

Business Planning

Agenda

- Introduction
- Contents of a Business Plan
- Conclusions

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Business Plan: a more general definition

The Business Plan is a **formal** document which details the **critical aspects**, the **basic assumptions** and the **economic-financial projections** of a business idea

(Harvard Business School)

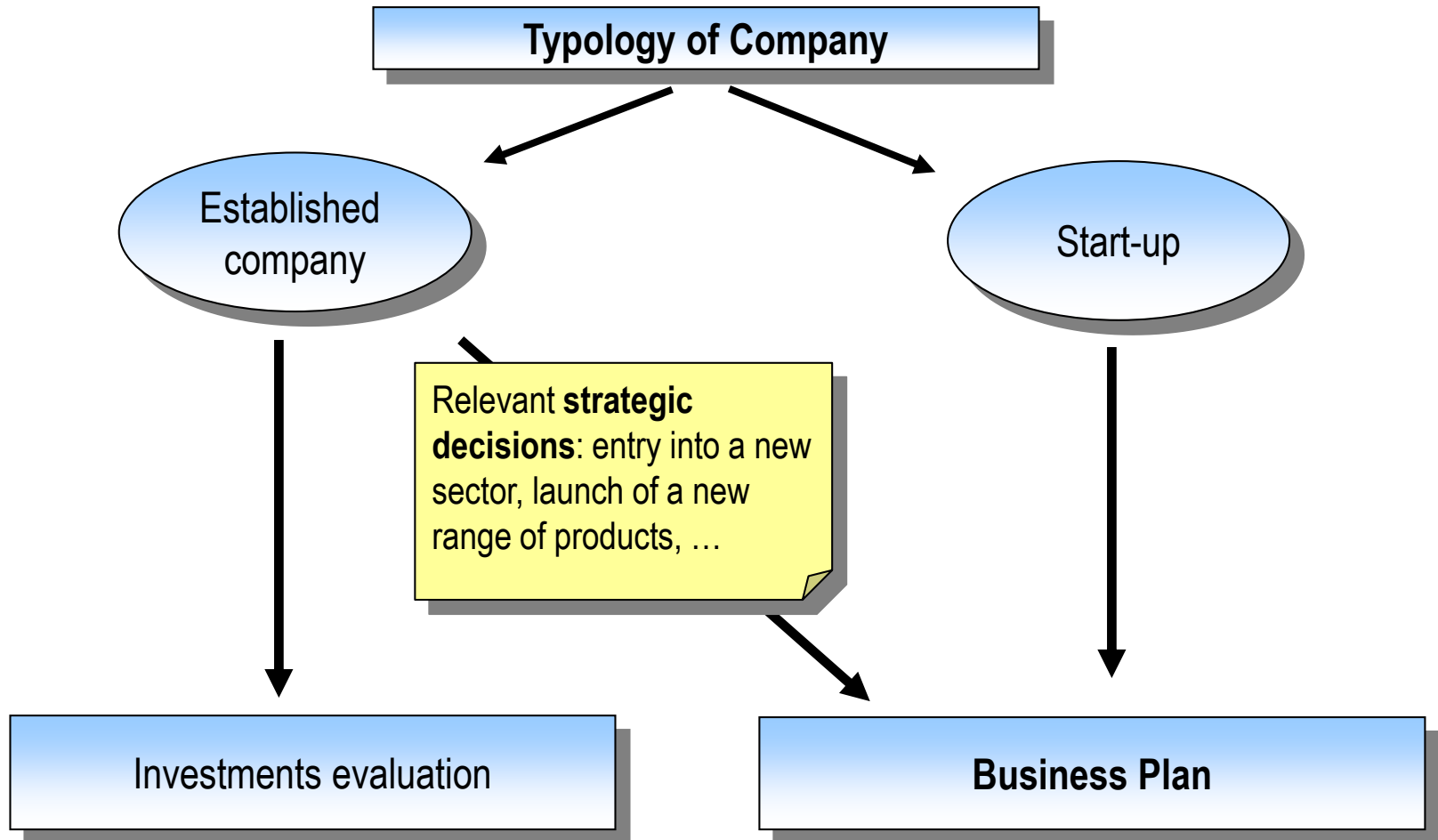
Business Plan: what

- A **written document** that **describes in detail** how a new business is **going** to achieve its goals.
- A business plan will **lay out a written plan** from a **marketing, financial** and **operational** viewpoint.

Business Plan: when

- Business plan is not just to **plan new activities**, but to **control the ongoing business**. It is **not done once for all**, but must be kept updated, to verify how things have gone, and how far from forecast.
- It is a difficult exercise, because it is both a **program of future activities**, and a **forecast of the future** itself, about variables that no one can control (the market, the customer' preferences, future technology developments, etc.)

Business Plan: usage



Business Plan: who (targets)

- Decision makers
- Investors
- Shareholders
- Yourself
- ...

Everyone who is responsible of an organization should create a business plan. The business plan is a tool to understand the present, make hypothesis about the future, plan the activities, coordinate people, and control costs and cash flows. It is a document that must be presented to someone else, and thus should be easily communicable

Business Plan: why (objectives)

Planning

- Evaluate an investment opportunity
- Evaluate feasibility / profitability
- Find resources and funds
- Assess Risks and Opportunities
- Control (incentives, learning)

Communication

- Internal: team, boss
- External: shareholders, stakeholders, investors, etc.

