Creation a successful business plan

FINS, Novi Sad, Serbia
22\textsuperscript{nd} and 23\textsuperscript{rd} May 2017

Dr. Michele Vollaro and Dr. Francesco Galioto
University of Bologna
Research and Innovation Policy in EU

• *Innovation has been placed at the heart of the EU's strategy to create growth and jobs* (EC, 2013)
  – *energy, food security, climate change...*
  – *public sector intervention*
  – *to stimulate the private sector*

• *EU funding for research and innovation*
  – *Horizon 2020, ERC, Marie Curie Actions, Tenders*
  – *European Regional Development Fund*
  – *European Agricultural Fund for Rural Development*
Elements for creating a business plan

Entrepreneurship (or business activity): ability to plan in order to pursue the realization of personal and professional expectations

Planning: a set of targets to pursue and the best way to realize them

Each element of the business activity needs to be planned

• production process, initial investment, levels of quantity and quality, selling the product

Economic and Financial planning are common to each stage of business activity and is the requirement of a flow of money necessary to start the business activity and to keep the operations on
Enterprise vs Firm

An *enterprise* is a *professionally organized economic activity* finalized to the production and marketing of goods and services.

A *firm* is a *set of factors* organized by the entrepreneur for running an economic activity, i.e. the enterprise.

The tools needed to organize a firm and to manage an enterprise are the *factors of production (or inputs), labour and capital*, and the *competences, knowledge and managerial skills*. 
Inputs and Outputs

*Inputs* are organized factors finalized to produce an *output*:
*Capital* is a good that is utilized in the production process several times (land, buildings, machineries, orchards, livestock, equipment)
*Labour* is a service offered in order to accomplish a determined goal according to the subjective skills and ability
*Other factors* are needed for supporting the economic viability of the enterprise (energy, water, seeds, feed, insurance...)
*Outputs* are the product that is sold on the market.
• a *final product* sold to final consumers (fresh products, drinking milk, canned products, cheese, bread, cookies...)
• an *intermediate input* sold to other firms for (further) processing
Costs, Revenues and Income

Costs can be divided in:

• Fix costs: costs *independent* of production size (buildings, open-ended employee, machines,...)
• Variable costs: *changing* with production size (energy, water, other consumables,...)

Revenues can be got through:

• Sales (products)
• Other sources (economic supports)

Costs and Revenues are determined by *quantities* and *prices* (q*p)

Revenues *minus* costs give *Income*
Objective of an enterprise

Organize the firm in an efficient way in order to become and remain economically viable

Economic viability is reached when
1. inputs and outputs are adequately remunerated, through costs and revenues
2. revenues are greater than costs

Quantity and quality are important for economic viability:
1. Higher quantity reduces average costs (economy of scale)
2. Higher quality increases the revenue (improve the worth of the output)

An accurate planning is vital for the correct and effective functioning of the firm operations, especially the financial planning for managing investments and cash flows
Economic viability and financial planning

The financial needs of a firm are to be precisely determined in order to pursue the economic viability.

Finance can be defined as all the processes concerning investments and funding: moving money (flow) through time and between people.

Today, an amount of money is defined as a Capital.
In the future, the same amount of money generates Interests (the cost of money).
“Tomorrow”, the amount of money is not the same, but is Capital + Interests.

A prospective amount of money (available in the future) can be discounted in order to know the present value (the today value of a future capital).

Discount is the inverse operation of the Interest (both measured in rates - %).

Rate of return: the profit of an investment (in %) over a specific timespan.

The financial needs have to be recognized in advance and planned in such a way to establish a smooth flow of physical (inputs and outputs) and financial (money) resources.
Setting a business plan

A *business plan* is a **project** in which we explain what we want to realize and how:

- a *strategy* to success in the near future (3-5 years)

The business plan is (usually) composed of **seven** sections

1. *Executive Summary*
2. *Business description*
3. *Market strategies*
4. Competitive Analysis
5. Design and Development Plan
6. Operations & Management
7. Financial Components
A Business Plan is uniquely identifiable through a Title

Every Business Plan has a Title
Executive Summary

It comes right after the **title**

*Synthetic* but **complete** description the proposal and clearly report *what we are asking for*

**Concept:** *business, product and market*

**Finance:** *financial elements* of the business and the capital required

**Business position:** *company information*

**Achievements:** what have you done so far
Business description

Briefly describe the (your) industry: current and future conditions

Markets and products that could affect your business (+ or -)

Use reliable data and sources of information

Is the business new or already existing?

