 Business process and production planning

The company needs resources (i.e. workforce and its know-how, machines, equipment, material) in order to make products or render services. These resources are company assets and they undergo a continuous process of transformation (Picture 1). The money enables us to purchase resources, which are then engaged in the production of products or services. The utilization of resources leads to products or services that we sell. Once the accounts receivable are settled, we create a new basis for financing a new production or service cycle.



Picture 7: Transformation of resources

4.7.1 Business process and production planning

Create a detailed presentation of the production or service process flow for your new venture. Include all the activities that have to be carried out in order to change the inputs into outputs (from raw materials or components to product or services sales and any after-sales activities).

Describe the production or service process in the company and any decisions about the inclusion of external providers. It is very likely that you will not be able to carry out all the necessary activities on your own. Define what you will make on your own and what you will purchase from external providers and justify the proposed policy of your own production or purchase (make-or-buy decision, outsourcing). State who the sub-contractors and/or providers are and present any information or overview of sub-contractors or providers. Describe your approach to production control, quality control and stock management and explain which quality control procedures your company

implements so that the product or service permanently reaches the adequate level of quality, which in turn reduces the number of claims and other customer complaints.

Think about the buffer stock of finished goods, that is, how many days you can sell your products in case of production failure. This question is, of course, irrelevant with services.

When describing the basic production or service cycle in your company, give details about the main deadlines and think about the dangers in case of delays. In case of a seasonal product or service, explain how you resolve the issue of seasonal fluctuations without major disturbances in product sale (for example, make to stock production or additional part-time employment of workforce during peak times).

Key questions in the section BUSINESS PROCESS AND PRODUCTION PLANNING:

1st stage

>> At this stage, the treatment is not required.

2nd stage

- >> What is the business process flow (draw a flow chart with all the stages)?
- >> What will be the maximum production capacity or the maximum scope of service performance?
- >> Which raw materials, material, services and commercial goods will you need?

3rd stage

- >> Will you carry out all or only a part of the required production activities?
- >> If you plan to have any subcontractors, who will they be (names, addresses, etc.)?
- >> Why do you not carry out these activities on your own?
- >> Why have you chosen these suppliers?
- >> What are the costs of these external services?
- >> Who are the suppliers of raw materials, material, services or commercial goods?
- >> Do you need a warehouse and what kind?
- >> What will be the measures of product or service quality assurance?
- >> How will you ensure uninterrupted production process so that it is adjusted with the product demand?

4.7.2 Geographic location

Where will your company be located (in geographic sense)? If you have carried out a site location analysis, add it to the plan. Explain the advantages and drawbacks of the location as regards the factors such as work (availability of workforce, trade unions, labour costs), proximity of customers and/or suppliers, access to transport routes, state or local taxes and regulations (including land regulation), access to infrastructure, etc. Think about whether the selected location enables the expansion of your business operations if the company is successful and grows, and to what extent. Business operations at various locations can be very bothersome.

When choosing the location, use a simple table including the factors you consider important when selecting your location and allocate adequate weighting to these factors.

Key questions in the section GEOGRAPHIC LOCATION:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

>> Where is the company located?

>> Is your building new or old?

>> Does the building need renovation – how much will this cost in comparison with a newly constructed building?

>> Is the building (or business premises) leased or in your ownership – what are the terms of the lease?

>> Why is this building or location suitable for your business?

>> Does the location enable the expansion of the company?

LOCATION FACTOR	LOCATION A			LOCATION B		
	mark	weighting	points	mark	weighting	points
Proximity of suppliers						
Costs of property, costs of business operations						
Development of infrastructure						
Waste disposal						
Availability of personnel						
Proximity and reaction of competitors						
Growth and expansion possibilities						
Location's transport infrastructure accessibility						
Other						
TOTAL:						

Table 1: Determining company location

Sort these factors according to their significance and assign them quantity value as well. The most suitable location (based on these criteria) is the location whose sum total of individual factors' calculations is the highest.

4.7.3. Plan of engagement of the means of work

Apart from work, each company needs a certain amount of resources for its business operations. The resources we use in many business cycles are called means of work. In this section you have to describe the type of assets (buildings, machinery, equipment, software, inventory) you need for the uninterrupted flow of production, in what scope you need them and when. You also have to decide which of these assets will be new or used; further, decide if you wish to purchase or lease them. Another question is whether you will choose specialised equipment adapted for your production or service programme only or whether you will decide to purchase universal means of work that can be used for other types of products as well.

