Create a Business Plan

A relevant topic that keeps employees and executives busy in many companies is the Business Plan (BP).

Business plans are set up to

(a) to examine and systematically address a specific implementation of the strategy;

(b) to quantify and fully illuminate a positive gut feeling in connection with a planned project;

(c) to convince one or more investor(s) to invest in an entrepreneurial venture;

d) in connection with an M&A transaction, to present the future prospects of the target company;

e) etc.

Before we approach structure and content in detail, a few thoughts on how to get in the mood. On the Internet and at large companies in the "Finance and Controlling" department you will find a lot of good templates or get them pre-set. But don't forget to bring your **own handwriting** in. Be original and creative. Reading a BP can be fun and appealing.

1 Classification

A BP is essentially the concretization and quantification of a future, expected development of the company. It plays an essential role whether a business plan is drawn up in an existing company that defines the guidelines and priorities of the strategic orientation for the next 3-5 years, or whether a business plan is created in the context of a start-up, growth venture or an M&A transaction.

In the first case, with existing companies, the BP is something of an overall view of the future, in which the object is the company or part of the company and the objective is a focused further development. In the second example, BP is used to encourage investors to provide money for the company. Another key difference is the history: the start-up does not have it and it is therefore much more difficult to validate the BP.

In conclusion, it can be said that although the business plan can be clearly classified in terms of structure, the purpose and the addressees are ultimately decisive for the reading and interpretation of the business plan.

The responsibility to create BP lies in principle with the management, whether they are large or other companies. In the case of corporations, it is often possible to rely on staff functions, such as 'business development', which provide support in terms of instruments, processes, and resources for the development of the BP.

Regarding the team to take care of the BP, it is recommended to organize different competencies for the individual content: market, products and services, technology, marketing, finance, etc.

In times of home office, a BP can be easily developed decentralized, at least in the first one or two rounds. A delegation in subgroups is recommended to address each topic. After the topics have been collected centrally for the first time, it is very efficient **when all meet in person and finalize the BP as much as possible in a day workshop.** My experience with this approach is positive and it is always amazing how much can be created together in a short time.

2 Main addressees and their expectations

There are the **financial investors**. They expect a BP to provide clear statements on the assessment of market potential, the time horizon, and the expected capital requirements as well as the return. In this context, a practical tip: When a BP is created to attract investors, show it, as far as can be estimated, a realistic picture of the required capital requirements. There is no point in using salami tactics to try to keep capital requirements supposedly low to obtain approval. In a year's time, you will be back on the mat to start another round of capital. This does not create a good mood and rather gnaws at the reputation. Also, tie the payments to milestones so that investors do not have to put all the capital into one, but can always pull the plug if clearly defined goals have not been met.

It is also important that financial investors are shown the exit scenario: how and when they will make money from the investment. Classic here are either the sale to third parties or a possible buyback by the founder. IPO, i.e. a going public, after 5 years of foundation, is likely to be something for unshakeable optimists. It is clear: we talk of a future scenario that will take place only in 5 years, if not in 7-10 years' time. Nevertheless, the (shareholders') agreement should write down the terms and mechanisms for the sale as far as it is reasonable. The same applies if it is a buyback by the founder. This can be quite a balancing act in practice because it is often necessary to bridge the gap between the claim of optimizing the returns of investors and the impecuniousness of the founder. Basically, there is only one cure in this case: an equal understanding of what a "fair deal" means.

This leads to a next point, the weighting of work and money. It is not uncommon for founders and inventors to think that their business idea or development is the ne plus ultra and that investors should be grateful if they are offered a stake in the company. The reality, however, says: money governs and usually has a greater weight in terms of stake in the company, at least when it came to professional private equity investors. I am not saying that it is impossible to give more weight to ideas in such negotiations and to get a higher share out of them, but if you are a founder, be prepared for a smaller participation.

Slightly different knitted than financial investors are **strategic investors.** They are occasionally willing to pay a so-called strategic premium, i.e. more, which is attractive from the point of view of the selling or the person seeking capital. Strategic premiums are justified by synergies. If you want to appeal to strategic investors, highlight these synergies. These can be elements such as technologies and patents, market volume and customer access or management resources, etc. Understand why the other needs it. It will be a little more demanding if a combined BP is to emerge from it, taking these synergies into account.

When **banks** approve financing based on a business plan, they want one thing above all else: security. This excludes one possible application: financing a BP from start-ups. If you, as a representative of a start-up or founder, audition at a bank and apply for financing for your project, you are out there faster than in. So, do not try it at all, it is just a waste of time. When banks use a BP as the basis for a financing decision, they usually look at established companies that want to finance their expansion or specific projects.

