TECHNISCHE UNIVERSITÄT WIEN
Vienna University of Technology

VO Unternehmensgründung - Entrepreneurship

SS 17: Unit „Business Planning“

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Content

- The Business Plan
- The Marketing Plan
- The Financial Plan
- The Organisational Plan

The Business Plan

The Business Plan

- *„A written document prepared by the entrepreneur that describes all the relevant external and internal elements involved in starting a new venture“* (Hisrich, 2008)

- Who should write the plan? Entrepreneur(s)
- Who will read the plan? Employees, investors, bankers, Venture Capitalists, Suppliers, Customers, Advisors and Consultants
- Yet, the plan is especially for the Entrepreneur! (Learning exercise)

Content and structure of a Business Plan

- Executive Summary
- Description of Venture
- Management/Team
- Organisational Plan
- (Production Plan)
- Operations Plan
- Environmental and Industry Analysis
- Marketing Plan
- Chances and Risk
- Financial Plan

→ Continuously under revision and updating on a regular basis!

Criteria from the Investors‘ side of view

1. Personality of the entrepreneur(s)
2. Experience of the entrepreneur(s)
3. Characteristics of the product
4. Characteristics of the market
5. Financial factors

… I would prefer to invest in a company with a B-rating for the product and an A-rated management team than in a venture with an A-rated project assessment from a venture with a B-rated management team. (Benno Schmidt, former CEO of J.C. Whitney and proponent of the notion Venture Capital)

Further empirical evidence

- In practice, business plans are too often focused on technological aspects
- Information about market strategy, financing and the team are lacking (Roberts 1991)
- There exist national differences (USA, Europe, Japan) (Knight 1992)

Critical Factors of the Business Plan

(1) The Team

(2) The Business Idea

(3) The Environment

(4) The Risks

Critical Factor: The Team

- What do they know? What are their skills?
- Whom do they know?
- Who knows them?

Critical Factor: The Business Idea

- Who are the customers?
- How can I reach the customer?
- How much does it cost to acquire one customer?
- How much are the costs for distribution?
- How much are the costs for customer support?
- How easy is it to bind the customer?
- How is the decision making process for the customer?
- Is my product/service mandatory for the customer?
- Price Setting?

Critical Factor: The Environment

Economy & Govermental Regulations

- How can changes influence the company?
- How can the company react in case of changes?
- How can the team influence the environment?

Common Faults

- Lack of Focus regarding the Business Idea
- Too little enhancement of company growth and profitability
- Missing Documentation
- Unrealistic Forecasts and unobjective statements
- Cover-up of risks and deficiencies

Operational Risks

Risk = Probability and Extent of a Loss

- Recognizing Risks
- Evaluating Risks
- Fighting Risks
  - Avoiding
  - Reducing
  - Shifting

SWOT-Analysis

SWOT = **S**trength – **W**eakness – **O**pportunities – **T**hreats

Organisation (intern): Strength, Weakness

Environment (extern): Opportunities, Threats/Risks

The Marketing Plan

Marketing plan

- Product/Service
- Target Market
- Competitors
- Sales Approach
- Price
- Advertisment

(The Marketing Plan rests on the findings from the industry analysis)

Marketing

Marketing = communicating the proper information to the proper target customer segment using proper methods.

Market research = process of information retrieval, which is the base for the marketing plan

Market research methods

Secondary Sources: web, newspaper, statistic agencies

Primary Sources:

- Focus Groups
- Interviews
- Conjoint Analysis

USP – Unique Selling Proposition

The potential of a USP depends on:

- Recognisability and Uniqueness of the product/service
- Importance for the customer
- Difficulty to imitiate the product/service (resource base)

The marketing process

STP:

- Segmentation
- Targeting
- Positioning

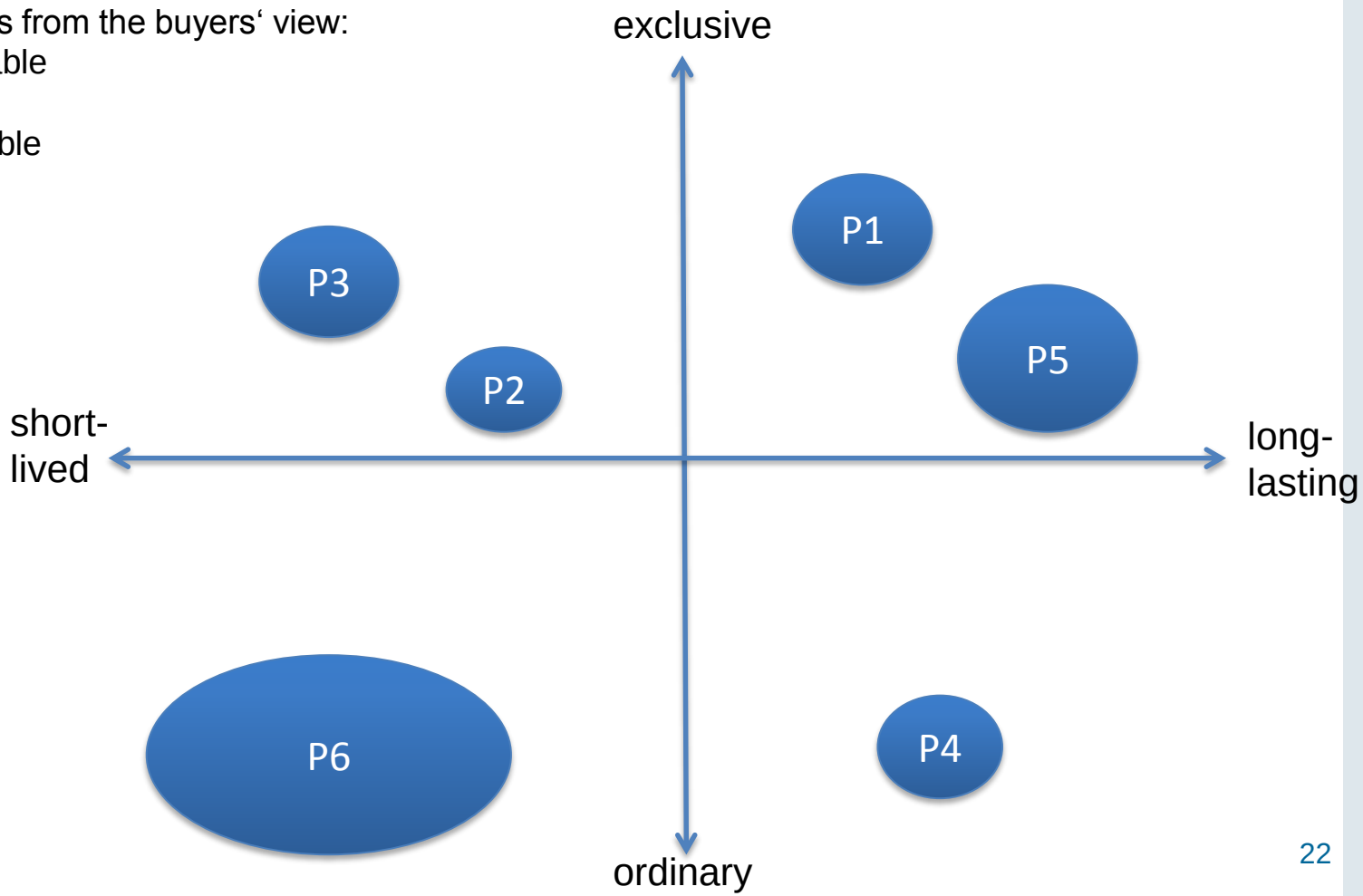
Marketing Mix

Product policy (product)	**Price policy (price)**
Distribution policy (place)	**Communication policy (promotion)**

Positioning (and differentiation) model

Specific aspects from the buyers‘ view:
- distinguishable
- superiority
- communicable
- sustainable
- affordable.

…



Market Sope Strategies

- Narrow-Scope Strategy
  - Offering a small product range to a small number of customer groups to satisfy a particular need
  - Firms serves the high end market by producing customized products, localised business operations, and high level of product quality
  - Less competitions, but larger market uncertainty
  - Allows to reduce entrepreneurial risk

- Broad-Scope Strategy
  - Taking a “portfolio” approach by offering a range of products across many different market segments, thereby he learns which products are the most profitable (trial and error)
  - More exposure to competitions

Pricing Methods

Price setting factors

1. Demand/market oriented (exernal market factors and demand function)
2. Cost-based (cost function and international production factors)
3. Competitive-based (price of competitors)
4. Utility/value-based (utiltiy from the buyers view, cost target function, target costing)

Price policy

Price strategies:

1. Skimming strategy
   (at the beginning high price, than lower prices)
2. Penetration strategy
   (lowest price, only possible if there is a price elasticity)
3. Quality leadership with high prices

Planning and control of costs: Target costing

Target costing

- Assessment of product costs based on market conditions = allowable costs
- Particular relevant for market-pull strategies
- Focuses on cost and revenue drivers

Process:

- Step 1: Identification of product features and characteristics
- Step 2: Definition of target price
- Step 3: Calculation of target costs
- Step 4: Detailed planning of costs
- Step 5: Management of the ongoing costs

Target costing: Components-Functions-Matrix

1. Functional differentiation of basic components and weighing of functions
2. Weighting of all product components with respect to achieving the functions
3. Addition of all component weights

Components\Functions	Weight	Running Smooth-ness	Safety	Design	Reliability	Total	Target costs
Braking system			20		5	**25**	**250.-**
Frame	8	10	5	5	5	**33**	**330.-**
Gearshift			5	5	5	**15**	**150.-**
Lighting			5	2		**7**	**70.-**
Others	2	3	5	5	5	**20**	**200.-**
Total	10%	13%	40%	17%	20%	**100%**	**1.000.-**