You have to provide a clear plan and justification for each possibility you have decided for.

Key questions in the section PLAN OF ENGAGEMENT OF THE MEANS OF WORK:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

>> How much and which assets does the company need at the start of its business operations?

>> Which investments in tangible and intangible assets do you plan in the next five years?

>> What are the depreciation rates for individual types of assets?

>> Which means of work will you need?

>> What will be the future investments in equipment?

>> What will be the cost of the increase in production capacities?

>> To what extent can your means of work be used specifically for this type of production?

4.7.4 Plan of materials utilisation

The other types of assets the companies need are called materials. They are those inputs that participate in the business process only once and are used in it. Typical examples of materials are:

- >> manufacturing material
- >> raw materials
- >> semi-finished products
- >> consumable goods
- >> commercial goods, etc.

Create a detailed plan of the needs for the materials according to individual products or services. Take into account that each asset presents a cost. Since, for example, the stock of materials engage your financial resources (your money is invested in them), keep the stock to a minimum. Of course, you need a certain level of stock so that the security of production is not threatened. The extent of this stock is largely dependent on your agreement with the suppliers, i.e. whether they are willing to guarantee reliable deliveries in as short periods of time as necessary or whether they will grant a long enough payment term for the deliveries.

Key questions in the section PLAN OF MATERIALS UTILISATION:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

>> Which materials are needed for the manufacture of the products or the rendering of services?

>> How much stock do you need for the secure and uninterrupted production?

>> What kind of terms of delivery can you agree on with your suppliers?

>> What payment terms do your suppliers enable?

4.7.5 Plan of services utilisation

Apart from materials and means of work, the company will need different types of services to carry out its operations, such as: consulting, accounting, transport, phone, the Internet and many other kinds of services.

Your task is to identify key services your company will need for an uninterrupted flow of the business process and to estimate the quantity and quality volume of the services which your company will have to buy. As there are more service providers in the environment, investigate where you will get the most suitable service in terms of price-quality-reliability ratio.

Key questions in the section PLAN OF SERVICES UTILISATION:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

- >> Which services of external suppliers must the company buy?
- >> Who are all the relevant suppliers of these services?
- >> Which services have to be performed in the company due to their strategic nature?

4.7.6 Legal requirements permits and environmental issues

A company always operates within a certain institutional environment and has to comply with all legal requirements of this environment. Some types of new ventures have additional requirements (e.g. safety, health, environmental) that have to be known and satisfied. In this section, you have to include all the requirements which are directly related to your product, production process or service. You should state which consents are needed for the initiation of production, e.g. site development permit and health permit, licences, environmental permits, etc.

Check these issues with similar companies and consider which legal and other regulations have to be complied with when managing a new venture. Think about the potential planned changes in the environment which may have an impact on the nature and time-frame of your business opportunity, such as specific requirements concerning environmental pollution, air traffic deregulation, communications deregulations and increase in labour rights. State whether these changes shall cause any legal or contractual obligations related to the company.

Key questions in the section LEGAL REQUIREMENTS, PERMITS AND ENVIRONMENTAL ISSUES:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

- >> Which specific legal requirements is the company submitted to?
- >> Are any special permits needed for the initiation or expansion of business operations?
- >> Is the nature of the product such that it affects the environment, health of people, safety?
- >> Are there any particular limitations as regards the potential export of your products or services?



4.8 Time schedule

The new venture's time schedule shows the time framework and co-dependence of the activities that are important for the start up of your new venture and the realization of your goals. Apart from being the central tool for planning and defining the dates crucial for the success of the new venture, a well prepared time schedule, as an essential part of your business plan, is also an effective tool for the acquisition of money from potential co-investors. A well prepared and realistic time schedule shows the ability of the managerial team to know their new venture in detail, to plan the company's growth by acknowledging obstacles and to reduce the investor's risk as much as possible. Be aware of the fact that we often underestimate the time needed to carry out a particular task and that we usually underestimate financial requirements as well. Therefore, be realistic when preparing the time schedule and prepare it in the following way:

Step 1 – Description of the business process:

Present a very simple and explicit picture of the entire process of the transformation of individual forms of current assets from the initial financial form through the purchase of individual inputs needed for the manufacture of products or rendering of services, the very duration of the finished goods production or performance of services as well as their sales and receipt of payment (receipt of money).

