GUIDE TO BUSINESS PLAN WRITING

Gate 2 Growth

Guide to Business Plan Writing

1. Introduction

It is often said that 'a good business idea will always find a backer', also in bad times. Perhaps we should go a step further: a good business idea, well articulated, will (most of the time) find a backer. Having a good business idea is one thing, being able to articulate it is another thing. Needless to say that countless books and articles in the business press discuss the topic of business plan writing in depth.

The development of a sound business plan is of crucial importance to both entrepreneurs and investors. Investors demand a comprehensive business plan in order to be able to select worthwhile projects. In order to convince investors of their 'winning' business idea, entrepreneurs will have to put ample time and energy into the preparation of a business plan. Developing such a plan does not only help the entrepreneur to raise finance, but it also provides a benchmark to monitor the progress of his business idea. In this way, a business plan helps him to structure his thoughts in a focused way. This should be very clear from the outset of this article: *A business plan is not just something the entrepreneur needs in order to raise funds. It will also help him clarify his strategic thinking at an early stage and provides a road map for the future of the business.*

The main question to be tackled in this text relates to the content of the business plan: what should and what shouldn't be in it. The business plan is not a document full of glowing references to a prosperous, but ill-defined future. Research on the content of business plans has revealed that most business plans waste too much energy and paper on numbers and devote too little to the information that really matters to intelligent investors. Entrepreneurs should know that these investors see through beefed up financial projections for a new venture and often anticipate inflated sales/profit figures. Therefore, the business plan must present realistic sales and profit/loss forecasts that are *fact-based*. Given the turbulence and unpredictability of markets, this is not an easy exercise; but it should be noted that investors value month-by-month (or quarterly), financial projections covering a year or more.

The business plan must be an honest appraisal of both the strengths and weaknesses of the proposed venture and the business model behind it. In essence, by articulating the business model of the venture, the entrepreneur tries to answer (or better: must answer) three strategic questions[1]: (1) Did I define my goals well? (2) Do I have the right strategy? (3) Can I execute my strategy? Addressing these three questions means that the entrepreneur is focused on the key drivers of the venture's success or failure. Therefore, the business plan should explain or detail the revenue model, the operating costs and the required capital expenditure of the new venture.

Explaining and articulating the business logic behind the new venture is one important part of the business plan. Further, venture capitalists pay particular attention to the experience, competence and commitment of the management team of the new venture. The business logic might be impeccable, but business success will eventually thrive on the ability of the management team in place. Particularly in

[1] See for instance the thoughts of Amar Bhide on this topic (1999). Bhide, A. (1999, 1st edition 1985), How to Write a Great Business Plan, *Harvard Business Review on Entrepreneurship*, Harvard Business School Press, pp.1-28.

industries dealing with new technologies and where innovation is crucial, the venture capitalist will look for the right combination of expertise in the management team. It should be clear that the business plan will not turn a good business idea in a good business; day-to-day management will do this when the venture is up and running. From the elements listed above, it is clear that the business plan performs a number of functions, such as:

- *Planning and learning function* for entrepreneurs
- *Stimulating function* for investors and *signaling function* for potential investors
- *Information function* as the basis of the due diligence process
- *Documentation function* for legal purposes
- *Controlling function* as a means for monitoring the new venture after funding

The purpose of this article is to provide entrepreneurs with concise practical information on how to prepare a business plan. Throughout the text we try to focus on the main objectives of the business plan: articulating in a clear way to investors the business model behind the venture and the capability of the management team to execute and implement the business model. This article proceeds in the following way. In the next section, we introduce the outline of a typical business plan and deal specifically with the content of the business plan. The main question tackled here refers to the topics/elements that should be described by the entrepreneur. Next, we focus on the business model behind the business idea. Often, the business plan covers all relevant elements (market and competition, product and services, management team, business system, …) but fail to convince investors because the business model is not consistent or is not presented in a consistent way.

2. The outline of a business plan

The content of a business plan is dependent on the kind of venture to be started; industry matters (i.e. internet versus biotechnology), as the level of development of the new venture (i.e. start-up versus launching a spin-off or entering a new market segment). Despite the different emphasis that such differences place on the business plan, there are a number of common factors. Most business plan guides enumerate and list the same factors that should be outlined in a business plan[2]: description of the company, executive summary, products & services offered, the key people, the context, the risk and rewards, the market & competition, sales/profit forecasts, marketing & sales, the organization, company background, company structure, financial data, manufacturing operations, etc. In the next paragraph we introduce a possible outline that integrates most of the above-mentioned elements.