Source: Wilksch (2006)

Distribution (Policy) Channels

- Degree of directness
- Number of resellers
- Selection criteria for resellers
- Number of distribution channels

Marketing goals: „Where do we want to go?“

Specification of

- market share
- profits
- Sales (per region)
- market penetration
- sales promotion
- prizing
- …

➢ goals should be reasonable given the business situation

➢ delivers also the fundament for financial planning

The Financial Plan

Economic Questions

- Is it worth it to start up your own business?
- Is it possible to sustain liquidity (with special focus on the first years)?
- What are the financial requirements and how can they be provided (equity, sponsorships,...)?
- What are the risk involved in the project (financial/organisational)?

The Financial Plan

Costs of foundation: incur at the time of foundation

Operative Budget: incur during the operation

- Fix Costs
- Variable Costs

The Financial Plan - Approach

- Forecast of expected sales (from marketing plan)
- Calculation of an operating and capital budget (expected costs)
- Calculation of a (Pro forma) Income Statement (expected income)
- Performing a Break-Even Analysis
- Calculation of the cash flow
- Preparation of a (Pro forma) Balance sheet

Sample Income Statement

Expenses	Jan.	Feb.	Mar.	…	TOTALS
Sales	**130,000**	…			
Less Cost of Goods Sold	78,000				
Gross Profit	52,000				
Operating Expenses					
Salaries	7,500				
Depreciation	5,000				
Interest	2,000				
Rent	2,000				
Office Expenses	1,500				
Travel	600				
Advertising	1,500				
Total Operating Expenses	**20,100**				
Net Profit	31,900				…

Sample Operating Budget

Expenses	Jan.	Feb.	Mar.
Salaries			
Rent			
Utilities			
Advertising			
Selling expenses			
Insurance			
Payroll taxes			
Depreciation			
Office expenses			
TOTAL EXPENSES			

Cash Flow

- Cash Flow ≠ Profit
- Cash flow results from the difference between actual cash receipts and cash **payments.**
  For instance, a business sale is not considered as cash as long as the buyer have not made the payment
- Cash Flow Calculation necessary on a monthly basis!
- Liquidity: Ability to fulfill the liabilities to pay. The liquidity has to be existent the whole time!
- New profitable ventures may fail because of a lack of cash