Step 2 – Monthly presentation of the implementation of activities:

In this part of your business plan, you have to prepare the monthly time schedule for the period of minimum one year or longer. The time schedule has to comprise all activities that are crucial for a specific company, e.g. growth of the product, market planning, the implementation of production, the implementation of sales and other operations. The time schedule must include detailed information about individual activities in order to be able to show the deadlines and the tasks needed for the implementation of a particular activity.

Step 3 – Key deadlines and milestones:

In the time schedule, present the deadlines or milestones which are crucial for the success of the venture, such as:

- >> company registration (for a new company);
- >> termination of plans and development;
- >> finishing the prototypes (first key date; the realization of this plan is a tangible criterion for the ability of the company to reach the set goals);
- >> acquisition of sales representatives;
- >> presentation of the product or service at trade-fairs;
- >> acquisition of distributors and vendors;
- >> start of production and operations (second key date; it is related to revenue generation);
- >> receipt of first orders;
- >> first sale and delivery (the most important date; it is directly related to company's credibility and need for capital);
- >> receipt of the first payments of invoices issued;

Step 4 – Plan of company resources activation

The time schedule must present the timing of the appointment of individual managerial staff members, production and operational staff members as well as individual important means of work related to the new venture development.

Step 5 – Possible digressions and consequences

The time schedule must also take into account the possibility of digressions of the actual deadlines for the implementation of a particular activity from the planned ones. For that reason, state the effects of not reaching the deadlines on the success of the company, in particular on the potential threat to the survival and needs for capital.

The work schedule prepared in this way will ensure you to monitor the realization of your new venture and provide you with the control over the events.

4.9 Key threats and problems

Nothing new is created without the threat of not succeeding. Similarly, each development of a new venture is always related to threats and problems and that is why a business plan always includes a number of implicit assumptions about these threats and problems. Do not hesitate to include into your business plan any predictions about potential threats. If the potential investors find any significant negative factors you have not stated, it can seriously reduce the credibility of the new venture and endanger financing.

By identifying and explicitly stating the threats in your new venture, you prove the managerial ability, which increases your credibility and the credibility of your new venture in the eyes of the potential co-investor. If you take the initiative in identifying the threats and pertinent discussion, you prove to the co-investor that you have thought about this issue and that you can deal with them. The threats thus no longer float like big dark clouds in the co-investor's head when they think about whether to invest their money as they know that you have made a thorough study about what might go wrong and that you have prepared for it.

In the section on threats, it is important to present the following:

a) Reveal and discuss the main assumptions and major threats in the business plan for which you believe you will have to deal with during the development of the new venture. This section must include the description of threats related to your industry, the company and persons and market attractiveness of your product as well as to the time-frame and financing of your new venture.

Key questions in the section KEY THREATS AND PROBLEMS:

1st stage

>> At this stage, the treatment is not required.

2nd stage

- >> Which key opportunities and threats (in terms of technology, consumer behaviour, competition, etc.) can you identify for your new venture?
- >> Which events can have the greatest impact on the digression from your plan?
- >> What is the probability for these events to occur?
- >> How will you reduce their negative effects?

3rd stage

- >> How will you adapt your plans in case these events actually occur?
- >> What would be the consequences of these negative events if you did not react to them?
- >> What kind of business plan adaptations would be necessary in order to turn these events to your advantage (reduce the risks or even find a new business opportunity in them)?
- >> Which are the best and the worst scenarios of your new venture realization in the next five years? (Present the optimistic and the pessimistic possibility of new venture realization by presenting the key parameters – market share, profit, development potentials.)

4.10 Financial plan for the next 5 years

Your business plan must include a financial plan which will serve as the basis for the assessment of entrepreneurial idea from the viewpoint of its feasibility and profitability. It presents your economic forecast of the company's future business operations and the estimation of the results you believe to be realistic and attainable. The goal of the financial plan is to establish the economic potential of the venture and the time schedule of the achievement of the results.

You will obtain the data for the financial plan creation from a well prepared previous sections in which you had to define all key elements of the new venture.

The purpose of the financial plan is not only to persuade potential investors that the company is a good investment, but it also serves as the operational plan for the financial management of the new venture. The software we have prepared enables you to analyse financial scenarios in great detail based on different assumptions and thus prepare all key elements of your business plan: various simulations of future business results, values of individual assets and sources of assets, key financial indicators, etc. You will do this by using the software to prepare a provisional cash flow estimate, a provisional profit and loss account, a provisional balance sheet and some important financial indicators.