2.1 A typical outline

There is not one way to outline the business plan. The exact structure of it will vary according to the specific contingencies of each venture. A typical outline includes the following elements:

1. Executive summary
2. Description of the company
    - current status
    - objectives in the short/long run
    - the current management team, the managerial objectives
    - current shareholders and directors
    - current activities
3. Products and services
    - current product/services offered
    - description of new product/service
    - user/customer benefits – customer value
    - unique selling propositions
    - development status of product/service
    - IPR status - patents and proprietary know-how
4. Market and competition
    - market characteristics
    - market size and market growth
    - features of the target market segments
    - short term market developments
    - long term market developments
    - competition
    - positioning vis-à-vis the competition
5. Marketing strategy
    - current marketing and sales strategy
    - overview of marketing instruments to be used
    - strategic pricing issues
    - distribution channels to be used

[2] It goes without saying that the business plan should be impeccable in its format: a good business plan excels with its clarity in all aspects. This is particularly true for the formal aspects of a business plan: each business plan submitted to third parties should include among others, name of the business concept, name of the persons submitting, confidentiality clauses, illustrations/exhibits where necessary.

  - partnership issues (marketing/sales related)
  - sales methods to be used
  - marketing plan, including sales forecasts
6. Business system
  - current organization
  - management team and expertise needed
  - description of the main assets and (production) resources
  - purchasing and outsourcing issues
  - partnership issues (sourcing related)
  - implementation schedule and roll-out plan of the operations
  - staffing requirements
7. Assumptions and risks
  - description of the key assumptions of the business plan
  - description of the key risks
  - description of the opportunities of the venture
8. Financial plan
  - financial history (if any)
  - financial projections
  - break-even calculations
  - cash flow calculations
  - pro-forma balance sheet
  - pro-forma profit and loss statement
  - financing (expansion) required

What we will do in the remainder of this article is not merely filling out the different headings of the outline. When we look closer at the above outline, we see that points 2 through 7 (and part of point 8) must provide information on the *business model* of the new venture. In section 3 (The business model) we deal with those points in depth. Here we highlight the other elements in the outline of the business plan, namely the *executive summary* and the *financial plan*.

2.2 Executive summary

One should consider the executive summary as the business plan *in miniature*. The purpose of the summary is to catch the interest of the investors and to make them read on. It should provide a comprehensive overview of the entire business opportunity on two to three pages. This implies that the executive summary, although it comes first in the business plan, should be finalized *at the very final draft stage* of the preparation of the business plan. The entrepreneur should take into account that the executive summary must enable the readers to grasp the business logic and organization behind the new venture. It should also indicate some key financials, the amount of external finance needed and the exit opportunities for investors. It might prove useful to give the summary to technical and market laymen in order to test the readability.

A well-written executive summary draws its content from the other elements of the business plan. Investors pay a lot attention to the executive summary, and so should entrepreneurs. If the entrepreneur cannot clearly explain the business idea and business model in 2-3 pages, it is unlikely that the investor will look at the business plan any further.

The following questions must be answered in this section:

- *What is the business activity? What is the business opportunity? What is unique about it?*
- *Who are the target customers and what is the value for them? If applicable, include a description of existing customers.*
- *What is the market volume and what are the growth rates?*
- *What is the essence of the marketing strategy (for instance, partnership, own distribution channels, patents, licenses)?*
- *What competitive environment does the entrepreneur face?*
- *What are the sales, cost, and profit forecasts?*
- *What is the cash commitment needed for the first year?*
- *How much external finance is needed?*
- *What are the exit possibilities for potential investors?*
- *What long-term goals are set?*
- *Who are the members of the management team (skills, expertise)?*
- *What are the core assumptions of the business model?*

2.3 Financial Plan

As indicated in section 2 (outline of the business plan), the financial plan and financial planning in general bring together a number of documents and elements that enables the entrepreneur (and potential investors) to gauge the overall profitability and liquidity of the planned business venture. Depending on the status of the company (history, current activities, industry, ...), the financial plan will vary in content and the level of details provided. However, there are some minimum requirements for each new business venture:

- cash flow calculations on a monthly/quarterly basis covering at least two years
- (pro-forma) profit/loss statement for the first years
- (pro-forma) balance sheet for the first years

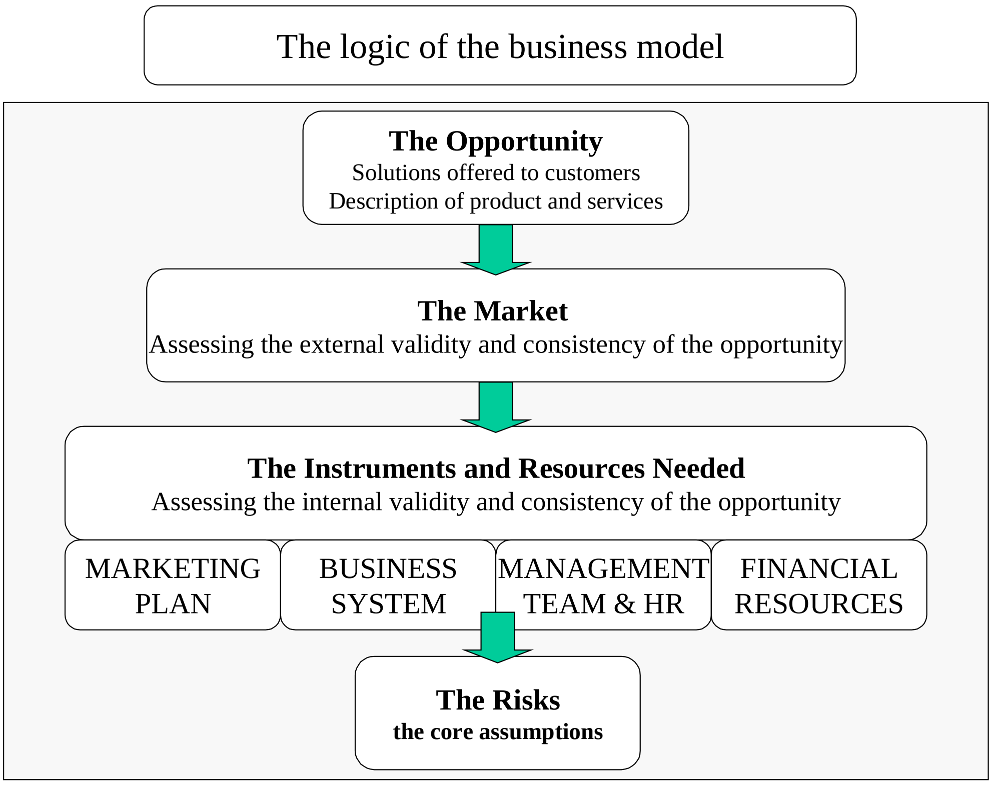
Cash flow calculations are essential for the liquidity/cash planning of the new venture. This is crucial as insolvency will lead to bankruptcy. Cash flow calculations are made on the basis of the sales forecasts, operating costs and cash expenditures related to planned investments. Cash flow calculations are only concerned with transactions which cause a change in the cash position of the new venture.[3] Monthly/quarterly cash flow projections enables the entrepreneur to determine the amount and the timing of finance needed. Venture capitalist value projected profit/loss statements and balance sheets. They show whether the business operations are profitable and how the assets are expected to grow over the years. Decisions on the financial package for the new venture are partly based on this information.

[3] For calculations of cash flows and for financial statements in general we refer to specialized literature.

3. The business model

An often overlooked pitfall in business plan writing, is that the entrepreneur starts filling out the different points of the business plan outline (see section 2) thereby not stressing the interdependencies among the various elements. What is needed, is clarity and consistency in the presentation of the business logic of the business model. The latter refers to the revenue drivers and the cost drivers (including the required capital investments) of the venture. Eventually, the profitability and the viability of the new venture/idea, is dependent on the sustainability of the business model. A way to present the business model is given in Figure 1.