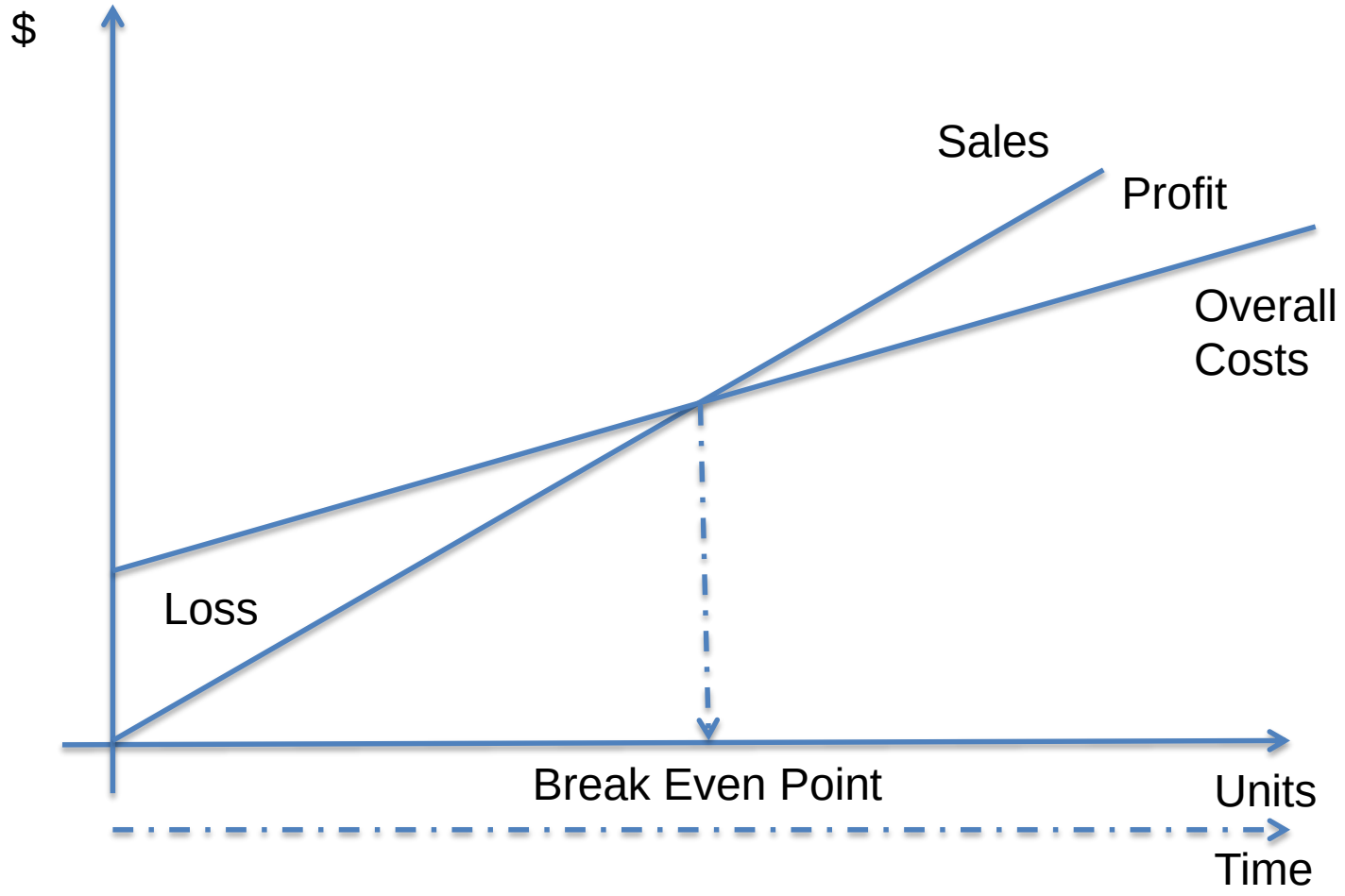
Statement of Cash Flow

	Jan.	Feb.	Mar.	…	Dec.
Receipts		…			
Sales	**50,000**				
Disbursements					
Equipment purchase	72,000				
Cost of goods	8,000				
Salaries	23,200				
Inventory	2,000				
Rent	2,000				
Office Expenses	1,500				
Sales expenses	1,000				
Insurance	2,000				
Payroll and Taxes	2,100				
Utilities	1,000				
Total disbursements	**114,800**	…			
Cash flow	(64,800)	…			
Beginning balance (working capital)	300,000	235,200			
Ending balance	235,200				…

Pro Forma Balance Sheet

Assets		Liabilities and Equity	
Current Assets		*Current liabilties*	
Cash	41,500	Accounts payable	6,000
Accounts receivable	52,000	Wages payable	4,000
Inventory	1,200	Line of Credits	3,000
Total Current Assets	**94,700**	**Total Current Liabilities**	**13,000**
Fixed Assets		*Non current liabilities*	
Equipment	52,000	Term Loan	4,000
Automobiles	20,000	Shareholders Loan	6,000
Less depreciation	14,400		
Total Fixed Assets	**57,600**	**Total Non current liabilities**	**10,000**
TOTAL ASSETS	**152,300**	*Equity*	
		Initial Investments	200,000
		Retained earnings	(70,700)
		Total Equity	**129,300**
		TOTAL LIABILITIES and EQUITY	**152,300**