4.10.1 Cash flow estimate

When investing money in any venture, especially if there is risk related to it, it is of great importance to estimate the spending of money (outflows) and the receiving of money on your current account (inflows). We show this in the cash flow estimate, which is in practice much more important than the profit and loss account estimate since it shows in detail the need for financial assets. In the first year of the new venture the difference between the inflows and outflows will probably not be big enough to finance all the needs with current assets. What is more, the inflows from business operations usually do not cover the outflows in the short term. The cash flow estimate will present these circumstances and enable the company management to plan the needs for financial assets.

As the company cannot survive long without money, the company management has to decide how to acquire additional finances, under what terms and how to repay these debts. It is possible to get a part of the finances needed through equity financing, a part through bank loans (for the period between one to five years), and other part through short-term bank credit lines. You can achieve a great deal by making a good arrangement with your suppliers who can grant you long payment terms as well as with the customers who should pay regularly and in the shortest possible period of time. All of this, namely, has a direct effect on your cash flow. A detailed projection of the cash flow that the management understands and uses enables the management to focus on the current issues related to business operations and development without the need to constantly resolve stressful crises of cash deficiency. A wise planning can predict these deficiencies, which can be then avoided or their effects can be minimized.

When preparing the cash flow estimate, use the program tool for the development of the business plan which you can find on the website www.tovarnapodjemov.org.

4.10.2 Profit and loss account estimate

The company must regularly check how successful its business operations are. This can be seen in the profit and loss account, where all the income and expenses are presented. We can thus determine if we are making profit or loss. The profit and loss account is also the document which the company is obligated to submit to the government bodies, the owners and the potential investors who are interested in the company. It is a significant part of financial management and serves as the basis for the evaluation of our business operations' success and for the necessary measures to increase the income and decrease the expenses from business operations in order to achieve as high profit as possible.

When preparing the profit and loss estimate, use the program tool for the development of the business plan which you can find on the website www.tovarnapodjemov.org.

4.10.3 Balance sheet estimate

Company cannot operate without assets – it needs premises to carry out its activity, the machinery, equipment, computers, software, etc. It is necessary to keep records of these assets in a balance sheet. The balance sheet is used to clearly define the assets we need for our business operations and to show through the liabilities how we will finance these assets. Therefore, it consists of two parts which are always equal in value. This is logical because all the assets in the company must somehow be financed, i.e. either by own capital or borrowed assets.

The balance sheet estimate helps us define whether the relations between current assets and short-term liabilities, the structure of assets and similar significant categories are within acceptable limits. These categories should be within these limits if we wish to justify any future financing needed for the uninterrupted business operations or future investments.

When preparing the balance sheet estimate, use the program tool for the development of the business plan which you can find on the website www.tovarnapodjemov.org.

4.10.4 Financial indicators

When we wish to know more about our current or planned business operations, we have to monitor it through a number of time periods and compare ourselves with others. To do so, we use a variety of financial indicators which measure the success of the new venture based on the financial statements. They show the financial success of the business operations from aspects such as cost-effectiveness, liquidity, solvency, rate of return, productivity. We can use these indicators as a benchmarking tool (i.e. we compare them with the achievements of the best companies in the industry sector) in order to assess the new venture. The potential investors will like to know certain financial indicators since they will serve as the basis for their decision whether your new venture is interesting for them or not. That is why you have to include them in your business plan.

When calculating and presenting financial indicators, use the program tool for the development of the business plan which you can find on the website www.tovarnapodjemov.org.

4.10.5 New venture's economics

Every new venture raises three basic questions: (1) 'Do we know how to make the product?' (2) 'Will anyone buy the product?' and (3) 'Are we going to make profit with it?'. These are the questions of technology, market and economics. Based on the information from the cash flow statement, the profit and loss account and the balance sheet as well as the financial indicators we are able to make a clear economic picture. That is why every good business plan must comprise the overview of key assumptions, the calculation of the break-even point, the calculation of the new venture's internal rate of return and the analysis of the cash flow sensitivity. Let us explain these elements in more detail:

a) Overview of key assumptions:

Each modelling is based on certain assumptions. To understand our economic calculations we have to define what was used in making them. Here, the most important assumptions relate to the time-frame of individual activities, the expansion of business operations, debt collection periods, trade discounts, terms of payment, purchasing terms, planned increase of wages and salaries, planned new employments, planned changes of other expenses, seasonal characteristics of the new venture. It is useful to think about these assumptions when planning the new venture so that you can estimate their effects on the success of the new venture and that you understand what these economic calculations really mean.