Business Plan: types and sources of data

When you add data, be sure to indicate what is the source of information. Basically, you have three types of data:

1. Your **historical** data → if you have historical data, that's the best!
2. **Market** data → cite the source
3. Your **assumptions** → if you don't have data, motivate assumptions

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Business Plan: chapters

Executive Summary	Synopsis of the whole plan
Introduction	presentation of the entire company
Products & Services	description of value proposition and main features
Strategic Plan	analysis of competition, setting objectives, setting of plan of actions
Marketing Plan	analysis of demand, positioning, marketing mix
Operating Plan	day-by-day plan of activities, process, functions, staff, organization
Financial Plan	economics (sales & costs), cash flows
Risk Analysis	risk assessment



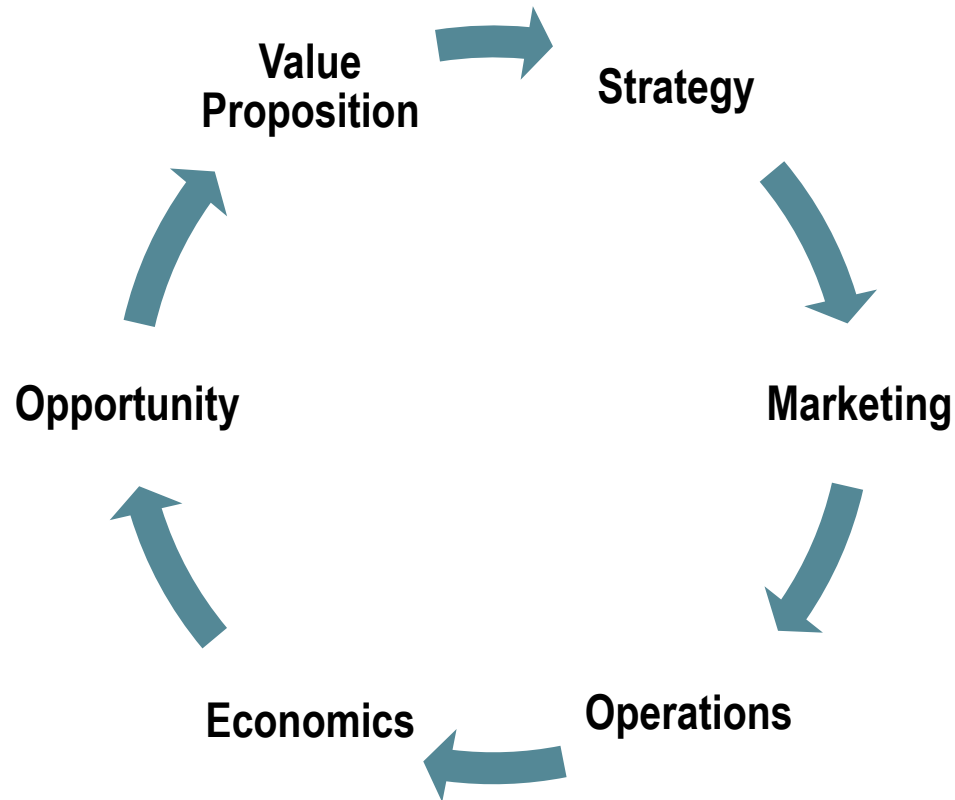
Business Plan: chapters

The process is not linear: iteration!

- Business Planning is not a linear but an iterative process: every section can impact not only following ones but also previous ones.
- e.g.: drawing the financial plan, you can discover that the plan as conceived is not sustainable; this can depend on the product itself, or on strategic plan, marketing, plan, manufacturing and operational plan, etc.

Business Plan: chapters

Iteration in Business Planning



Business Plan: chapters

All the sections are connected

- All the sections are linked together, and the choices done in one have consequences in the others. Each section has an impact on other sections. A choice in strategy impact production, organization, etc. We can imagine that every section has **premises** and **consequences**.
- e.g.: if you establish that your strategy to enter a new market is to offer a niche product, this choice impacts production, positioning, communication, distribution, pricing, etc.

Business Plan: chapters

Corporate objectives and local goals

- In the strategy section, the corporate objectives are introduced and explained. They form the red line keeping together the whole plan.
- On the other hand, every section has a local objective, coherent with the global ones, but answering to specific questions or choices, regarding, for examples decisions about manufacturing, organization, communication, funding, etc.

Business Plan: chapters

A comprehensive vision

- Creating a business plan is complex activity, as it has the objective to offer a comprehensive vision of an entire business, project, or even an entire company.
- The business planner has to collect and organize information from many departments and understand peculiarities and problems at different levels of a business: from strategy to operation, from marketing to organization, from financial projections to risk analysis.
- Business planner should be also able to write down a story, organizing information, and engaging the audience.

Business Plan: chapters

A wide set of managerial tools

- Each section, each area has its own characteristics and the business planner should be aware of the existence and be able to use main managerial tools in the different sections.
- Tools are basically frameworks to organize data and information and make comparison.

Business Plan: Executive summary

... it represents the most critical part of the entire document, on the basis of these few pages investors decide whether to deepen the reading or give up financing

(Harvard Business School)

Business Plan: Executive summary

- The Executive Summary is a synopsis of the whole business plan: it contains fundamental information discussed deeper in each section.
- It's a way to give in few pages (2-3 maximum) an overview of the venture. Interested readers will go deeper reading following sections.
- At the same time, it has to present honestly the business.

Business Plan: Executive summary

Information to include

- Objective (Business Idea)
- Management Team (key people to make the business to succeed)
- Products or services (why are they special?)
- Business Model
- Market (what's your niche? What are your unique factors?)
- Assets, strengths, competitive advantages, and competences
- Strategy to succeed
- Key Activities, Key Partners, Key Technologies
- Key Financial Data
- Funding required and their use

Business Plan: Executive summary

“Age of creation” of some of the most successful start-ups.

Company	Name of founder	Age of founder	Year
COCA-COLA	John Pemberton e Asa Griggs Candler	55 e 35	1886
HILTON	C. Hilton	32	1919
VOLVO	A. Gabrielson e G. Larson	34 e 37	1925
IKEA	I. Kamprad	17	1943
ADIDAS	Adolf Dassler	20	1949
PIZZA HUT	Dan e Frank Carney	27 e 20	1958
LONELY PLANET	M. E T. Wheeler	22 e 26	1972
BILLABONG	Gordon Merchant	28	1973
APPLE	S. Jobs e S. Wozniak	21 e 26	1976
BLACKBERRY	M. Lazaridis e D. Fregin	23	1984
EBAY	P. Omidyar	28	1995
GOOGLE	S. Brin e L. Page	24 e 25	1998

Business Plan: Introduction



Business Plan: Introduction

- The introduction enables the reader to learn fundamental information about the type of company and its ownership, the level of advancement of the project, including past results, the areas of business and main competitors.
- For a startup, in the brief introduction, you should give information about the product, the market, and the team.