Break Even Analysis



Break Even Analysis

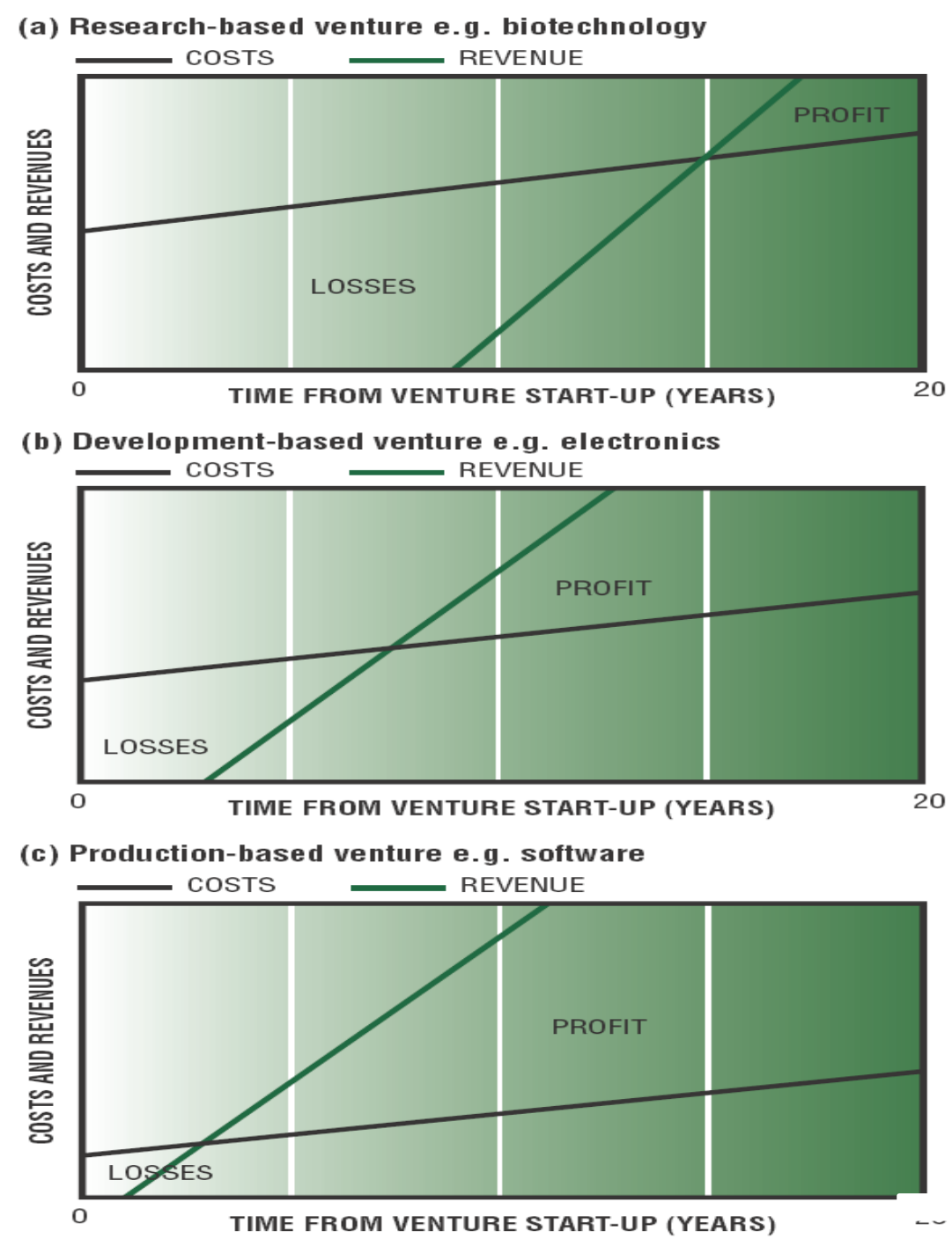
At which amount of sold products/services do we break even?

$$BE(Q) = \frac{fC}{P - vC / p}$$

The Price (P) and the variable Costs per Unit (vC/p) are assumed to be constant factors

fC: total fixed costs

Break-even profiles in different sectors/ types of ventures



Source: Tidd & Bessant (2009)

How to finance the business ?

Liabilities		
Current Liabilities		
Line of Credit		$ _____
Supplier Credit	$ _____	
C Total Current Liabilities		**$** _____
Non Current Liabilities		
Term Loans		$ _____
Vendor Credit		$ _____
Shareholder Loans	$ _____	
D Total Non Current Liabilities	**$** _____	
C+D Total Liabilities	**$** _____	
Equity		
Investment	**$** _____	
E Total Equity	**$** _____	
C+D+E		
Total Liabilities + Equity		**$** _____

Sources of Financing

- Self
- Family and Friends
- Supplier and Trade Credits
- Commerial Bank Credits
- Private Investors (Angels)
- Venture Capital
- Public Loan Programme
- Subsidies
- Strategic Partners

Capital Procurement

Equity Capital

- How great is the risk?
- How much is the potential income?
- To some extent involved in the management and control fo the venture

Debt Capital (Asset-based funding)

- An interest-bearing instrument (fixed or floating rates)
- Requires usually some assets (house, car) to be used as collateral
- Short (< 1 year) and long term debt
- Allows leveraging the firm (debt/total assets)
- Different firms: supplier, investment, etc.

Equity

Risk Capital = Equity Capital, which is provided to the company by a third party/owner

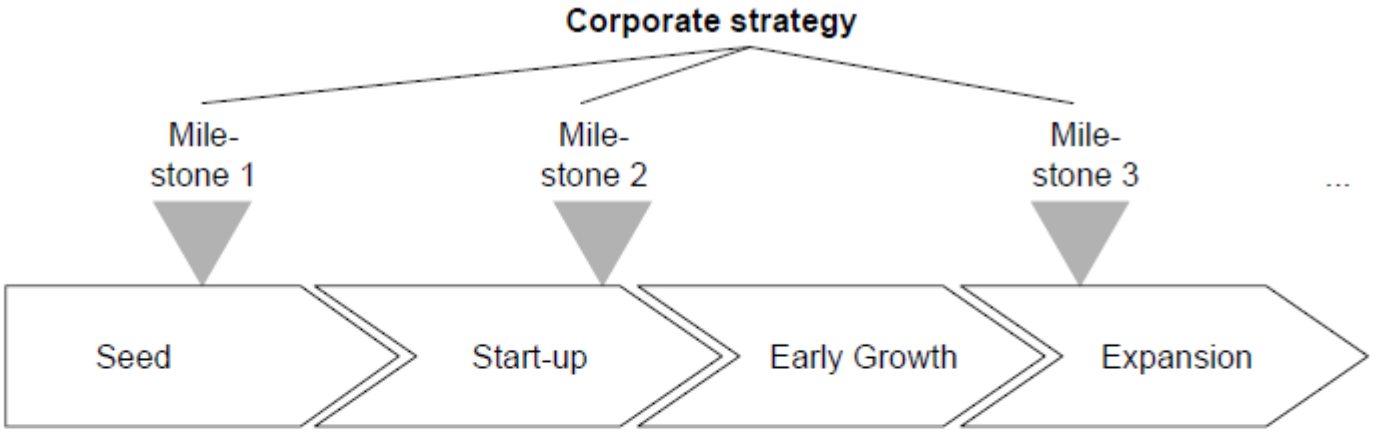
Informal Risk Capital: Family, Friends,...