b) Calculation of break-even point:

The company must sell a certain number of products to make revenue and cover its costs. Based on your market penetration strategy, the marketing plan and the proposed financing, you should state how long it will take for the company to reach the break-even point. The break-even point is that volume of sales which ensures that the revenue covers all the costs. Explain the graphic presentation of the break-even point and how you calculated the numbers on the graph. Point out any unrelated changes in the break-even point analysis that may occur when you grow and when you increase your capacities. Pay attention to the elusiveness of the break-even point which happens due to the increase of costs and decrease of sales prices.

c) Calculation of the new venture's internal rate of return:

Before deciding to invest into your new venture, the potential investor will like to ponder whether it would be profitable to invest his money into your new venture or somewhere else. He will wish to know how the investment will contribute to his economic strength. The new ventures whose revenues from the sale of products or services are higher than their costs are successful in economic sense. Since the revenues and costs occur at different times, we have to recalculate them to the current value by the help of developed methodology. The estimated cash flow and discount rate (i.e. the price of money in the market) for the project with similar level of risk should serve as the database.

d) Analysis of cash flow sensitivity:

When you prepared your cash flow estimate, you based it on certain assumptions regarding the terms of payment, discounts, volume of sale and the height of different types of expenses. What if these assumptions change? Clearly, it is necessary to analyse the changes in the financial requirements that may happen because of the changes of certain key assumptions (e.g. the prolonged debt collection period or decrease in sales). By doing so, we analyse the sensitivity of the financial estimate for different assumptions about business factors and we thus get the selection of different possible outcomes. The investors are very interested in these estimates because they help them assess the possibility of you needing more funds and sooner than planned. But they also give them assurance that you have approached your new venture in a responsible manner and that you are capable of envisage unpleasant consequences.

Key questions in the section FINANCIAL PLAN:

1st stage

>> At this stage, the treatment is not required.

2nd stage

>> At this stage, the treatment is not required.

3rd stage

- >> What will be the movement of cash flow from business operations?
- >> What will be the scope and structure of company's inflows and outflows?
- >> When will the company reach the break-even point?
- >> What use of capacities will enable the company to reach the break-even point?
- >> What are the needs for financial assets based on the cash flow plan?
- >> What is the net current value of the investment?
- >> What will be the new venture's internal return on investment?
- >> Which assumptions are used for the calculations?

4.11 Acquisition of financial assets

By working out the cash flow estimate you have established the dynamics and the needs for the scope of financial assets to ensure an undisturbed realization of the new venture. However, you have not defined the sources of these financial assets. In general, we distinguish between financing through equity (i.e. the investor acquires the share of the company) and financing through debt (external investor lends the money in return for interests).

An old saying says that 'there is no such thing as a free lunch'. This is particularly true when it comes to the supply of financial assets. It is most likely that your family or relatives will be the least demanding when defining the compensation for the provided financial assets. The professional financial institutions will be much more demanding in this respect. All that you as an entrepreneur can offer the potential investors at the beginning of your entrepreneurial career is a promise. This, of course, does not give you a particularly strong negotiating position.

Undoubtedly, the potential investors are aware of the risk as they are faced with it on a daily basis. Your task (and the task of your team) is to properly prepare and successfully implement the business plan, which is what the investors expect.

As the entrepreneur you must decide on such a combination of financial resources that is the most suitable for you and your new venture. When choosing your co-owners and investors, think about who will help you realize your entrepreneurial ideas best. Without doubt, they will be the investors who are experts in your industry sector and can assist you with their knowledge of the market.

Key questions in the section ACQUISITION OF FINANCIAL ASSETS:

1st stage

- >> At this stage, the treatment is not required.

2nd stage

- >> What is the ownership structure in the company?
- >> Who are your potential partners or investors and how well do you know them?
- >> In which fields do they have most experience?
- >> What is their credibility in the business environment?

3rd stage

- >> Who are the partners or shareholders and what are their respective stakes in the business? What is the form of these stakes?
- >> What are their demands?
- >> Besides the money, why are they interesting for you and your company?



toolkit:businessplan

Tovarna podjetj©

Toolkit for easy business planning!

Developed for entrepreneurs, enterprises and individuals, who are developing business plan for their innovative business ideas!