Business Plan: Introduction

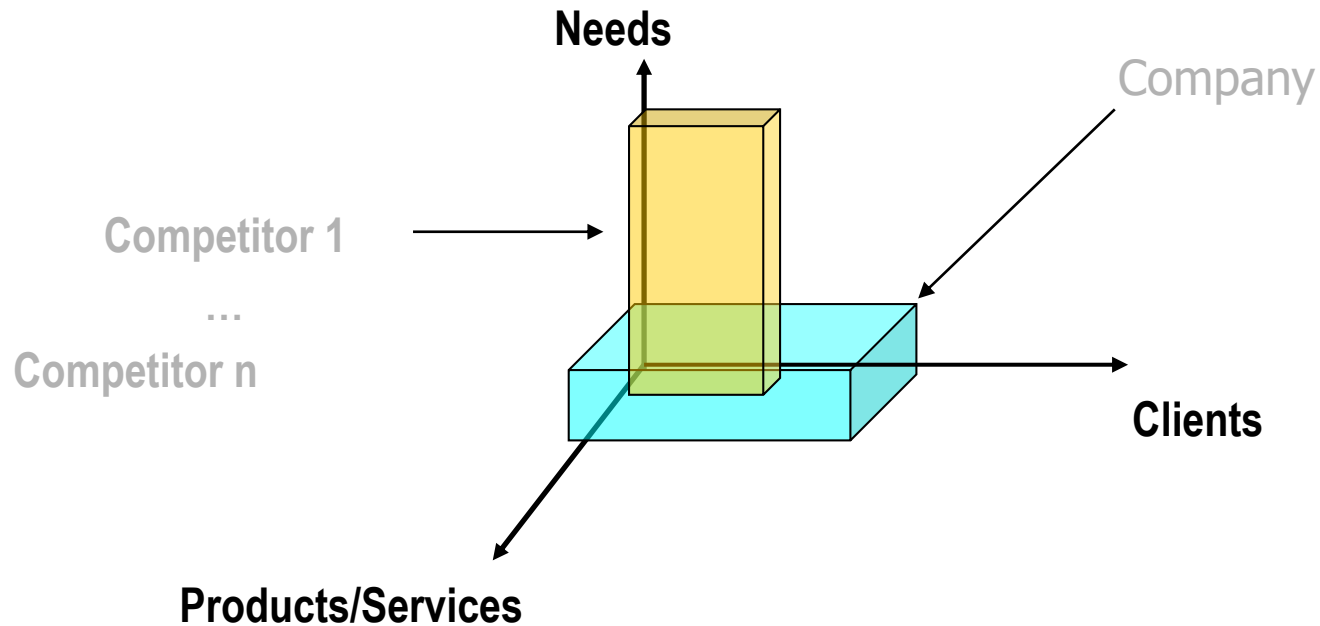
Information to include

- Ownership and fiscal data
- Governance
- Results of the previous periods (year, semester, etc.)
- Products and markets
- Organizations, skills, and resources

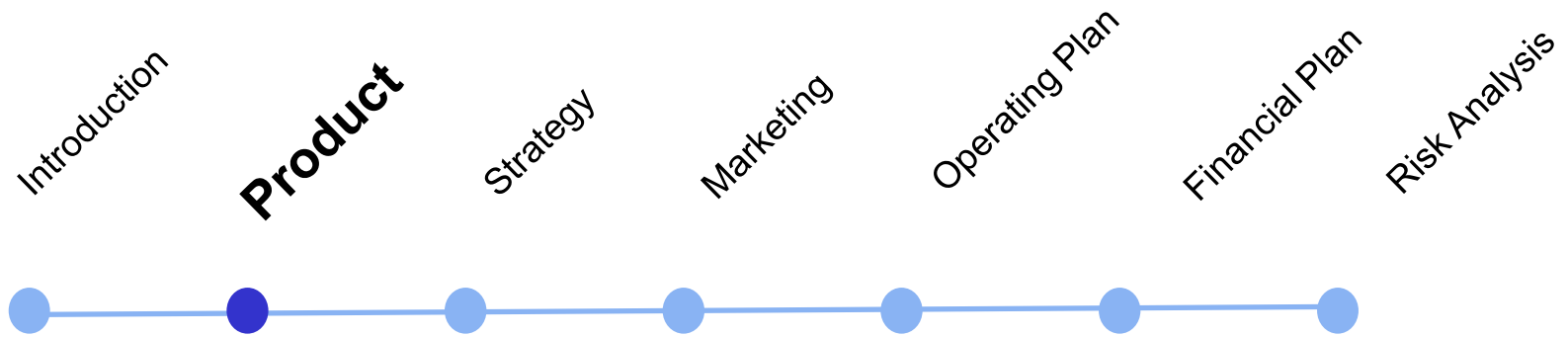
This is the presentation of the company. After reading it, the reader should have a clearer idea of what expect in the following sections.

Business Plan: Introduction

Strategic Positioning of the company: *Abell Model*



Business Plan: Products and services



Business Plan: Products and services

In this section, the reader is introduced to the products and/or services offered by the company. The description not only from a physical or technical point of view, but in term of the value for the client.