Formal Risk Capital: Capital Venture Companies

Subsidies

- Transfers in kind
- Transfers in cash
  - Grants
  - Advantageous Loans
  - Debt and Guarantees
- Combination

An idealised view of financing



Additional support	Support in setting up the company	Investor who helps to place the first product on the market	Supporting growth by providing access to the customer base of other companies	Support in expanding to new product groups outside the core business
Potential partners	Business angel Incubator	Investor (VC)	Strategic partner	Strategic partner Investment bank
Financing	Seed financing	1st financing round	2nd financing round	IPO

Source: Brettel

Stages of Business Development Funding

Early Stage Financing	
- Seed capital	Small amounts to prove concepts and finance feasibility studies
- Start-up	Product development and initial marketing, funding to get operation started
Expansion/ Development Financing	
- Second Stage	Working capital for initial growth phase, but no profitability or cash flow yet
- Third Stage	Expansion with sales growth, for at break-even or beyond, e.g. VC
- Fourth Stage	Bridge financing to prepare firm for public offering
Acquisition and Leveraged Buyout Financing	
- Traditional acquisitions	Ownership and control by another company
- Leveraged buyouts (LBOs)	Acquiring company control by buying out the present owners
- Going private	Some of the mangers/owners is buying all the outstanding stock

Source: Hisrich et al.

The Organisational Plan

Management and Organisation

Management = a process including planning, budgeting, organizing, staffing and controlling, which are necessary for running a company.

- Organisational Structure (Chart)
- Planning, Measuring and Evaluating
- Payment
- Selection Criteria
- Training