What legal status: sole proprietorship, partnership or corporation...?
Business description /2

Describe the **structure** of your business: *type of operations* – selling, producing, services...

..**who** you will sell to, **how** the product will be distributed, and **what** is the business's support systems (advertising, promotions and customer service...)

Describe your **product** or **service**:

• give the reader a **clear idea of your intentions**
• emphasize any **unique features**
Profit

Explain the factors you think will make it successful:

• it's a well-organized business,
• it will have state-of-the-art equipment,
• its location is exceptional,
• the market is ready for it,
• it's a very good product at a fair price
Market Strategies

Present a detailed *market analysis*: define your target and how to reach it

• Market:
  – size, structure, growth prospects, trends and sales potential (total aggregate sales of competitors)

• Segmentation factors:
  – geographic, customer attributes or product-oriented

• Feasible market:
  – *specific products for specific customers*

• Market shares:
  – distribution network, competitive pricing and promotional strategies
Positioning

Your products need to be positioned based on:
- the *motivations* and *requirements* of target *customers*
- the *actions* of primary *competitors*

1. How are your competitors positioning themselves?
2. What *specific attributes* does your product have that your competitors' do not?
3. What *customer needs* does your product fulfil?

*Describe how customers would perceive the product*
Pricing

1. All *prices* must **cover costs**.
2. Lower the costs in order to lower your sales prices.
3. *Pricing* should react to the dynamics of *cost, demand, changes in the market* and response to your competition.
4. *Prices level* should **assure sales: price to sell**.
5. Product *utility, longevity, maintenance and end use* must be **judged continually**, and target *prices adjusted* accordingly.
6. Prices must be set to **preserve order** in the marketplace.
Setting the price

• Cost-plus pricing: (manufacturers) assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.

• Demand pricing: (companies) selling product through a variety of sources at differing prices based on demand.

• Competitive pricing: (companies) lower than the established price in order to enter the market.

• Mark-up pricing: (retailers) calculated by adding the desired profit to the cost of the product.
Distribution

The process of *moving the product* from the factory to end-user

*Distribution network* according to *industry* and *market size*

- **Direct sales**: sell directly to the end-user
- **OEM (original equipment manufacturer) sales**: your product is incorporated into a finished product
- **Manufacturer's representatives**: salespeople
- **Wholesale distributor**: sells the product to retailer or agents
- **Brokers**: third-party distributors (other agents)
- **Retail distributors**: if end-user is the general consuming public
- **Direct Mail**: selling to end-user using a direct mail campaign
Promotion

The controlled distribution of communication designed to sell your product or service

Promotion strategy uses marketing communication tools

- **Advertising**: budget, creative message(s), the first quarter's media schedule
- **Packaging**: description of the packaging strategy and mock-ups of any labels, trademarks or service marks.
- **Public relations**: publicity strategy, including a list of media that will be approached as well as a schedule of planned events.
- **Sales promotions**: strategies used to support the sales message, collateral marketing material and a schedule of planned promotional activities.
- **Personal sales**: sales strategy including pricing procedures, returns and adjustment rules, sales presentation methods, lead generation, customer service policies, salesperson compensation, and salesperson market responsibilities
Sale potential

Given the previous market analysis, provide a financial projection of your business.

Make use of information drawn from:
- defining the market,
- positioning the product,
- pricing,
- distribution, and
- strategies for sales.

Provide a sale (revenue) model explaining the potential for the product over a three-five years timespan:

\[ S = T \times A \]
Competitive Analysis

Statement of the **business strategy** and how it **relates to the competition**:
- **Strengths** and **weaknesses** of competitors within your market
- **Strategies** that will provide you with a **distinct advantage**
- **Barriers** that can be developed in order to prevent competition from entering your market
- **Any weaknesses** that can be exploited within the product development cycle

*Comparative analysis* of competitors: performance of a company within a market is **directly related** to the possession of
- **Key assets** and
- **Skills**

To be competitive, **generate** assets and skills that **competitors do not have**: create a **competitive advantage**
Design and Development Plan

Provide *investors* with a description of overall development plan

Setting goals (mostly available from market analysis) for

- *product* development
- *market* development
- *organizational* development

Goals should be

- *quantifiable*, in order to set up time lines
- *directed*, relating to the success of the business
- *consequential*, have impact upon the company
- *feasible*, are not beyond the bounds of actual completion
Goals for development and Procedures

