

A Look at the Business Plan

Koen Vandenbempt
UAMS, University of Antwerp Management
School

Patrick Dunne
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Introduction to the business plan

- A good business idea and a backer will only connect if the concept is well articulated
- Having a good business idea is only the first step
- The business plan's task is to 'tell the story' to prospective investors
- Drawing up the plan also helps the entrepreneur to develop his own perspective on the venture
- Focusing on an integrated business model will ensure that the plan is consistent & coherent

Key functions of the business plan

- Give the entrepreneur an objective, professional perspective on his own venture
- Stimulate interest from potential investors
- Signal to investors that the entrepreneur will adopt appropriate standards
- Provide information for due diligence
- Document key legal facts about the business
- Provide a basis for monitoring and control
- Provide a 'roadmap' for value creation

Before starting: four strategic questions to answer

- Have I got the right goals?
- Did I define my goals well?
- Do I have the right strategy?
- Can I execute my strategy?

What investors want to see

- Realistic forecasts based, as far as possible, in fact
- Monthly/quarterly projections for at least 1 year
- They do not wish to see:
 - Plans full of glowing references to a prosperous, but ill-defined future
 - Unsupported projections or unrealistically inflated figures

The importance of the management team

- Business success will ultimately depend on the abilities of the venture's key personnel
- VC will only invest if the plan shows that management is experienced, competent and committed
- Plan must include CVs for all key managers
- Must also state how these key individuals will work together and the reasons why they will form the right team for the new venture

Factors determining the structure of the business plan

Structure & content of the plan will depend on the characteristics of the venture, for example:

- The industry in which the business operates/will operate (eg biotech)
- Its level of development (eg start-up, the launch of a spin-off or entering a new market segment)

An outline of a typical business plan

However, all business plans should include information under these headings:

- Executive summary
- Company description
- Management team/key individuals
- Products and services
- Market and competition
- Marketing strategy
- Business system
- Assumptions and risks
- Financial plan
- Appendices (CVs, tech info, etc)

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Executive summary

- The business plan in miniature
- Comprehensive overview of the entire business opportunity in 2-3 pages
- Purpose is to catch prospective investors' interest and to make them want to read on
- Should be written after the rest of the business plan has been completed

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Financial plan

- Enables entrepreneur and potential investors to gauge the overall viability of the venture
- Minimum requirements are:
 - Monthly/quarterly cash flow for at least 2 years
 - Profit/loss statements for the first 3-5 years
 - Balance sheet for the first 3-5 years
 - Sensitivity analysis

What is the business model?

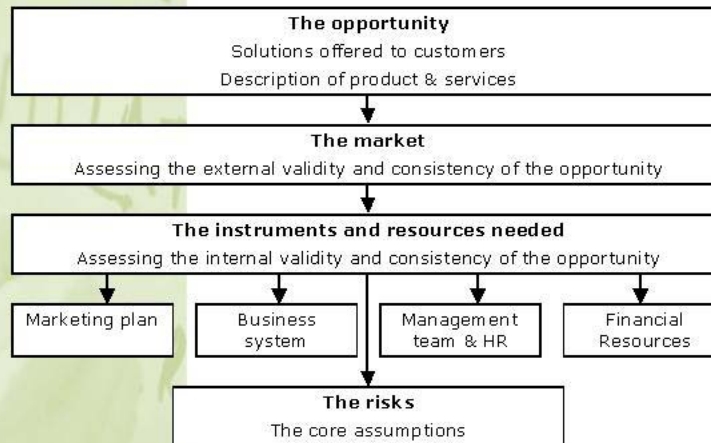
- It describes the interdependencies between the various elements of the business plan
- It identifies the drivers for revenue and costs in the new venture
- It shows how value will be created for customers
- It analyses the proposal in terms of:
 - The opportunity
 - The market
 - The instruments and resources needed
 - The risks involved

Mapping the business model onto the business plan

Business model is concerned with the following headings in a typical business plan :

- Company description
- Management team
- Products and services
- Market and competition
- Marketing strategy
- Business system
- Assumptions and risks
- Elements of the financial plan

Logical flow in the business model



The opportunity

- The opportunity consists of the solutions, in the form of products and services, that the entrepreneur intends to offer to the customer
- VC will only invest:
 - In ventures that demonstrate clear and real future added value for identifiable customers
 - If the model generates significant value uplift on the fund's investment
 - If there is a clear path to exit

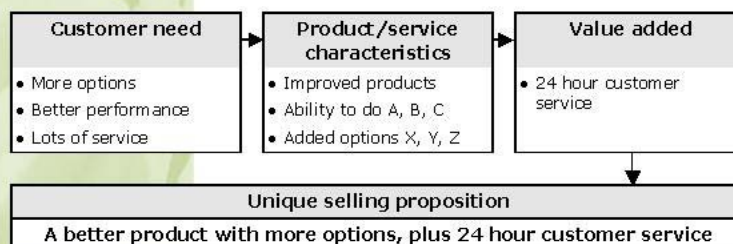
Three approaches to targeting market segments