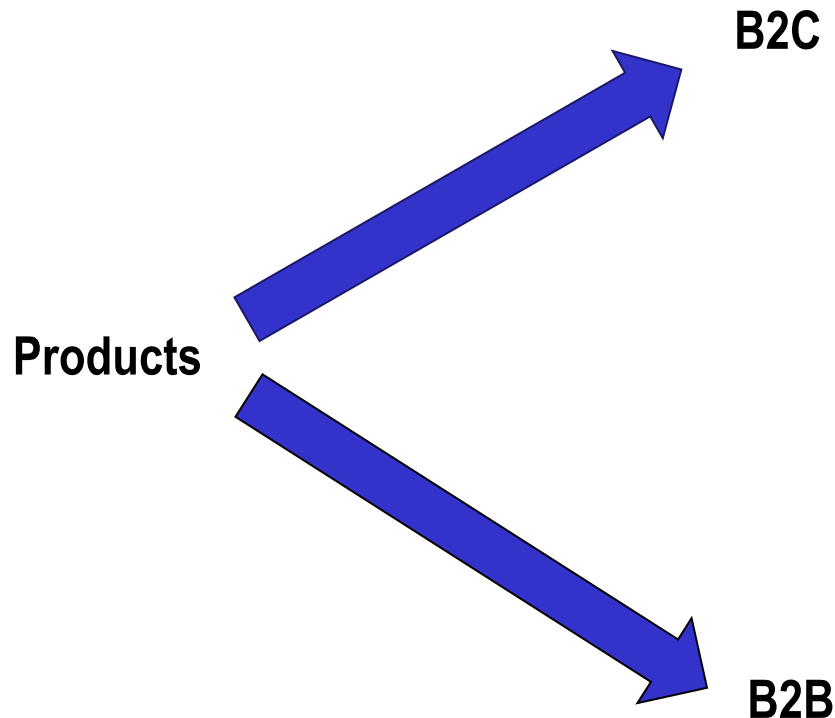
- Value for Client (advantages for clients in adopting the solution)
- Physical / Technical Description (Features, Values for clients)
- Behavior (Usage, Disposal of products) / Customer Experience (Customer Journey Maps)
- ...

Business Plan: Products and services

- ...
- Product Positioning Map & Differentiation
 - Cost
 - Quality
 - Features
 - Values
 - Service
 - Image
- Level of Innovation & Product lifecycle stage

Business Plan: Products and services

Typology of products



- Products for which the consumer makes extensive use of (food products, personal and household hygiene products, etc.) and to which the purchase does not require much time. They are highly standardized products and low unit prices (strong competition in the sector with relatively low profit margins)
- Goods and services sold to industrial and commercial companies or other organizations, which in turn use them to produce goods or services or to resell them. The difference between consumer goods and industrial goods is based on the characteristics of the buyer.

Business Plan: Products and services

Product features

- Form, appearance
- Functions
- Customization
- Performance quality
- Conformance quality
- Durability
- Reliability
- Maintenance
- Style
- Design (aesthetic, ergonomics)

Business Plan: Products and services

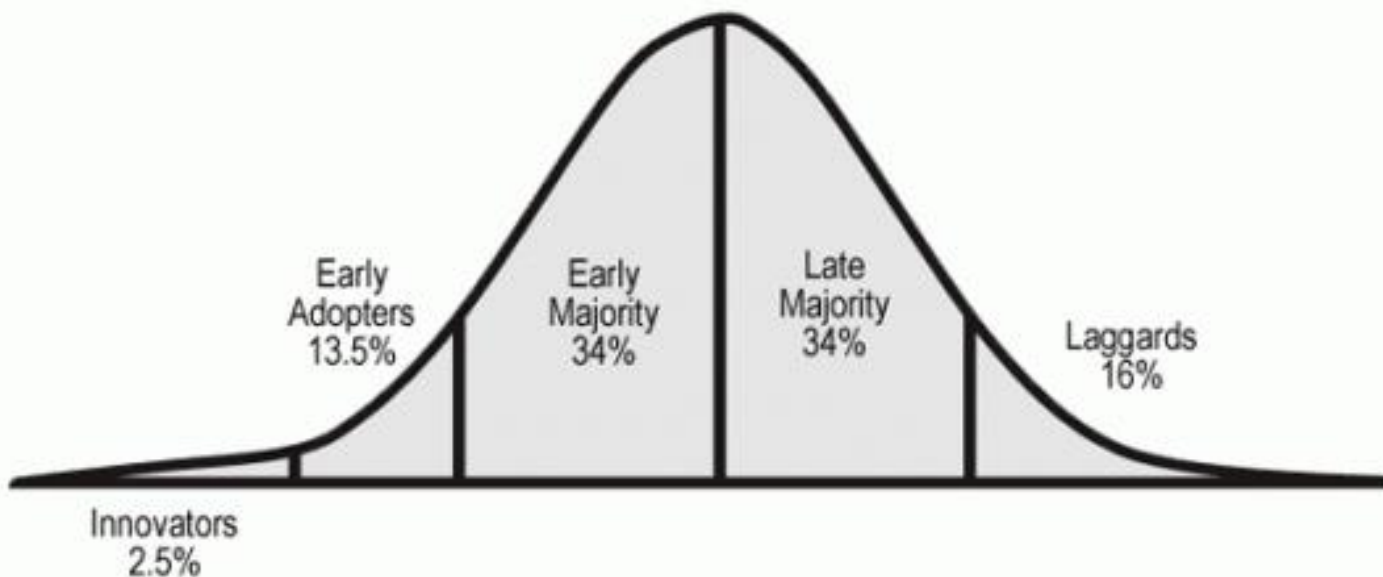
Service features

- Ordering ease
- Financing
- Delivery
- Installation
- Training services
- Consulting services
- Maintenance and repair services
- Return policy and ease