What makes one nervous are deviations, downwards, of course. Therefore, make sure that your BP is accomplishable and that you do not have to explain major deviations. Nobody likes to hear that, especially if this is to be repeated. Approach it conservatively: it must be feasible. As soon as it becomes clear that targets of a BP are not reachable, communicate it early. Anything else is counterproductive.

In the case of business planning in the context of a development in an existing company or group, **the management and the supervisory board** want to see it. In addition to hopefully meaningful input and feedback to the directors responsible for a BP, these bodies must also ensure, in the sense of corporate governance, that the homework has been done and that a BP has been thoroughly checked before money is approved.

As a result, specific needs and priorities have to be covered here: Primarily, compatibility with the (group) strategy must be demonstrated, then risk analysis is at the top of the list and, once approved, continuous reporting on the course of the project.

Of course, other parties, such as the management of companies, customers or suppliers also play a role in the system, but I do not think they are specific addressees of a BP.

An important note: Before you deliver the BP to the addressee, test it. For start-ups, this can mean first reaching a few investors, waiting for their reactions and questions, and then revising the BP and the presentation. The situation is similar when the business plan is submitted to the top management. Look for some well-meaning mentors and sparring partners who constructively take your BP apart.

Please do not let the knife be turned on you.

3 Elements of a Business Plan

Before we move to the most important elements of a BP, some peculiarities are mentioned, opinions that often circulate and are sometimes inaccurate.

Business plans are read. Rather not. They are skimmed over, at best read in excerpts.

Business plans are fulfilled. Rarely. It is already positive, not to say amazing, if business plans are approximately fulfilled.

Now the conclusion could be that a BP is superfluous if no one reads it and it is not fulfilled. Well, the path is partly the goal: how a BP is developed and implemented is just as crucial.

You create the business plan for yourself. It is to be understood as a map, no more and no less. As far as the readership is concerned, we need to adapt to their idiosyncrasies and behavior and write a BP that summarizes the essential content in a concise and crisp way. A BP must also be presented in a read-friendly manner. This often has a practical, concrete background: if someone gets 10 or more BP per week, they cannot go through all the details, but they must concentrate on the essentials. Today, most BP are represented in PowerPoint, with photos and graphics etc. – far more enjoyment than before.

But this also forces us to be disciplined, because we should focus on the essentials and convey it convincingly.

This raises the question: what are the most important elements of a BP? The answer for me is clear: **the summary at the beginning of a BP (Executive Summary), products and services, the persons responsible (management, founders, etc.) and the numerical part.**

3.1 Management or Executive Summary

On 2 - 3 pages, the project must not only be clear, but winning and exciting. It is a kind of elevator presentation, not spoken, but mediated in writing. If you are not able to convey your project on two pages, 30 will not really help, because the author does not seem to know what is at stake. An investor or a member of a decision-making body should have the opportunity to understand the 'case' after 2 pages.

What is part of a Management Summary? First in 1 -2 sentences the description of what it is about:

- We want to buy company A at a price of yx, because this means an ideal addition for us in geographical as well as product-technical terms.

- The company xy has developed an innovative product. The product is ready, successfully tested, all approvals are obtained, and production is pending. For the market launch, the company now needs 5 million.

- We want to build the Indian market ourselves and shall create a new group company for this purpose. The Business Plan shows the implementation of the strategy over the next 5 years and the capital requirements for it, which is estimated at roughly7 million.

- etc.

Then the benefits, market potential and market should be outlined, preferably by means of facts. Show which distribution channels will be used to bring the product or service to people.

Write something about the management or the people who will be responsible for it, document their experiences and records of success, as well as the specific knowledge why they qualify for this job and project.

Of course, the funding aspect must not be missing. What amount is up for discussion or at stake? In instalments or once? What does the investor receive for this: shares, interest, or both?

As I said, it must grab the reader, the spark must skip and the fire must blaze at the end of page 2 or 3, otherwise the BP will be considered a failure. There is little prospect of a second chance.

3.2 Products, services, and markets

What should be offered? Why does anyone want to purchase the product or service? What distinguishes them? All this must be explained in a clear way.

USP is not a new term and means as much as the special features that lead to why someone could buy the product or service. It is about the peculiarities or new features or technology such as: battery-powered engine instead of a traditional one, blockchain technology and tokenization of assets, vegetarian burgers, etc.

The current magic word today is called scalability and seems to be the measure of things, especially among investors, when it comes to checking the attractiveness and financial viability of a project. There is nothing to object to, but there are many business ideas where scalability is not in the foreground and which are still attractive – and again, you create the BP first for yourself and then for others.

All these aspects of the product and service that need to be developed and brought to a market must be elaborated and clearly presented.