Features:

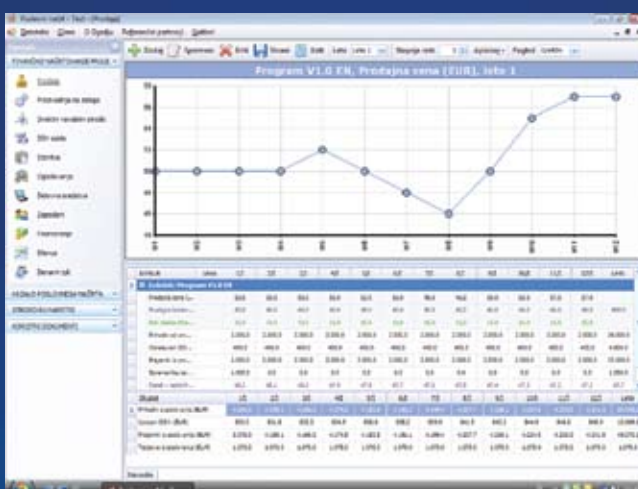
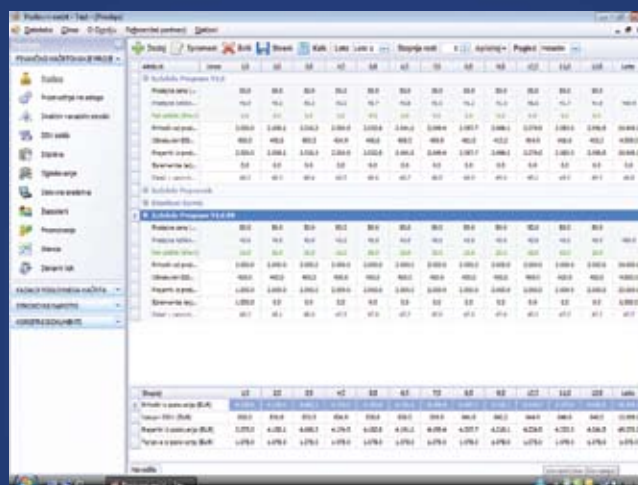
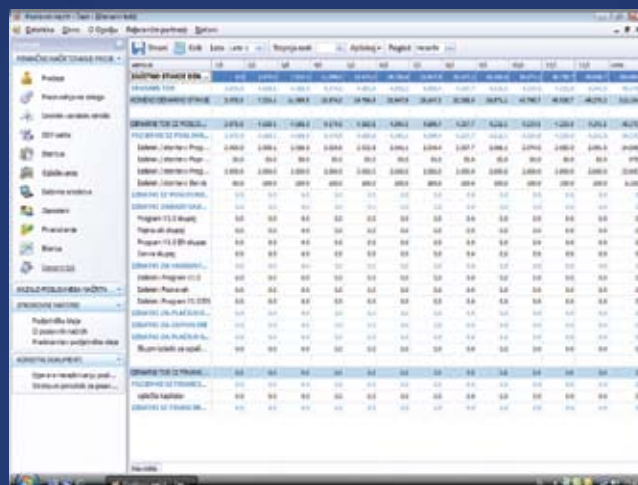
- easy to use,
- simple user interface,
- planning of all key elements of the business plan,
- integrated handbook for business planing with help and tips,

Planning elements:

- sales of your product or services,
- production and related costs,
- cost related to business and production,
- services planning,
- promotion and advertising planning,
- means of work planning,
- labour costs and outsourcing experts planning,
- financing sources of your business (credits, equity stakes,...)
- cash flow and balance sheets preview.

Key facts:

- more than 3000 registered users is using toolkit at the moment,
- it is available in Slovenian and English language,
- there are company descriptions and contacts of Start:up key partners available in the toolkit.



Toolkit is a windows based applet available free on: www.tovarnapodjemov.org/toolkit

"There is no second chance to make the first impression"

(anonymous)

5

Presentation of entrepreneurial idea

- >> **Presentation of the entrepreneurial idea**
- >> **Preparing the presentation**
- >> **During the presentation**

5.1 Presentation of the entrepreneurial idea

You cannot know if you have done a good job until you have presented your business plan. The presentation of the entrepreneurial idea to the potential investors is thus the final test of your dreams and the work invested. The purpose of the presentation is not just to acquaint someone with your plans. You wish to make the listener enthusiastic and willing to participate in your project. By a well thought out content and professional presentation you have to attract the attention and raise the interest of potential investors for co-operation. Here you have to consider the fact that major professional investors listen to up to 40 entrepreneurial ideas per week, that their time is extremely limited and that they are not willing to tolerate long-winded and frivolous attitude. The crucial element of an entrepreneurial idea presentation is a clear and convincing presentation which is neither too pompous and without clear arguments nor too loaded with details. Here we present three examples of approaches to the presentation of an entrepreneurial idea, two of which are unsuitable ones and one is a correct one:

Case 1: Aggressive sales:

"I have a great entrepreneurial idea. I was the first one to come up with it. It is about a new user-friendly way of paying, it has a great future potential. This is something we have all been waiting for a very long time. By participating, you can make high return on investment..." The potential investor concludes: "There is no actual substantiation. It's just much ado about nothing. I've heard hundreds of similar stories.... Thank you very much. NEXT!"