1. Single product/service targeted at a single segment of a market with many segments
2. Single product targeted at all segments of the entire market
3. Multi-segment: different market segments targeted with a series of differentiated products/services

Focusing on customer benefits

The business concept should always be described in terms of:

- The value created for customers
- The venture's unique selling proposition (USP)



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The market

- Will potential customers pay for the new products/services, at a price that will, at some point, allow the company to make a profit?
- The market section of the plan should address:
 - Market analysis
 - Analysis of competitors
 - Analysis of the broader context

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The market – analysis of market sectors

- This part of the plan should provide:
 - Description of market sector(s)
 - History of the market's evolution
 - Identification of the current drivers for growth
 - Information on the size of the market, available distribution channels, development to date and estimated growth in the forecast period
- VCs will seldom decide to support even a brilliant technology if there is little room for expansion and growth

The market – analysis of competitors

- What are the buying criteria of potential customers?
- Why should they buy our new products – rather than those of the competition?
- Need to consider 3 types of competitor:
 - Industry rivals
 - Substitutes
 - New entrants

The market – analysis of the broader context

- The business plan will need to assess the potential impact of possible/probable future shifts in the external operating environment
- The analysis should be conducted in terms of:
 - Political/legal forces
 - Economic factors
 - Social and cultural influences
 - Technological change

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The instruments and resources needed

- Plan must show that the new venture has/will have the resources to bring the business concept to fruition
- This element of the business model tests the internal validity and consistency of the opportunity by detailing:
 - The marketing plan
 - The business system
 - The management team and key individuals
 - The financial resources needed

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Instruments/resources – the marketing plan (1)

Marketing plan translates into sales forecasts elements that have already been established:

- Opportunity
- Value created for customers
- Market segments targeted
- Positioning vis-à-vis the competition

Instruments/resources – the marketing plan (2)

Marketing plan should provide details of:

- Promotion
- Proposed marketing/sales channels
- Projected sales volumes
- Communication and distribution strategy
- Pricing
- Estimated profit margin
- Process(es) for selling the product/service
- Customer service issues

Instruments/resources – the business system

- The activities required to create future value for customers
- The business system maps out how products/ services are 'made' and delivered to customers
- Should provide full information on:
 - Formal structure of the organisation
 - Make or buy decisions
 - Key processes, procedures and systems
 - Any regulatory requirements/other approvals
 - Planned capacity
 - Strategy for administration/support services
 - Resource dependency, including critical resources

Instruments/resources – management team/key personnel

- The management team is one of the most important elements of the business concept
- VC needs to be able to see that the team will be capable of running the new venture
- All relevant skills, knowledge and experience should be reported in the plan
- Plan should also detail proposed remuneration and individuals' other business interests (if any)
- If the team needs strengthening, the plan should describe how these gaps will be filled

Instruments/resources – ownership details (partnership)

The plan must provide:

- A description of the partnership structure
- Partners' other business interests (if any)

Instruments/resources – ownership details (limited company)

The plan must provide:

- Details of the board of directors: executive/non-executive directors; board's purpose; how it will operate
- Details of all shareholders: number and %age of shares held; any special rights; any debt/other assistance provided for the business
- If any of the shareholders are corporate bodies, a list of their shareholders
- Details of any other business interests of the shareholders/owners

Instruments/resources – financial resources (1)

- Brings together the numerical elements of the other sections to produce a snapshot of the financial resources that will be required
- This information:
 - Is needed by potential investors in order to make the investment decision
 - Enables the entrepreneur and the VC to monitor the execution of the business plan and operations in the early years

Instruments/resources – financial resources (2)

Drawing up an implementation plan/schedule:

- Forces the entrepreneur to think through activities and processes in a linear sequence
- Enables the entrepreneur to project sales/costs associated with each activity/business function
- Allows the entrepreneur to test the sensitivity of the business model to changes in key parameters
- Helps the VC to consider the exit possibilities
- Helps to identify the level & structure of external funding needed to start and develop the venture
- Helps the entrepreneur to draft financial projections for the early years of the venture

Minimising risk

The entrepreneur can minimise risk by:

- Having a sound grasp of the business logic behind the venture
- Developing a strong business model founded on a robust set of assumptions

Risk – core assumptions

- The entrepreneur should ensure that the assumptions he makes:
 - Can be justified
 - Are consistent with generally accepted views on the economy, market forces, social trends, etc
- The entrepreneur should make his core assumptions explicit in the plan
- The entrepreneur and the VC will normally draw up best-case and worst-case scenarios

Ten rules for writing a business plan

1. The truth – and nothing but the truth
2. Everyone in the team is a planner
3. An effective plan demands complete professionalism
4. Make all issues explicit – present a detailed argument of the team's vision for the new venture
5. The action plan details real actions, together with implementation schedules and responsibilities
6. All supporting information is unbiased and traceable
7. State all assumptions and risks explicitly
8. Use consultants/other professionals to provide support
9. The whole team is proactive in selling the plan
10. Rehearse presentations before 'entering the ring'