Figure 1: The business model of the business plan



Rather than just filling out different sections (product & services, organization, management team, …), Figure 1 imposes a certain order on the different elements of the business plan. It demonstrates the logic of the business model behind the entrepreneurial concept. As can be seen in Figure 1, the business model starts with describing *The Opportunity*. This refers to the solutions (in the form of product & services) the entrepreneur is offering to the customer. Venture capitalists will only invest in a venture when the future customer value is clear and real.

However, having a clear focus on customer value is not enough; the venture should also demonstrate viability and profitability. Often, the latter is checked against a number of benchmarks. For instance: (1) Is the market the venture targets large enough (or has it growth potential)? and/or (2) Is the degree of innovation of the solution offered to the customer acceptable? Therefore the next step is to assess the external validity and consistency of the opportunity (see section *The Market* in Figure 1). The profitability and viability of the business idea is also dependent on the resources needed to carry out the business model. Hence, section '*The Instruments and Resources Needed*' assesses the internal validity and consistency of the opportunity. In the introduction, we stressed the importance of profit/loss and financial calculations: a business plan should include robust and realistic estimates of anticipated profit and expenses. As will be discussed in this section, a clear implementation plan and schedule is an excellent tool to translate thoughts into action and to estimate a number of key financial figures. The description of the business model should end with a re-appraisal of the risks of the new venture (see Figure 1: *The risks: the core assumptions*). As the future is unpredictable and the business plan deals with the future, it is obvious that mistakes, wrong assessments and flawed forecasts will be made. The strength of the business model reflects the strength and the robustness of the assumptions on which the business plan is based. This again highlights the fact that the entrepreneur must demonstrate that he grasps the business logic behind his venture.

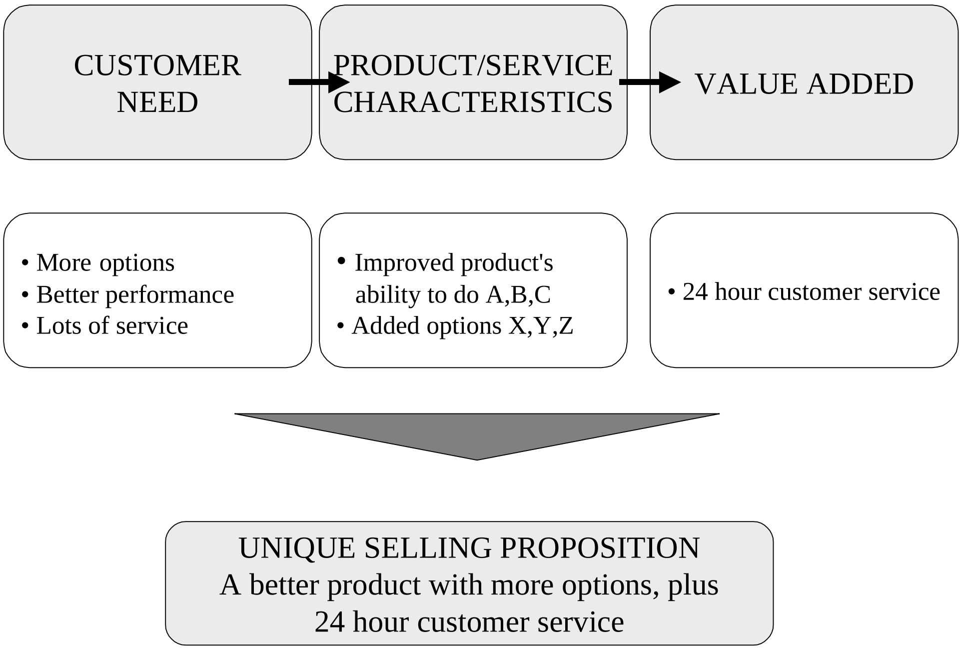
3.1 The Opportunity

The major task of this section is explaining the business idea and thus the solution the entrepreneur wants to bring to the market (in the form of product/services). It is important to describe in a very clear way *the value* that will be created for the target customers; this is the primary reason that they will buy the new product/services. If the new venture consists of several products/services, the entrepreneur should describe all types of customers he is targeting with the matching solution offered (product/service). Different possibilities exist. The target customers can be spread throughout the different segments of the market:

1. The business idea can target a single segment with a single product. In other words, it targets a single product offering at a single segment in a market with many segments (e.g. a financial module for e-commerce platforms)
2. Targeting a single product at all segments of the entire market is another possibility. (e.g. database platform or operating system)
3. Finally, there is a multi-segment approach. A variety of different segments is targeted with a series of differentiated products. (e.g. Windows CE for mobile devices, Windows 98 for home users, Windows 2000 Professional for offices, Windows 2000 Advanced Server for internet and e-commerce solutions).