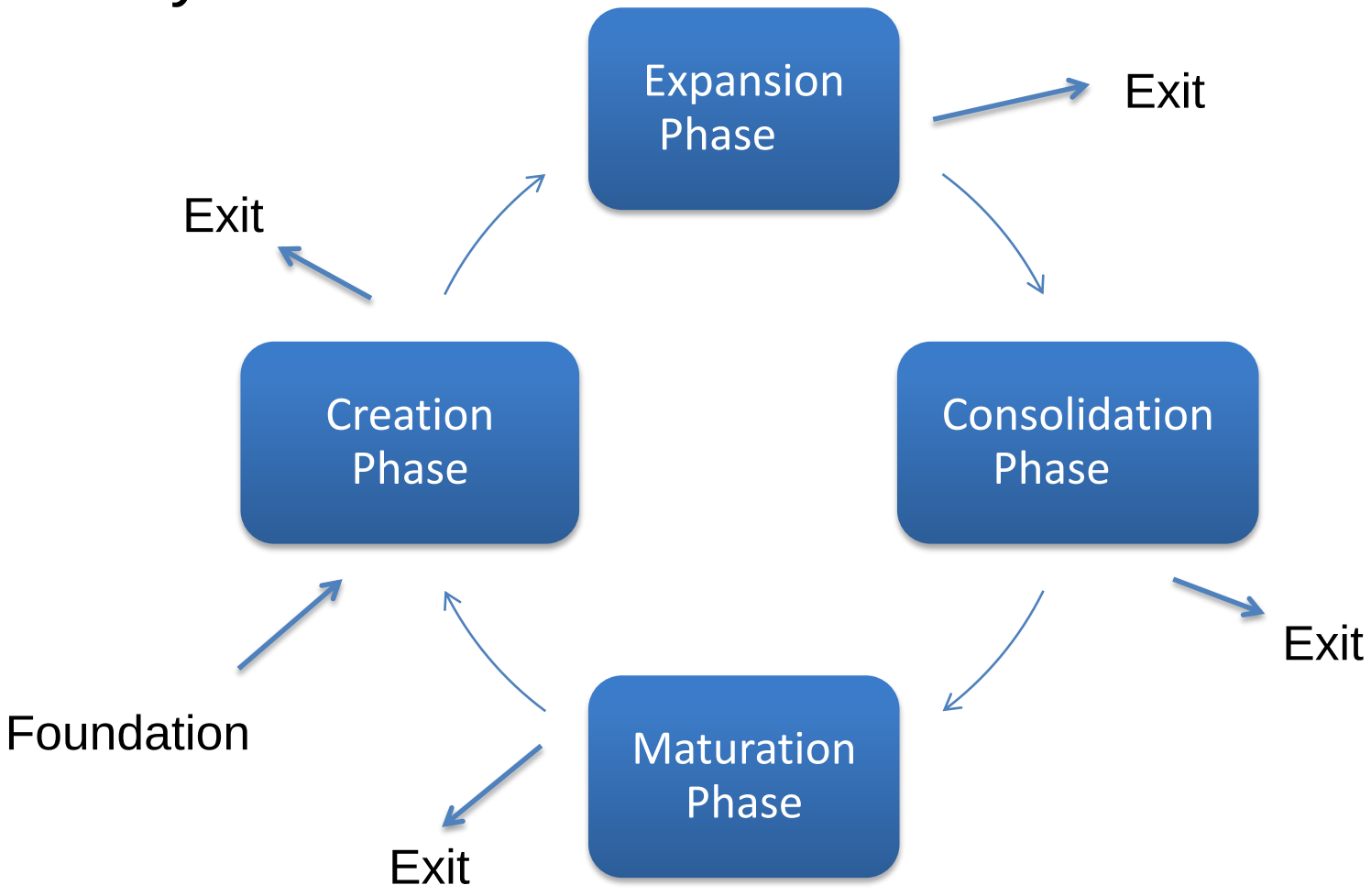
The Management Plan

- Team
- Tasks
- Staff
- Fees
- Accounting and Controlling

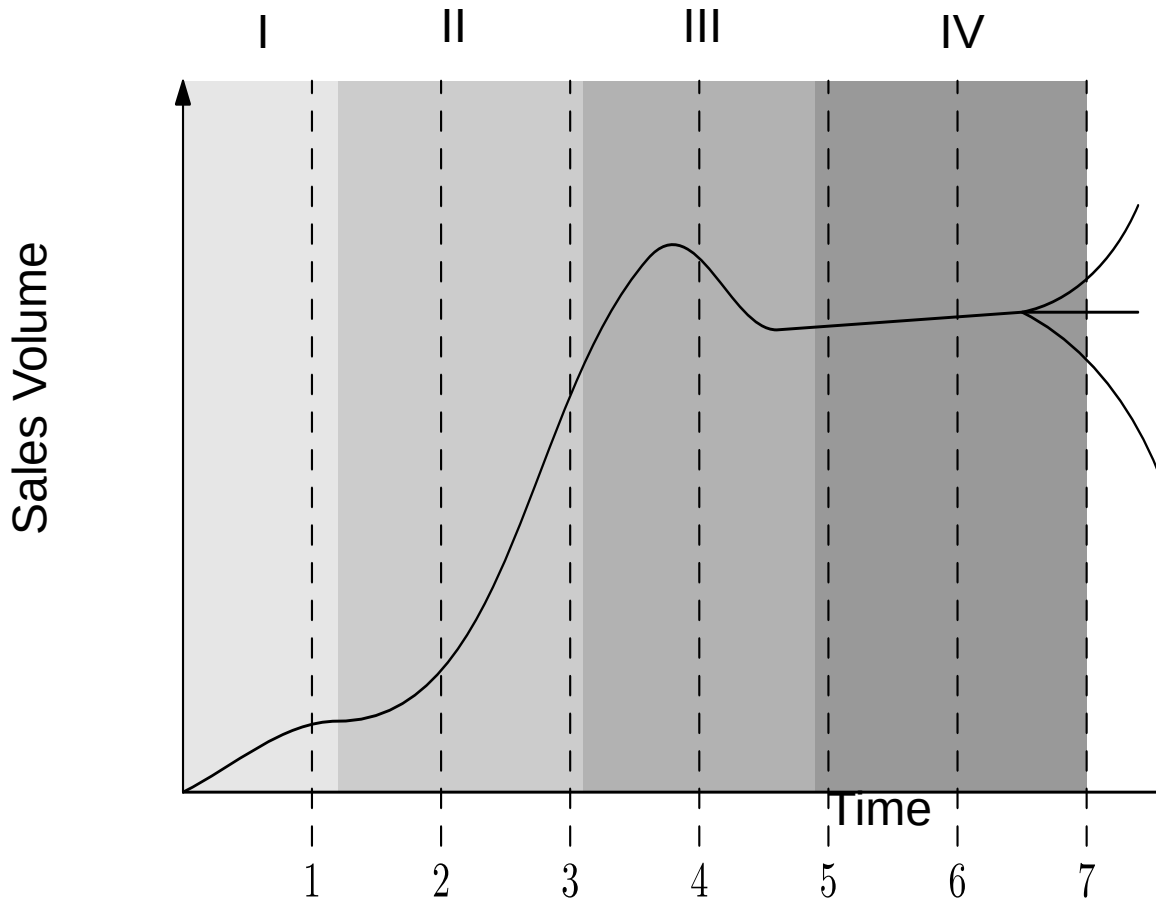
Legal forms of Businesses

See Unit „Coporate law“

Life Cycle


Expansion Phase
Exit
Consolidation Phase
Exit
Maturation Phase
Exit
Creation Phase
Exit
Foundation