Case 2: Technical approach to sales:

«I have an idea for the console for the satellite control of the machinery. The main element is an integrated WXP chip with 30Gbyte RAM and duopol MKR based direct control unit with a firewall on the TQL platform. It took me 7 years to develop it." The potential investor concludes: "Who cares anyway. I don't understand him at all. A technician. In love with mechanics. That's his only preoccupation..... NEXT! »

Case 3: Entrepreneur:

«The idea, which is presented in the business plan in more detail, enables the companies with less than 50 employees to reduce costs by 4 to 6 percent. By carrying out a market analysis, I discovered that 40 to 60 percent of companies in the size range mentioned would buy the product. I've made the business plan by using the software tools and assistance of the university incubator 'Tovarna podjemov'.

I'm discussing the promotion of the product with Small Business Development Agency and the Entrepreneur Magazine. I've already got the support letter by the Slovenian Chamber of Trade. We'll market the product via direct sales and we'll reach the break-even point in 11 months.» The potential investor concludes: «It's clear that she analysed the product's value for the consumer and made the value analysis, which she's just presented. She used the market analysis to define market potential and the potential of making profit. She can find professional assistance. Besides, she knows how she will market her product. Now I'd really like to examine the product itself... »

These cases clearly point out the importance of a clear and persuasive presentation. It is obvious that the investors do not really understand the technological solutions in great detail and the specific technical jargon. They will most likely not pay special attention to badly presented ideas.

A skillfully delivered presentation is not the result of a lucky coincidence or the fact that the presenter and the audience had 'a good day', but it is rather the result of hard work and prior preparation. The presentation is a type of performance in front of an audience and because of that the presenter has to manage certain rhetorical skills. Successful public speaking is a very important factor of entrepreneurial success since it enables us to present our ideas and to acquire support for these ideas.

The skill of successful and effective public speaking, the management of and participation at meetings, negotiations and other business events is not given to us by birth, but can be, like many other skills, acquired through hard work and practice. At the same time, a good preparation and practice are the best cures against nervousness, which is the main reason why most people dislike speaking in public. If you do not have this skill, it is advisable to acquire it. As the entrepreneur you will, namely, be constantly in the situations when you will have to convince people in one context or another.

5.2 Preparing the presentation

The purpose of the presentation is to attract and further raise the interest of the public – the investors, buyers, business partners – in your project. The main part of your work – but not all the work – is done when you have written your business plan. You still have to prepare the presentation in which you will present your business plan to the target audience. Of course you do not want to lose your business opportunity and throw away all your work by a poor and unconvincing presentation.

It is advisable to divide the preparation of your presentation into a few logical steps.

a) Asking logical questions about your presentation:

The most fundamental question you have to ask yourself is who the presentation is aimed at. Who do you wish to convince and about what? The presentation is thus not about making a summary of your business plan it is about achieving your objective. What is your concrete objective? Think about which points of your business plan are the most interesting for your audience and include them in your presentation. Apart from the potential investors, will the potential buyers of your product or service, your business partners and any other interested persons also be in the audience? Take into account the fact that the time for your presentation is limited and that you can only include the most important information.

b) Simple rules for the timeframe of the presentation:

The presentation can be divided to its main contents, where we limit ourselves on a few selected topics (3-5). For each of the topics we allocate the scope which will take 2 paragraphs in writing. On average, there are 100 words per paragraph and an average speaker spends 1-2 minutes presenting them. In addition, we allocate one paragraph for the introduction and one paragraph for the conclusion.

As the starting point, the following basic allocation of time should be considered:

- >> Introduction: 1 minute
- >> Main body: 3-5 minutes
- >> Conclusion: 1 minute
- >> Questions: 3 minutes

A well known American entrepreneur Guy Kawasaki advises the application of the 10/20/30 rule. The presentation should be given on 10 slides/transparencies, should not last for more than 20 minutes and the font size on the slides/transparencies should not be less than 30. Of course, this rule does not have to be applied literally, but it can serve us as the starting point for the preparation of a good and effective presentation of our entrepreneurial idea.