The functionalities of the products/services should be related or linked to the value they bring to customers. Often, new products/services solve problems customer face in a new way. They offer a clear benefit to the customer. The *customer benefit* of the product/service should be explained in every detail: what is new or improved compared to alternative ones (e.g. cheaper, more flexible, more reliable etc.). The business plan should also focus on what makes the new business idea unique (what is the *unique selling proposition*?). This means that the entrepreneur has to show that the new solution offered has some characteristics the customer is willing to pay for (and why). In case the entrepreneur is offering an improved product/service on the market, the logic exhibited in Figure 2 can be used.

Figure 2: unique selling proposition of solution offered



The focus is thus on the customer benefit and not on the technical details. Any extensive technical information and details should be provided separately in appendices. If the products/services are well known or simple, the descriptions should be kept relatively short. In case the business idea consists of a new start-up or a business expansion with new and unknown products/services, a more detailed description should be added.

When discussing the marketing plan/strategy of the business plan (see Figure 1), the entrepreneur should elaborate on the evidence that the potential customers are willing to pay for his products and/or services, at a price that will allow the company to make a profit. Also, information on distribution channels, partnerships, IPR-status should be given at that time.

In case the company already has some history, this section should give a description of the business so far – current customers, completed projects, products/services under development and stage of development, products/services already on the market, etc and of the company background. Further, if products/services are still under development, the entrepreneur should give a description of the latest development status, including estimates of time still needed to complete the development and estimates of when the product/service will be first marketed. Summarize any product test results and product approvals (e.g. licenses, alpha en beta-testing or clinical testing) if relevant and existing. Attention should be devoted to the intellectual property rights-status (IPR) of the products/services.

Articulating the opportunity of the new business venture requires at least answering the following questions:

- *Who are the customers (existing as well as potential customers)?*
- *What are the customers' needs?*
- *What is the customer value that the product/service offers?*
- *What is the unique selling proposition of the product/service offered?*
- *How well and on what basis can key customers be grouped in identifiable market segments?*
- *At what stage of development is the product or service? What is needed for the start of development/manufacturing/marketing?*
- *What needs to be further developed? What milestones have to be reached?*
- *What is the background/history of the company (if applicable)?*

3.2 The Market

The Market section evaluates the identified opportunity vis-à-vis the market and the potential competitors. In this way, it provides the entrepreneur and the investor with the assessment of the external validity and consistency of the business idea (see Figure 1). A logical assessment should include the following elements: market analysis, analysis of competitors (including positioning vis-à-vis these competitors), and an analysis of the broader context. This section demonstrates whether or not the market is big enough for the opportunity in order to be profitable.

3.2.1 Market analysis: size and growth potential of the target market

Building further on the previous section, the entrepreneur provides here in-depth information on its future customers and the market. He demonstrates his understanding of the market and the customers, customers' characteristics and, most importantly, how his venture is positioned in the market. The entrepreneur should keep in mind that the reader is not necessarily a professional in the sector and may not have any prior knowledge in the field. If the matter is too complicated for a non-professional, the entrepreneur should include a glossary of terms in an appendix. Where section 3.1 focused on describing the new products/services offering and the key customers, this section should elaborate on describing the target segments.

We suggest that the entrepreneur starts with a broad description of the sector/segments, including general characteristics (for instance, size, concentration, rate of technological innovation, ...) and history of its evolution. Third party comments, research reports and publications, periodicals or specialized issues may be useful. Detailed information on the size of the market in numerical values, its development so far, as well as its estimated growth in the next several years is very relevant information to venture capitalists.

Venture capitalists will seldom support a brilliant opportunity when there is little room for expansion and growth. Having the perfect solution for a very narrowly defined target group is not enough. As VCs are interested in the upside potential of a venture, their interest is often directly related to the size of the target segments/market and its growth potential. Rough estimates on size and growth figures should be reported.