Business Plan: Products and services

Level of innovation

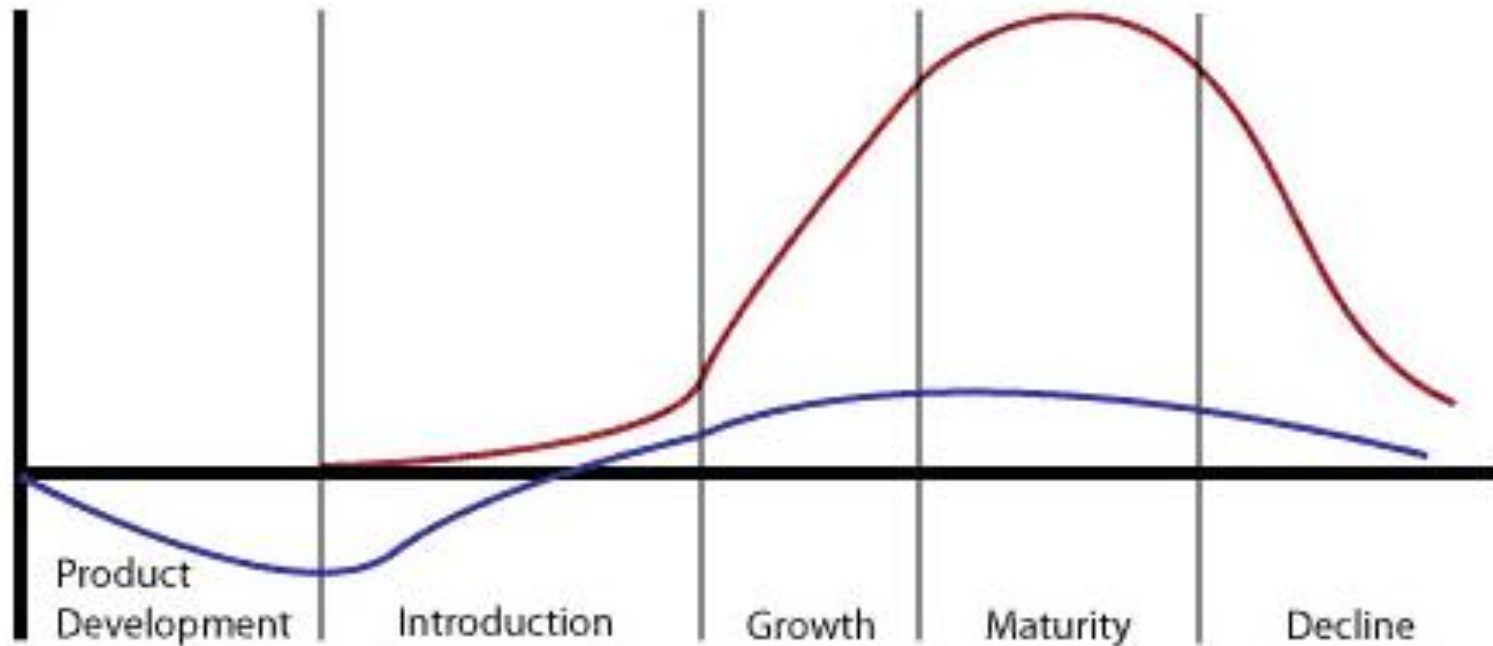
Categories of Innovativeness*



*From E.M. Rogers, *Diffusion of Innovations*, 4th edition (New York: The Free Press, 1995)