Development: Sales Volume



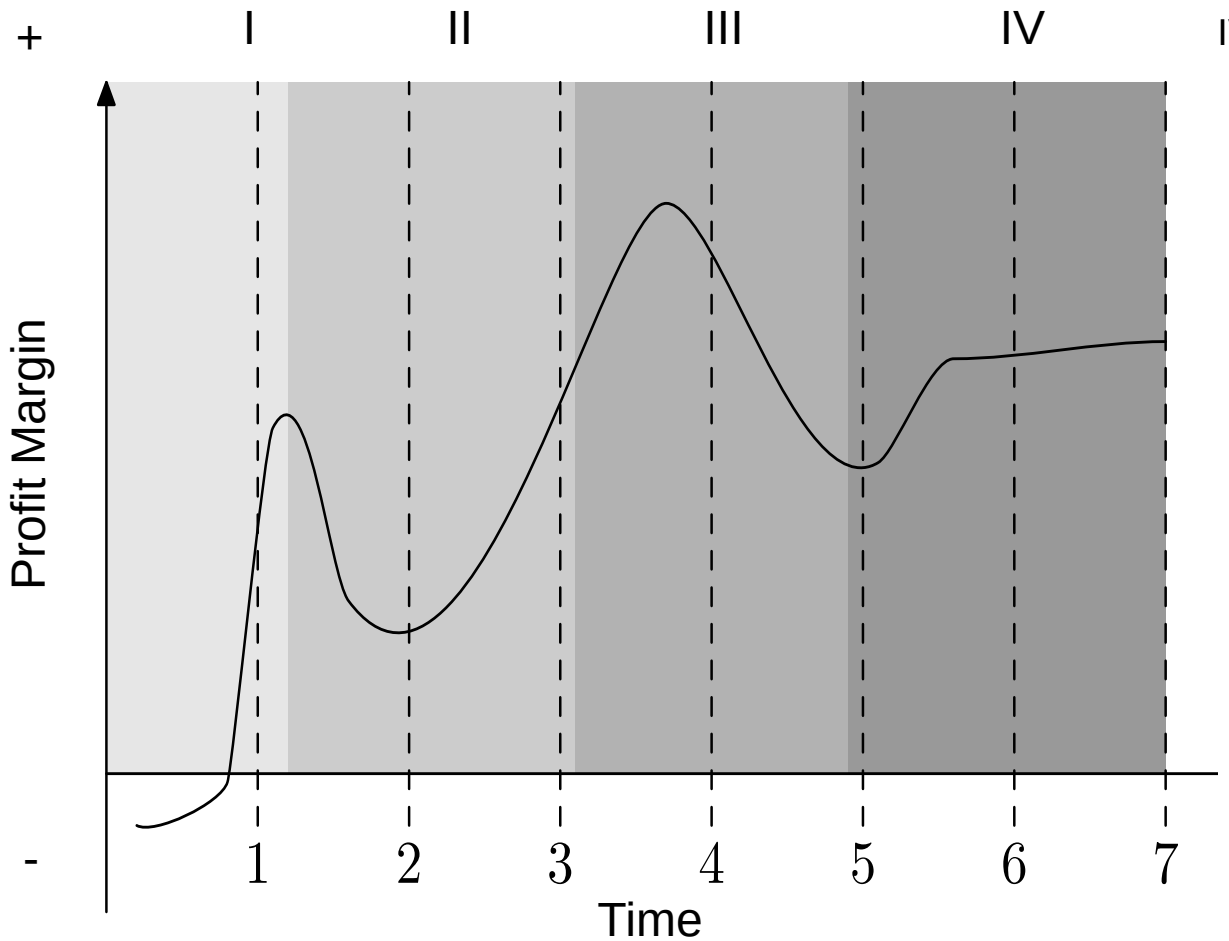
I	Creation
II	Expansion
III	Consolidation
IV	Maturation

New cycle with new product

Stagnation with old product

End of the product life cycle and no new product

Development: Profit Margin



I	Creation
II	Expansion
III	Consolidation
IV	Maturation

Internal Barriers for Growth

- Disadvantageous Procurement Conditions
- Low Equity-Ratio
- Acquisition of qualified staff
- Lacking knowledge in terms of financial instruments and financial opportunities
- High Work-Load
- Price Calculation and Pricing

External Barriers for Growth

- Late Payment
- Minor Demand
- Labor costs
- Safety requirements from capital providers
- Taxes and Dues
- Doubt regarding the performance of the founders
- Competition (established companies)