If the entrepreneur is penetrating an existing market by offering a new or improved product/service, finding information on the size of the market should not be a problem. Specialized publications for the sector, general periodical magazines and newspapers, and existing research publications in the field will provide a lot of information. If the product or service is brand new with no equivalent so far, the same information channels can be used. However, the information from existing studies may not be enough to justify the 'growth thesis' of the new business idea; additional market research may be required to validate the initial and future market potential.

When using external information, it is important to identify the source - company, year, report or publication title, magazine, issue. In case the entrepreneur uses his own projections, always include clear methodological notes on how key figures are being calculated. If the explanation is too long, or involves a lot of industry specific content, enclose it as an appendix. Describing the market size and its growth potential should be done for all customers that will be targeted.

3.2.2 Analysis of competitors – positioning vis-à-vis competitors

After having considered the product/services, the key customers and the market segments that will be targeted, it is necessary to analyze the competitive forces the new venture will face. The business plan must spell out the buying criteria of potential customers, why they buy the new product and not that of the competition. This section should spell out how well the entrepreneur is positioned in the market. The analysis of competition entails at least a detailed look at three types of competitors: industry rivalry, substitutes and new entrants. The first group consists of companies that seek to satisfy the needs of the customers in more or less the same way as the entrepreneur. Substitute refers to the competition of product/services that fulfill the same customer need (e.g. aluminum as a substitute for metal). If intense competition is expected from new entrants, the sustainability of the business model might be questionable. In order to determine the level of competition, the following elements need further consideration:

- The growth rate of the market segment(s)
- The differences in the solutions offered to customers (including, branding, relative performance)
- The differences in the pricing strategy and the relative price position
- The level of switching costs (what are costs customers incur by switching from one supplier to another?)
- The easiness to imitate product/service offerings (what are the efforts new entrants must do to replicate the product/service of the business idea)
- The rate of technological innovation
- The status of the intellectual property rights (are patents taken?)

3.2.3 Analysis of the broader context

Opportunities exist in a broader context. Future changes in this context may render the previous established insights worthless. Each business opportunity must be assessed not only relative to its direct environment (customers, market, competitors, suppliers) but also relative to tendencies in the macro-environment of the new venture. Entrepreneurs should focus here especially on political (and legal), economic, socio-cultural, and technological forces.

Political forces tend to have a huge influence on the regulation of businesses, on the legal environment of operations, as well as on the spending power of customers and other businesses: Will government policy influence laws that regulate or tax the business (e.g. VAT in e-commerce environment)? What is the government's position on ethical aspects of the business (e.g. gene-engineering)? What are the consequences for the business of international trading agreements?

Economic factors relate to interest rates, the level of inflation, general economic climate (and employment level), long-term prospects for the economy gross domestic product per capita, and how this may impact on the business.

Social and cultural influences on business vary from country to country. It is very important that such factors are considered, especially if the entrepreneur is targeting a market outside the home country. Examples for such factors may be: What are attitudes to foreign products and services? Does language impact upon the distribution of products/services onto markets? How much time do consumers have for leisure? What are the roles of men and women within society? Does the population have a strong/weak opinion on ‘green’ issues?

The analysis of technological factors should be looked at with great attention. Changes in the technology might render the envisaged business model obsolete: Does technology allow for products and services to be made more cheaply and to a better standard of quality? Do technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc? What is the impact of new technologies on distribution channels? Does technology offer companies a new way to communicate with consumers e.g. banners, Customer Relationship Management (CRM), etc?

The following questions summarize the essence of the market section of the business plan:

- *What are the size and the growth potential of the targeted segments?*
- *What are the drivers of growth in the market segments?*
- *What types of competitors is the entrepreneur facing? How intense is the competition?*
- *What share of sales does the entrepreneur expect from various product/services and/or market segments?*
- *Do competitors offer similar products/services? Do they offer the same value?*
- *How easy is it for competition to imitate the business model of the new venture?*
- *How will competitors react to the new market launch? How to respond to this reaction?*
- *How to secure access to key resources needed for the business model (specialized knowledge, human capital, …)?*
- *What are forces in the technological, political, economic and socio-cultural environment that have an impact on the conception and execution of the business model?*

3.3 The Instruments and Resources Needed

After the assessment of the external validity and consistency of the opportunity, attention should turn to a description of the resources the entrepreneur needs to bring his business idea into reality (see Part 3 on Figure 1). Assessing the internal validity and consistency of the opportunity entails a detailed look at (1) the marketing plan, (2) the business system, (3) the management team and key people and (4) the financial resources needed.[4]