Business Plan: Products and services

Product's Lifecycle

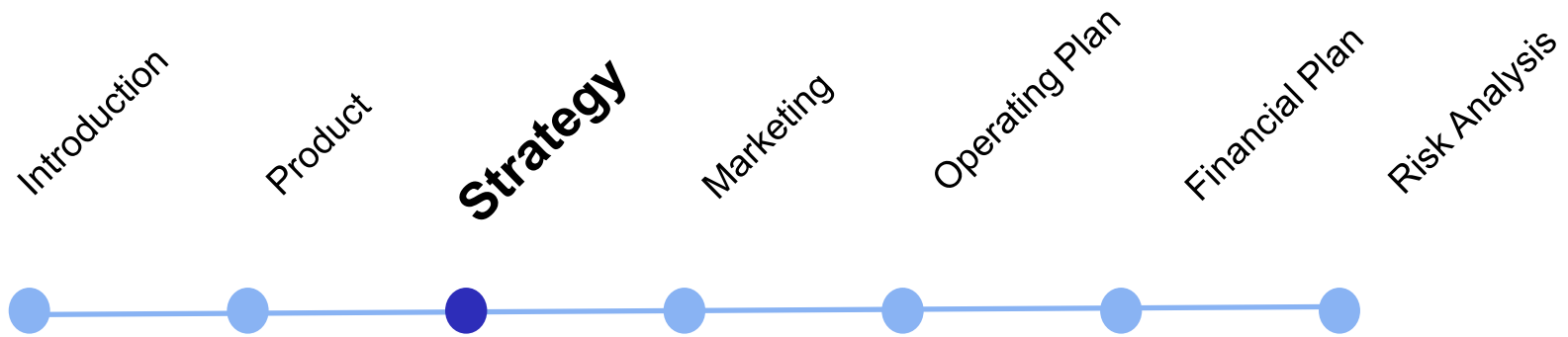


Business Plan: Products and services

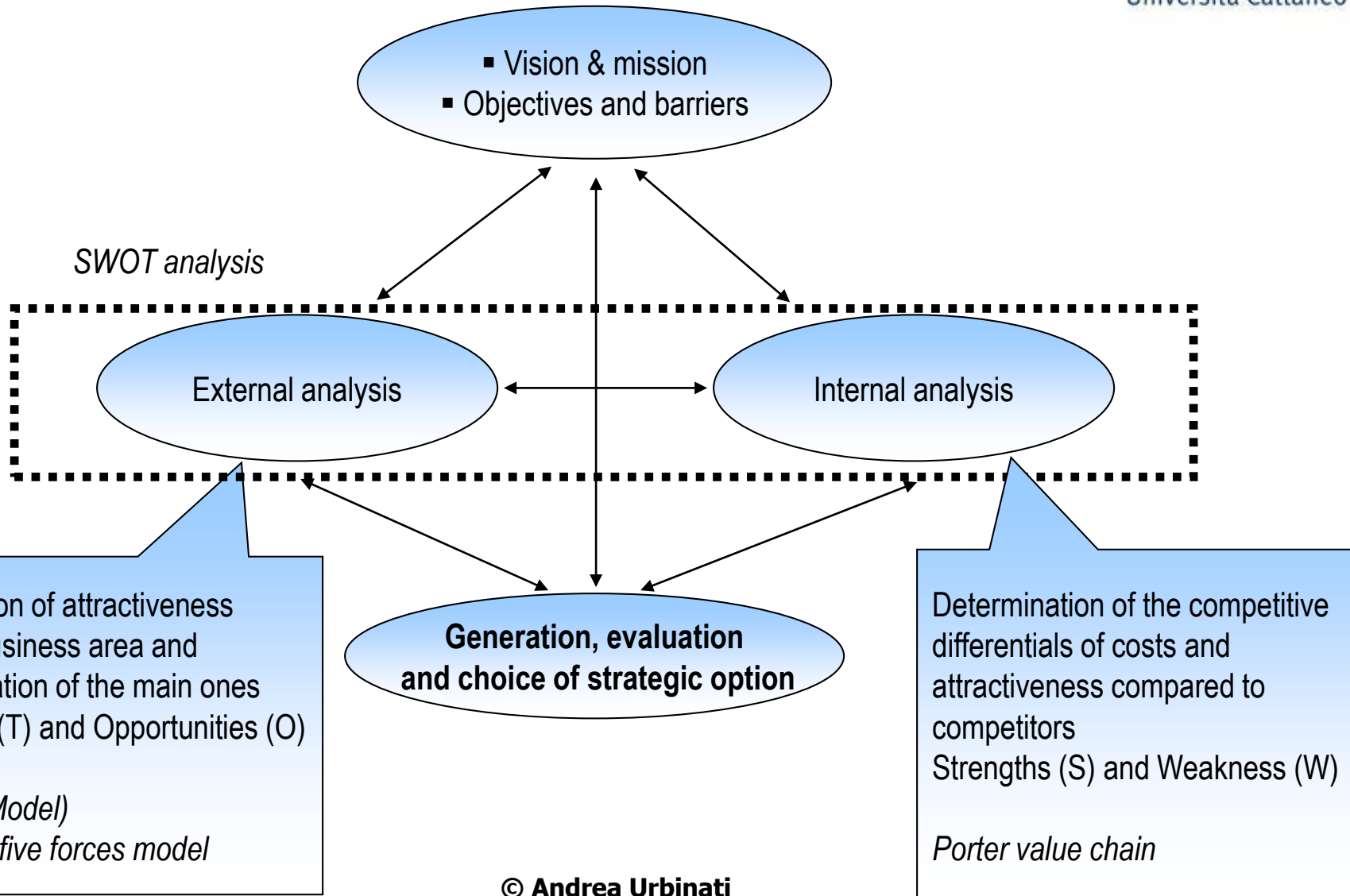
Practical tips

- Be very detailed if you are a startup or if your product is totally new, or it is a complex portfolio of products
- Start with one-paragraph summary, then repeat in more detail
- List all your products and services
- Highlight the importance of each of them
- Add pictures, sketches, diagrams, and any type of documents that can substitute the physical contact
- If it is something that people must use, describe how does it work (without getting too technical)