Focus on *technical* and *marketing* aspects of the product
Establish procedural tasks or work assignments

**Product:**
- Goals: *Produce recipe...; Create packaging...*
- Procedure: *gather ingredients; optimal temperature...*

**Market:**
- Goals: *Develop collateral marketing material...*
- Procedure/work assignment: ...

**Organization:**
- Goals: *Acquire expertise in key assets*
- Procedure/work assignment: ...
Scheduling and Costs

*Most important element* of the *development plan*

Scheduling:
- all of the key work elements
- the stages the product must pass through before delivery

Development budget (costs):
- expenses have to be tracked

Establish time frames for completion of all work assignments
Juxtapose them within the stages through which the product must pass
Costs – Development Budget

Take into account all the expenses required to design the product and to take it from prototype to production

- **Material**: all raw materials used in the development of the product.
- **Direct labour**: all labour costs for the development of the product.
- **Overhead**: all overhead expenses (taxes, rent, phone, utilities...)
- **G&A costs**: salaries of executive and administrative personnel.
- **Marketing & sales**: salaries of marketing personnel.
- **Professional services**: costs of consultants.
- **Miscellaneous Costs**: costs that are related to product development.
- **Capital equipment**: capital needed for the development budget
  - establish what type of equipment you will need,
  - whether you will acquire the equipment or use outside contractors,
  - if you decide to acquire the equipment, whether you will lease or purchase it.
Operations & Management

Describe just how the business *functions* on a continuing basis

Highlight the *logistics of the organization*:

- the responsibilities of the management team,
- the tasks assigned to each division within the company
- *capital and expense requirements* related to the operations of the business

Develop the *financial tables*:

- operating expense
- capital requirements
- cost of goods
Organizational Structure

Can be divided in several broad areas:

• marketing and sales (includes customer relations and service)
• production (including quality assurance)
• research and development
• administration

...not every business can be divided in this manner...

Provides a basis to project operating expenses
Financial Components

It provides an **accurate picture** of a company's **current value**, plus its **ability to pay** its bills today and **earn** a profit going forward.

The **three** common statements are:

- cash flow statement
- income statement
- balance sheet

These statements are **interlinked**, with changes in one necessarily altering the others. They measure quite different aspects of a company's financial health.
Break Even Point

- Output Price variation
- Input Price variation
- Variation in seasonality
- Production variation
- Sales variation
Assessing Risks

*Every business is exposed to risk*

The risks involved in developing the product should be assessed.

A plan to address each risk needs to be developed.

Type of risks:

- technical development of the product
- marketing
- personnel requirements
- financial problems.

By identifying and addressing each of the perceived risks, you will *allay* some of your major fears concerning the project and *those of investors as well*.
## Business nomenclature

<table>
<thead>
<tr>
<th>Name</th>
<th>Input</th>
<th>Output</th>
<th>Consumable</th>
<th>Labour</th>
<th>Capital</th>
<th>Fix Cost</th>
<th>Variable Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biscuits</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Building</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Kneading machine</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Store</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Flour</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Money</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Patent</td>
<td>X</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Worker</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td>X (seasonal)</td>
</tr>
<tr>
<td>Bread</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
</tbody>
</table>
Finance formulas

C = capital; I = interest; t = time (year)
M = amount (C + I); r = rate of interest;

**Future value:**  \( M_t = \sum_t C_0 r^t \)

\( t=0: \)  \( M_0 = C_0 \)

\( t=1: \)  \( M_1 = C_0 + C_0 r; \quad M_1=C_0 + I; \quad C_0 r = I; \)

\( M_1 = C_0 (1 + r)^1; \)

\( t=2: \)  \( M_2 = C_0 (1 + r)^2;... \)

\( t=T: \)  \( M_T = C_0 (1 + r)^T \)

**Present value:**  \( C_0 = \frac{M_t}{(1+r)^t} \)
Finance formulas

Future value: \[ M_t = \sum_t C_0 r^t; C_0 (1 + r)^t \]

C = $50,000;
Find: \( M_t \) and \( I \) for \( r = 0.04 \, (4\%) \) and \( 0.05 \, (5\%) \);
\( t = 1; 4; 7 \)

Present value: \[ C_0 = \frac{M_t}{(1+r)^t} \]

\( M_t = $50,000; \)
Find: \( C_0 \) for \( r = 0.04 \, (4\%) \) and \( 0.05 \, (5\%) \);
\( t = 1; 4; 7 \)