The same applies to the definition of the market and its future potential. Do not underestimate what it means to develop a market. It takes a lot of time to really leave your mark in a market.

3.3 Management

This chapter, another key topic, contains both quantitative and qualitative criteria. For a start-up's BP, it is important to attach CV's and photos. Without photos, I literally cannot imagine who will run the show. Business plans of existing companies should describe who shall participate from the existing employees and management. And point out who will take over their job. Either the Board assumes that the proposed employees will put an extra amount of work into what they are likely to do, or they want to know who is closing the gaps. For externals, whose CV cannot yet be known, since the decision must be made first, outline the profiles that are being searched.

3.4 Quantification

If this is also convincing, the focus is on the number part, where the quantification and condensation take place. This section bluntly discloses the business model in terms of revenue development, return and financing needs.

It is often the chapter in which the most sins are committed. Sometimes the simplest assumptions are not correct, the technical bases are missing, or some numbers have been used a bit hastily.

Take your time and really set number by number. It is understandable that some assumptions can be used with simplifications, e.g. that certain expenses are set as a percentage of turnover, etc.

Explicitly point out these assumptions, because there are **two levels of verification: those of pure numbers and those of assumptions.**

In terms of content, the number part should contain 4 elements:

1. Plan income statements
2. Plan balance sheets or at least the planned changes in net working capital
3. Plan Cash Flow Invoice
4. Financing

Plan income calculation

Start with the plan income statements and here best with the cost of sales method. This raises a first question: what do we start with in the income statement? Proposal: **with the top line, i.e. the turnover or revenue**. Expenditure can also be quantified first, but this approach would have to be justified convincingly.

Turnover or revenue means price x quantity. It is therefore necessary to determine at what prices what quantities are sold. Think carefully about what you are writing down here, because firstly it is different and secondly, usually less than you think. It should look appealing, otherwise you will never get the approval of the Board or the money from an investor, but make sure you can look in their eyes 1 - 2 years later. And another practical piece of advice: Forget revenue reductions in the model, use net prices.

A note concerning the quantification of the market share: it is not very productive to want to determine turnover in this way, at least for new products and services. It does not work, you are constantly behind it, you will see. There is also little use in pre-interviews to test acceptance and willingness to buy. Simply set the target quantities and prices per period and forget about market shares.

Depending on the template, the items for expenses follow. Note that these are not listed in too much detail, which is of no use. If you analyze your business or the associated expenses, Pareto will most probably salute here as well: 20% of the items are likely to account for 80% of the total expenses.

The usual items are wages, materials, depreciation, marketing, R&D, interest perhaps, and the rest are confidently posted under "other expenses". The reader will thank you and the advantage for you is that you can focus on the cost drivers later in the implementation and do not get lost in details.

Assign EBITDA and EBIT separately, even if D/A should not be relevant in your business model.

Calculate down to net profit, that is essential, because we need the net profit to be able to determine the cash flow.

Plan balance sheets

Here, too, approach the major positions that are: customers, stocks, vendors, and any investments in fixed assets. In the case of working capital, the driver is sales. Use standardized requirements for customer and vendor payment periods and inventory reach. The difference from one year to the next then means the increase or decrease of net working capital. In the case of fixed assets, the required machines, buildings, etc. must be quantified. In addition, based on their average maturity, the actual and not the tax-optimized depreciation must be calculated. Take a straight-line depreciation rate. In the function of sales growth, etc., it is then necessary to determine in which interval such assets must be built up and correspondingly a further capital requirement arises. Not to be shown as a balance sheet item are capitalized costs for patents, software development, etc. This is used for balance sheet and earnings cosmetics at the end of the financial year, but has lost nothing in a BP.

It is sufficient if you summarize this in individual items and do not pour them into a balance sheet. Go a step further: Do not show this part in the BP, but only the results as the net investment requirement for current and fixed assets, which is part of the free cash flow projections.

Plan Cash Flow

It is the most important decision-making tool and, at the same time, the simplest in derivation. Based on net profit plus depreciation and amortization, you add the changes in net working capital. This results in cash flow from operating activities. Then add to the investment needs for fixed assets, whereby you have to pay attention to whether the investments are incurred before the revenue generation, so you have to go in advance before the first ruble rolls. As a result, the **free cash flow** is available.

The free cash flow calculation can now be closed with the discounting to assess the present value. Starting from a WACC in our latitudes of around 6-8 percent, a few percent will be added in the function of the specific risk or the controller of your group will give it to you.

Financing

So now the free cash flows have been fixed. The sum of the negative free cash flows means the need for financing.