If the entrepreneurial team is made of a large number of people, it is worth considering whether all of them should actively participate in the presentation. Sometimes it is suitable that the idea is presented by the person who can speak most persuasively, and this need not be the key entrepreneur, who must, nevertheless, be present. In case of a team presentation of the business plan, it is necessary to start preparing for the presentation well in advance as team presentations require more organization and co-ordination. The group has to agree on which sections of the business plan will be presented, who will present the individual sections, which audio and visual aids will be used with regard to the contents of the presentation, who the responsible person for the preparation of individual materials used during the presentation (transparencies, slides, videos, materials for the audience) is. Later on, the group has to meet at least once to rehearse and actually deliver the test presentation, decide on any corrections and additions and ensure that the presentation will not exceed the available time limit.

introduction	main body	conclusion	questions
1 - 2 minutes	5 - 15 minutes	1 - 2 minutes	3 - 6 minutes
Total length of presentation: 10-25 minutes			

Table 3: Timeline of presentation

c) Preparing presentation material:

You can deliver the presentation by using overhead projector and transparencies or you can prepare a computer based one and you may illustrate the contents by audio/video material. You should prepare the material you plan to distribute to the audience, your notes/reminders and other necessary material in advance. It does not have to be emphasised in particular that all the material you will need during the presentation has to be prepared beforehand.

d) Arranging the venue:

Prior to the presentation, check the venue and make sure that all technical equipment you need will be available. Familiarize yourself with the room both from the viewpoint of the presenter and the audience. Sit in their space and check the visibility and the audibility. The success of your presentation also depends on the physical comfort of the audience so try to minimize the impact of any disturbances: noise from the nearby building site, mobile phone ringing, unsuitable lighting, room temperature, etc.

e) Identifying the audience:

Identifying your audience is very important for the successful delivery of your presentation. The easiest way to define the audience – the listeners – is by answering the following questions:

- >> Who is the audience, what is their knowledge of the subject, what is their area of work?
- >> What does the audience already know about us and our business opportunity?
- >> What does the audience need to learn about us and our business opportunity?
- >> What will the audience do with the information received? (Is the information needed for the implementation of their tasks, daily routine or does the information increase their knowledge, etc.?)

When planning the contents of your presentation, think again about who you wish to motivate for your idea:

- >> credit department manager of a large merchant bank,
- >> wealthy individuals – business angels,
- >> financial analyst for a venture capital fund,
- >> marketing department manager of a competitive company, or
- >> prospective buyers of your products or services.

Be aware of the fact that the audience is usually not familiar with technical vocabulary and engineering jargon used in field you are presenting. The abundant use of technical expressions may confuse and distract the audience, so you should avoid explaining technical details but rather emphasise the benefits, advantages, savings that our project brings.

5.3 During the presentation

The best way to start the presentation of your business plan is to introduce yourself and other members of the entrepreneurial team together with the project you intend to present. Before you start with the main part, you have to state how long the presentation will last and we have to abide by it. At the beginning you should present the outline of the presentation in terms of its contents and later, when you deliver the presentation, you stop for a moment at each new section and inform the audience at which stage of the presentation you are, what you have just told them and what else you plan to tell. The main body of the presentation must not include too many main points (maximum 5). It is very important that during the presentation you establish a good rapport with the audience and you do this by occasionally establishing direct eye contact with each member of the audience and keep it for just the right period of time. Too rapid eye contacts raise the feelings of speed and nervousness while too long eye contacts may raise the individual's feeling of discomfort. At the end of the presentation you should summarise the main findings, finish your presentation with a witty remark, a joke, a question to the audience or a reflection. After the presentation, you have to be available to answer the audience's questions. It is advisable to prepare for this part of the presentation as well by thinking in advance about the possible questions the audience may ask and preparing the relevant answers. During the delivery you must speak audibly and clearly with the suitable emphasis of words because wrong word stress may alter their meaning.



Start:up Slovenia

It is a Slovenian competition of start-up companies. Its aim is to recognise the best nascent Slovenian companies (start-up companies) and their founders and award them. With the project we want to contribute to rising entrepreneurial activity in Slovenia and to promote the meaning of innovative entrepreneurship in Slovenian society. The competition is organised by Tovarna podjetmov in cooperation with numerous partners.

www.startup.si

About handbook

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