Business Plan: Strategic Plan

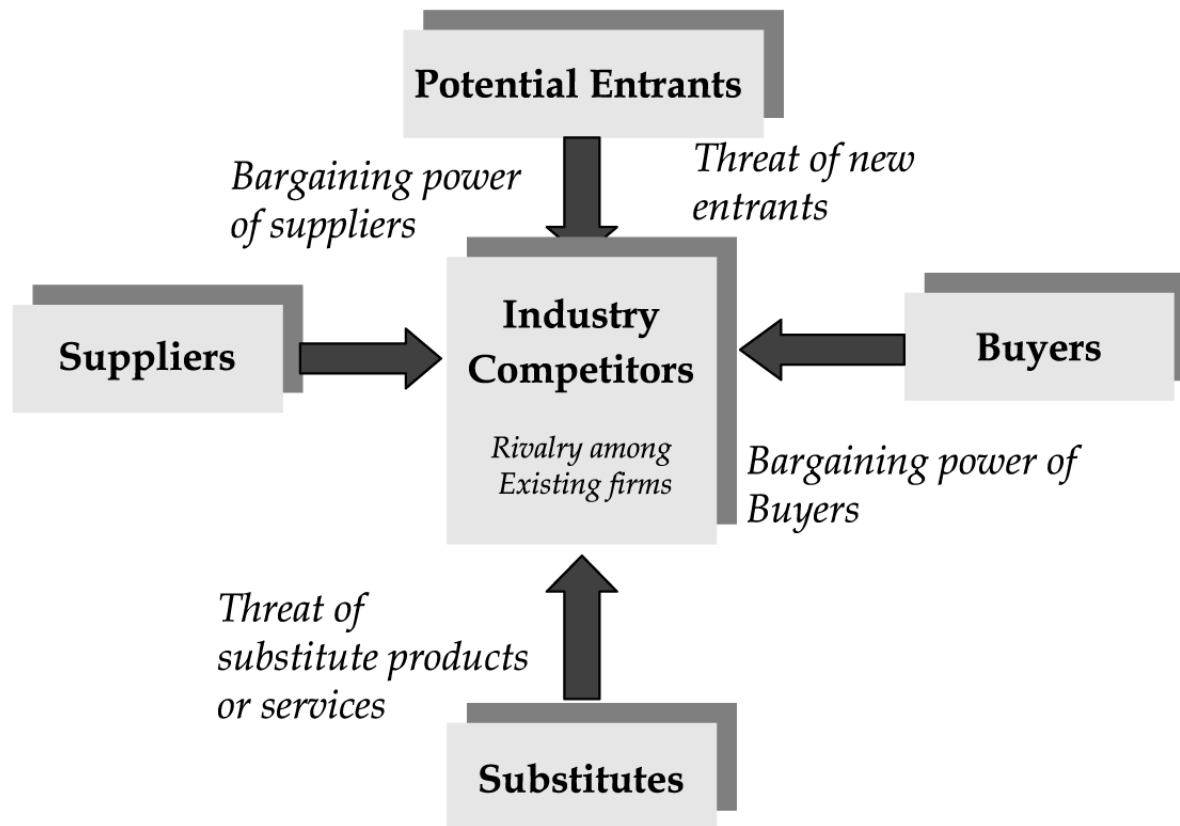


Business Plan: Strategic Plan



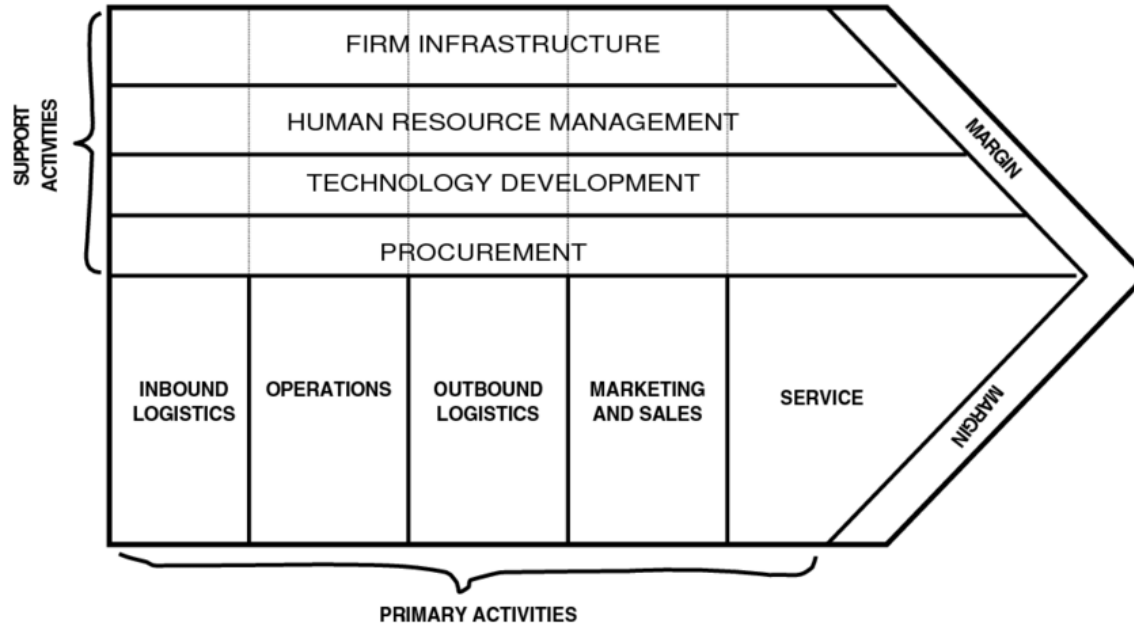
Business Plan: Strategic Plan

External analysis: *Porter's 5 Forces*



Business Plan: Strategic Plan

Internal analysis: *Porter's Value Chain*



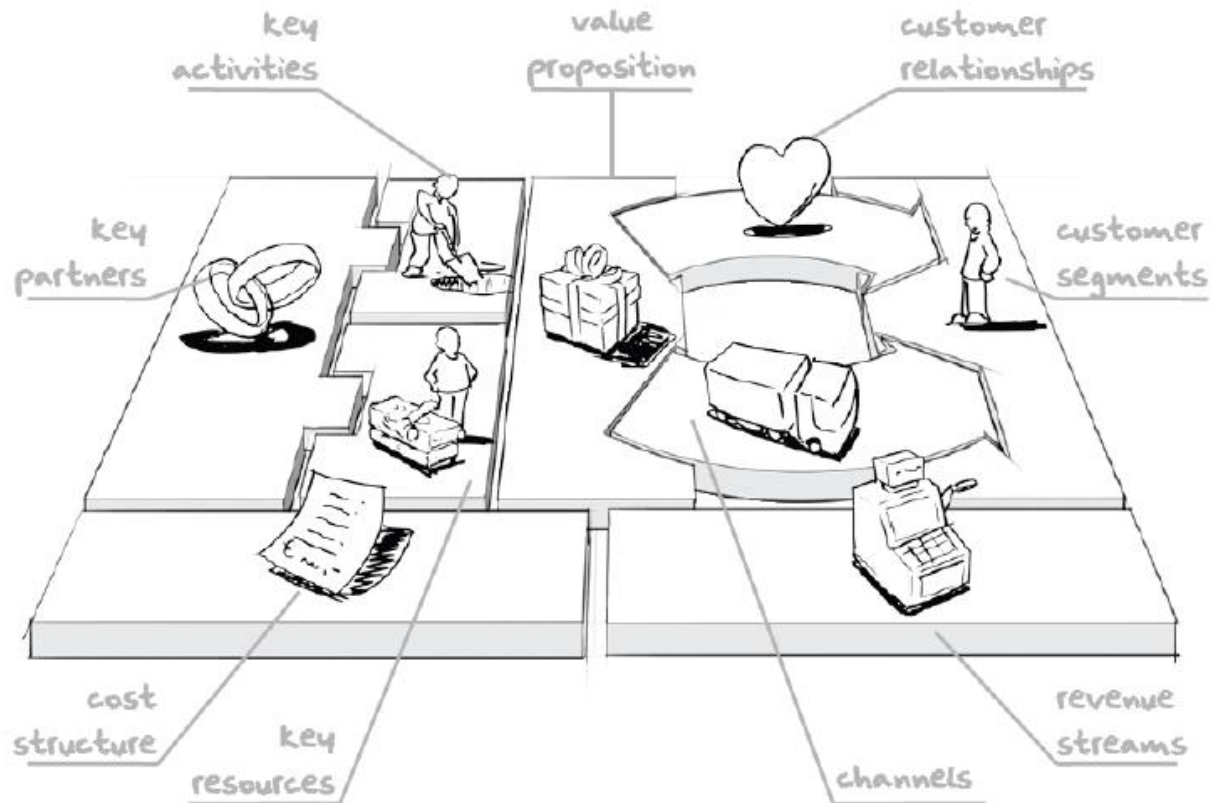
Business Plan: Strategic Plan

External and Internal analysis: *SWOT matrix*



Business Plan: Strategic Plan

Strategic positioning of the company: *Business Model Canvas*



Business Plan: Strategic Plan

Strategy Formulation

- Strategy is the **creation of a unique and valuable position**, involving a **different set of activities**. Basically, it can derive from three sources:
 - serving few needs of many customers
 - serving broad needs of few customers
 - serving broad needs of many customers in a narrow market
- Strategy requires you to make **trade-offs in competing**: to choose what not to do
- Strategy involves **creating fit among company's activities** (the ways in which the activities interact)

