Creation a successful business plan

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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**

Title

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:
T = total number of customers, A= average revenue from each customer, S=sales potential: **S=T*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

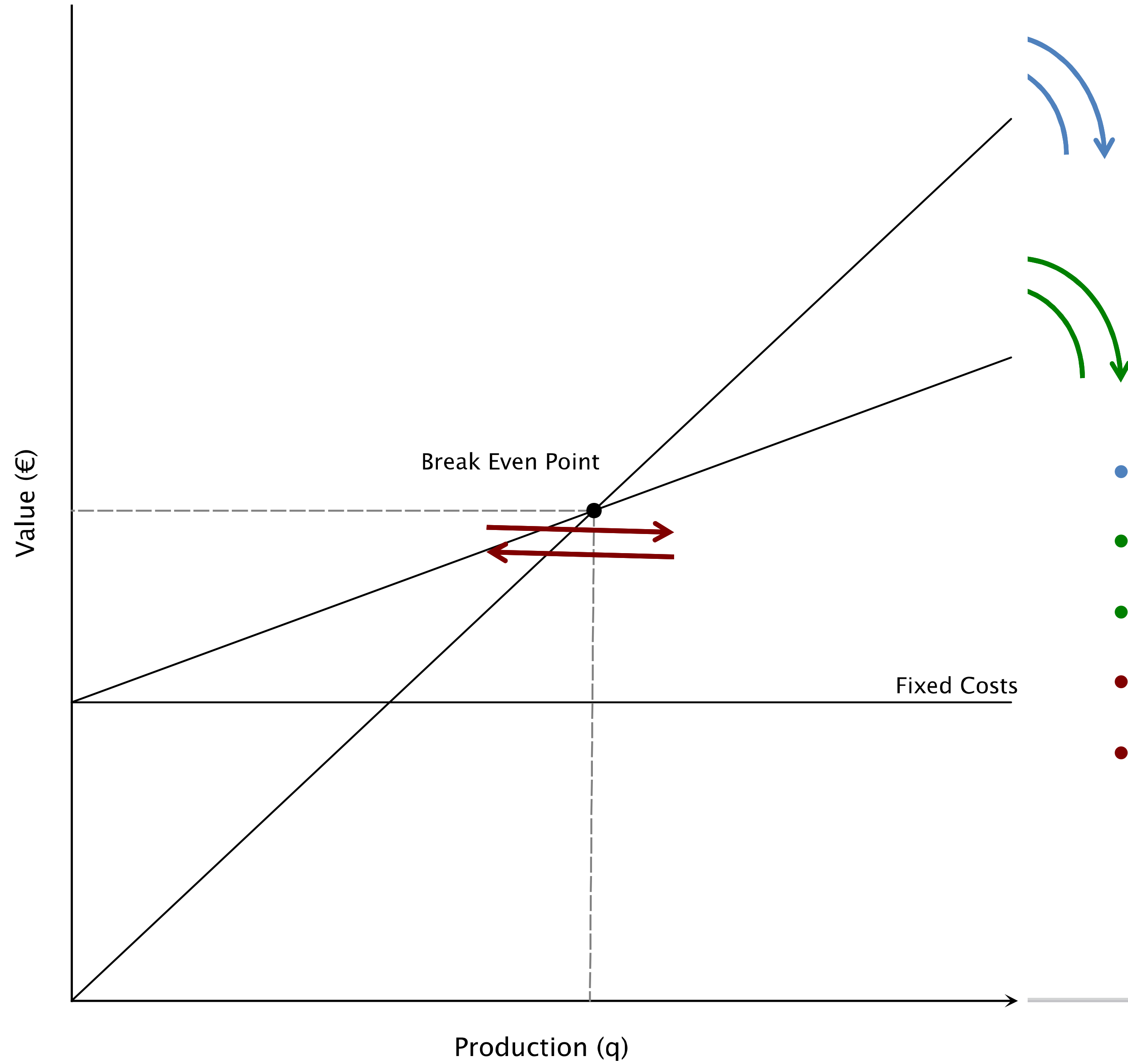
The ***three*** common statements are

- 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

Name	Input	Output	Consumable	Labour	Capital	Fix Cost	Variable Cost
Biscuits		x					
Firm							
Manager	x			x		x	x
Building	x				x	x	
Kneading machine	x				x	x	x
Store	x				x	x	
Water	x		x			x	X
Flour	x	x	x				X
Fuel	x		x				x
Money	x		x		x	x	x
Patent	X	x			x	x	
Worker	x					x	X (seasonal)
Bread		x					
Electricity	x		x			x	x

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: $M_1 = C_0 + C_0 r$; $M_1 = C_0 + I$; $C_0 r = I$;

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

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