3.3.1 Marketing plan

The marketing plan elaborates on the logic of the previous parts: we started off with discussing the opportunity, the value created for customers, the market segments targeted and the positioning vis-à-vis the competition. The marketing plan should indicate the sales forecasts and explain how these sales objectives (in every market segment) should be obtained: How to promote the product/services in the different target market segments? Which marketing/sales channels must be established (and why)? What are the partnerships the entrepreneur needs to establish? What promotion activities to undertake? What is the pricing strategy?

The marketing plan should also give clear estimates on revenues and costs associated with different marketing actions. For instance, the entrepreneur should focus on the effectiveness as well as on the cost of setting up his distribution system (retailers, franchising, wholesalers, sales staff, direct mail, call centers, e-commerce and its back office, …). The marketing plan should give attention to the following issues:

[4] It should be clear that an in-depth discussion of these issues is beyond the scope of this module. Each of the separate elements merits and needs much more attention. We only focus on the essence of each part.

- Projected sales volumes (detailed data by market segment)
- Communication and distribution strategy (how to reach the customers?)
- Pricing issues and the estimated profit margin
- Describe the typical process of selling the product/service.
- Customer service issues

3.3.2 Business System and the management team

The business system and the management team turn the attention to the backbone of the new venture. Both will be necessary to create the intended customer value.

Business system

The business system details the activities necessary to create value to customers. It maps out how products/services are 'made' and delivered to the customer. The business system or value system does not only list the different functions/activities that must be performed in order to deliver the customer value (such as research & development, production, marketing, service, …), it also details how each of these activities are organized. Following issues should be addressed:

- The formal structure of the organization (organizational chart), including the responsibilities of each department
- Make or buy decisions: in-house development versus outsourcing (including why and how)
- Identification of key processes, procedures and systems throughout the business system
- Strategy for administration and support services (the availability and efficiency of the information technology, the recruitment and development of the appropriate personnel, etc.)
- The business system should also indicate the level of the resource-dependency of the new venture. This analysis is needed (1) to establish the bargaining power of the entrepreneur vis-à-vis suppliers, (2) to qualify potential threats of forward integration stemming from suppliers, and (3) to assess the critical resources (such as human resources) for the venture.

Management Team & Key Personnel

As mentioned in the outset, the management team is one of the most important elements of the new business idea and of the business plan: without the right team, none of the other elements of the business plan really have any value. The importance of the management team (and key personnel) should not be underestimated: VCs not only invest in a business idea, but foremost in people. This section is probably one of the first parts of the business plan (together with the executive summary) that venture capitalists will read. They will verify whether the management team is capable of running the proposed business. All relevant skills, knowledge and experience should be reported: How familiar is the management team with the industry? Who do they know? What do they know? How well are these people known? If the team needs strengthening the entrepreneur should highlight this here, providing details of how the entrepreneur intends to fill the gaps.

This section must also include the following elements:

- experience and abilities, specific responsibilities and detailed CVs (in appendix)
- proposed remuneration of management team
- description of the partnership structure among the owners of the company
- listing of the directors and non-directors of the board/steering committee

- number of shares held, percentage shareholding, any special rights attached to their shareholding, any debt or other assistance being given to the company by a shareholder
- if any of the shareholders are also corporate bodies, the entrepreneur also needs to provide a list of their shareholders.
- the details of any other business interests of the management and shareholders.

3.3.3 Financial Resources

The last element in the assessment of the internal validity and consistency of the opportunity (see Figure 1) deals with the financial resources that are necessary to start the new venture. This section brings the numerical elements of all other sections together and advances a simplified financial snapshot of the new venture. After detailing the opportunity, its marketability and positioning and after discussing the means (marketing actions, business system and the management team), it is time to settle the scores and determine what financial resources are needed for this new venture.

In order to be able to make a good estimate of the necessary financial resources, the entrepreneur should make or draft an implementation plan for the new venture. Such a plan has a number of advantages.