Your model shows that the financing volume is around xy million. Add something for reserves, with measure. Finally, it is important to keep the balance between a safety cushion and the shares offered or the achievable return. The total amount to be financed is therefore quantified.

If it is a BP that is presented to the Board of a group, the story is over here for you – at least as far as financing is concerned. If the project is approved, the treasurer will have to take care of the fundraising, this is not your issue. If it is a start-up, a first hot phase begins: that of finding investors.

Therefore, think about what you are offering a potential investor for the money. In the BP is recommended to keep this generally in the style of "shares of the company are offered" or "search for preferably mezzanine capital" etc. Leave it open, because you don't know in advance who you're meeting and what this investor is expecting. At the end of the day, you often should be happy to have found someone to invest money at all.

3.5 Other standard elements

Once these four hurdles have been cleared, the other elements of the BP will be looked at with interest, because then it will be about detailed.

These other standard elements include, if reasonable and appropriate, the following factors:

An analysis of the **competition** is important. It is logical that this usually varies depending on the market. That is why it is best to start with the relevant market and the big fishes in the pond. Take the latter apart in detail. For the tedious work, data collection on topics such as strategy, market position, sales channels, product assortment, SWOT, you hire a part-time employee or give the job to a graduate student at a university. The analysis and positioning are then the responsibility of the management, which should be carried out continuously, at least twice a year.

This is already more difficult for new products, because sometimes the dividing line for substitution or supplementation is not clear. And not necessarily a supposed competitor is actually a competitor – he could also be a partner or even a customer.

Marketing and sales are occasionally approached as an esoteric topic, so intangible and unmeasurable is it translated into a BP section. Once you have implemented a marketing campaign, you know how quickly the money is gone and the effect has fizzled out. This is not only relevant for start-ups. In most cases, this is solved in the BP by describing the measures in a relatively flat-rate manner and then using an equally flat amount in the financial part, i.e. the p&l statement. This is not enough, because they are often misjudged: either there is too little money or too many marketing activities are planned.

As far as **processes and therefore core competencies** are concerned, one should think carefully about what can actually be covered by the company and what can be outsourced to third parties, In other terms: one has to decide where the core competencies lie. In the case of existing companies, this question is usually clarified for the parent company, but can become relevant again in terms of further market development by outsourcing certain functions for the future subsidiary or a local JV (joint venture) which are performed by the parent company itself.

In the case of an acquisitions, this question is of central because of the value-added importance: What should be merged? What remains in terms of sites, production capacities, future shared services, etc.?

For start-ups, it is important to determine a key element, which represents the core competencies of the company. Sometimes this is also a development process until the founding team realizes what the core competency is – a process driven by external factors such as a shortage of money, a lack of resources, and risk aversion by investors. It can even be a sign of strength and thus tactics to show the outside world, such as investors, suppliers, and customers, that specific processes and functions in the company are provided by competent and professional partners.

SWOT analysis and risk management are other cornerstones of a BP, no matter what kind of project it is. SW, **S**trengths and **W**eaknesses, address the company's strengths and weaknesses, while OT, **O**pportunities and **T**hreats deal with the opportunities and risks of the environment. Classically, a four-field matrix emerges in which these aspects are dealt with. Here are some practical tips:

- Pay attention to the visualization, i.e. to the design of the four-field matrix. This should be balanced, W and T should not outweigh. Especially in start-ups, the impression often arises of W and T rolling out. It is clear to everyone that this type of enterprise has certain risks and shortcomings that others do not have (lack of resources, lack of awareness, etc.). Therefore, start-up risks should not always be repeated in all lengths.

- List only the Ts that are specific to your project and can have a negative impact on it.

- In the case of W and T, please always list measures to reduce the risk (mitigation).

Information about the company such as foundation, type and amount of capital, domicile, etc. If the company has been in existence for a few years, keep the audited annual reports of the last 3 – 5 years available. The question will come, and it will be professional if you have them ready.

4 Summary

If you have not only read this document out of general interest, but want to structure one or the other project, then I wish you every success, patience and energy.

Whether it is a M&A transaction, a start-up story or the development of new markets or business in a group, they are all exciting, but mostly exhausting and lengthy ventures.

Use common sense, exercise prudence in what you are doing. Be kind to yourself and just do nothing else for the time to come. It will demand a lot from all those involved and responsible, that is for sure.

In terms of content, particular attention should be paid to the executive summary, management, products and services and the number section – these are the cornerstones of every BP. In the number part, do not forget that there are two levels of the check: the actual number part and the assumptions on which the numbers are based on.

In the numerical section, it is a good place to start with the income statement and then determine individual selected balance sheet items and the transfer them into a cash flow statement. The sum of the negative free cash flows shows the financing needs required for the project.