- It forces the entrepreneur to think through the different activities and processes in a linear time sequence. As such it becomes literally 'visible' when for instance key research and development activities start and finish, when the first product/services can be marketed and/or when every activity/business function becomes operational. Consequently, business resources planning (human resources and capacity investment planning) and interdependencies among activities become more 'tangible', visible and actionable.
- It enables the entrepreneur to map and project per time period (for instance, per month/quarter) the sales and costs associated with the execution of the different activities/business functions. Using all the other elements of the business plan (such as sales forecasts, marketing expenditures, distribution costs, capital expenditures in the business system, human resources costs, etc) a detailed overview is established on some key financial figures, such as cash flow, time to break even, … .
- It enables to test the sensitivity of the business model relative to changes in the most important deadlines/milestones, costs and sales forecasts (for instance, the impact of a longer development period of the e-commence platform on cash/external financing can easily be calculated).
- It enables the entrepreneur to determine the level of external financial funding he needs to start off his venture. Hence, it also provides a good starting point to come to a fact-based valuation of the company.
- It enables the entrepreneur to draft pro-forma balance sheets and pro-forma profit/loss statements and to make cash flow calculations for the first year(s) of the venture. Such information is not only valued by potential investors, it will also enable the entrepreneur (and investor) to further monitor the execution of the business plan and the operations in the first year(s) after funding.

The section 'Instruments and Resources needed' addresses the following questions:

- *What is the essence of the marketing plan? How are the offering brought to the customers?*
- *What are the sales targets (per year, monthly)?*
- *What resources does the entrepreneur needs (quantitative and qualitative) to create his products/services?*
- *How is the organization structured to deliver the products/services to the customers?*
- *What business functions make up the organization?*
- *What is made in-house, what is bought from third parties?*
- *What is the capacity foreseen for production and/or service delivery?*
- *How, and at what cost, can the entrepreneur adjust his capacity in the short term (how flexible is the organization)?*
- *Who are the members of the management team and what is their key competence: education, professional experience and present position?*
- *What experience or abilities does the team possess that will be crucial for the success of the business?*
- *What experience or abilities are lacking? How will the gaps be closed?*
- *What is the implementation schedule for the venture?*
- *What is the time to break even?*
- *What are the main cost drivers?*
- *What are the financial resources needed to execute the business plan? This should be based on financial information: such as budget planning, balance sheets, Profit & loss statements & cash flow calculations.*
- *What is the level of the required external financial funding?*

3.4 The Risk: focusing on the core assumptions

The last section of the business model (see Figure 1) should list the most important assumptions on which the business model is built. In an uncertain future with increasing competitive pressures and shifting industry boundaries, an entrepreneur should know what the main 'risks' are in his business idea. The business plan explicitly describes how the new venture wants to position itself, but it should also identify the factors that will drive the success of the new ventures. These factors can be considered as the core assumptions behind the logic of the business model.[5]

Most businesses depend on a number of core assumptions. These can relate to market demand, the supply side of the market, the reaction of the competition, technological breakthroughs, etc. The following examples are illustrative.

- The main assumption of business plan X is that customers will make extensive use of the Internet for information gathering on specific topics.
- The sales and profit figures of business plan Y rely on a high propensity of customers to change their purchasing behavior.
- The main assumption of business plan Z is that customers in different European countries will display the same purchasing behavior.

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[5] Alternatively, the entrepreneur might consider using the SWOT-framework. It then summarizes the information of the business plan under four headings: what are the Strengths and the Weaknesses of the new venture and what are the Opportunities and the Threats to the new business idea.

By making the core assumptions explicit, the entrepreneur demonstrate that he understands the dynamics of the business he is about to set up. It also enables him and the investor to run a scenario-analysis on the data and the business plan. What happens in case the core assumptions prove wrong? Best-case and worst-case scenarios should be drawn up. Discussing the risks of the new venture is important because this has a huge impact on the exit possibilities of the potential investors.

4. Conclusion

A business plan is one method used to pull together crucial information about plans entrepreneurs have to startup a company. In this way, it is also a way to present a business idea to investors. Given the function the business plan plays in the process of finding external funding, a lot of attention should be given to its content and structure.

This text provides a number of guidelines entrepreneurs can use when drafting a business plan. Although the precise content of a business plan is dependent upon many factors - such as industry and the development status of the venture (early stage, expansion, management buyout), we have focused on those elements that are generic to most business plans.

Gate 2 Growth

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