Business Plan: Strategic Plan

Strategy Formulation

1. Identify the main **sources of competitive advantage**
 2. Describe the **competitive advantage**
 3. Define the **actions to exploit** this advantage
 4. Define **SMART objectives**
 5. **Measure** expected results
- The strategy offers the guidelines to develop the operating plan. It indicates what to do and what not to do, it define the unique set of activities and concatenation to reach the objectives. It doesn't indicate what to do tomorrow.

Business Plan: Strategic Plan

Criteria to evaluate a strategy

1. **ROI** – Return on investment

2. **Risk** of losing the investment

3. Ownership and **control**

4. Potential for **growth**

5. Stability of **employment** and **earnings**

6. **Prestige**

7. **Social Responsibility**

• The strategy can be valued from different points of view that depend on the corporate objectives and the market conditions.

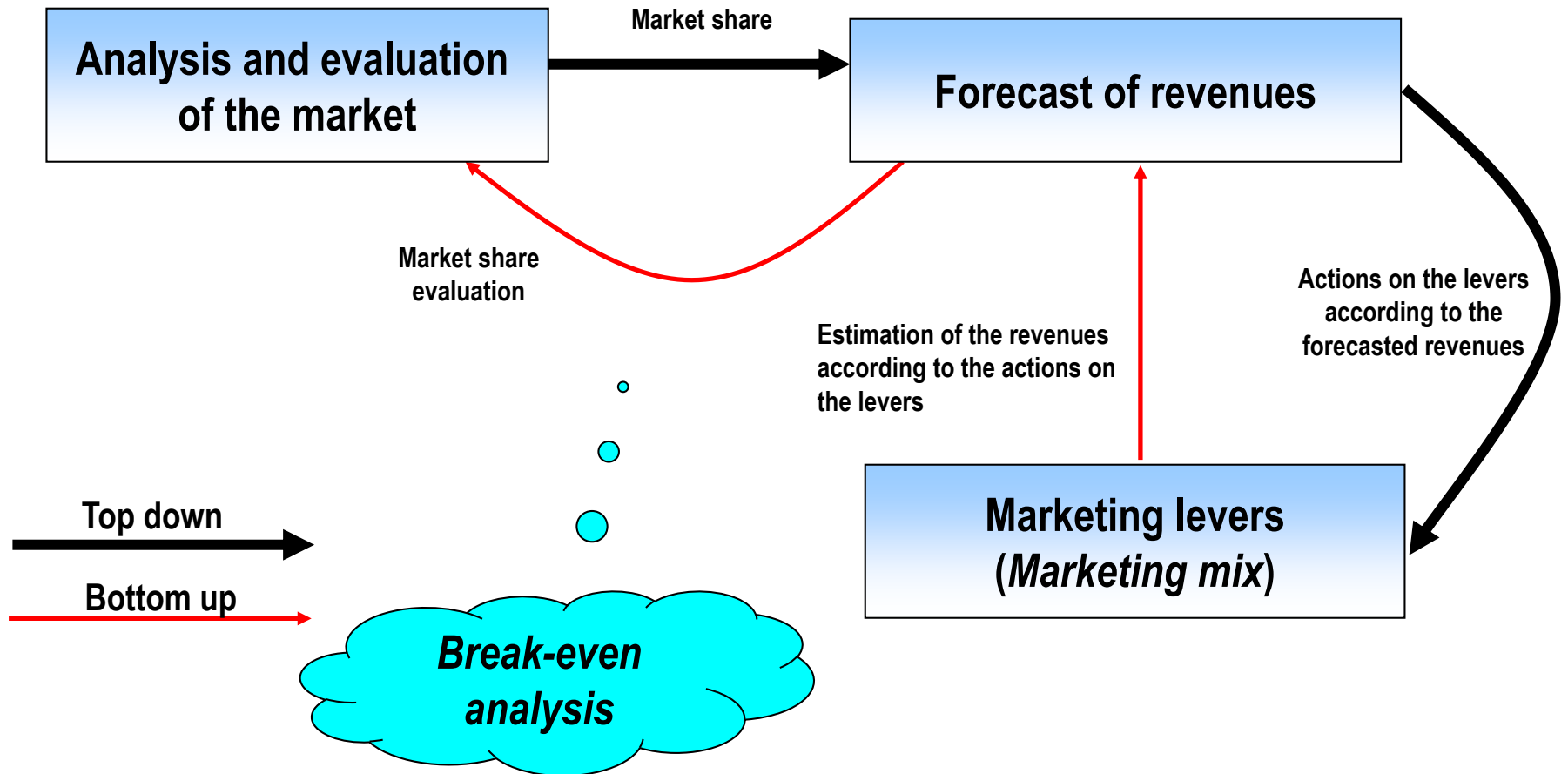
Business Plan: Strategic Plan

- The strategic plan is the core of the whole business plan. It is the starting point to assess the competitive environment and to weight opportunities and risk.
- Through this analysis, a company define the value proposition and the unique positioning, with the objective to set a competitive advantage.
- In order to reach this competitive advantage, a strategy is defined, or the unique interconnection of choices and activities (what to do and what not to do) that make a company different from the other.
- The strategy has a direct consequences on the activities and organization, and thus on the operating plan, and on the financial plan.
- The strategy is not defined once for all. It is common that something in the operating or financial plans is considered as not feasible, and thus there is the need to refine and update the strategy, then operations, etc.

Business Plan: Marketing Plan

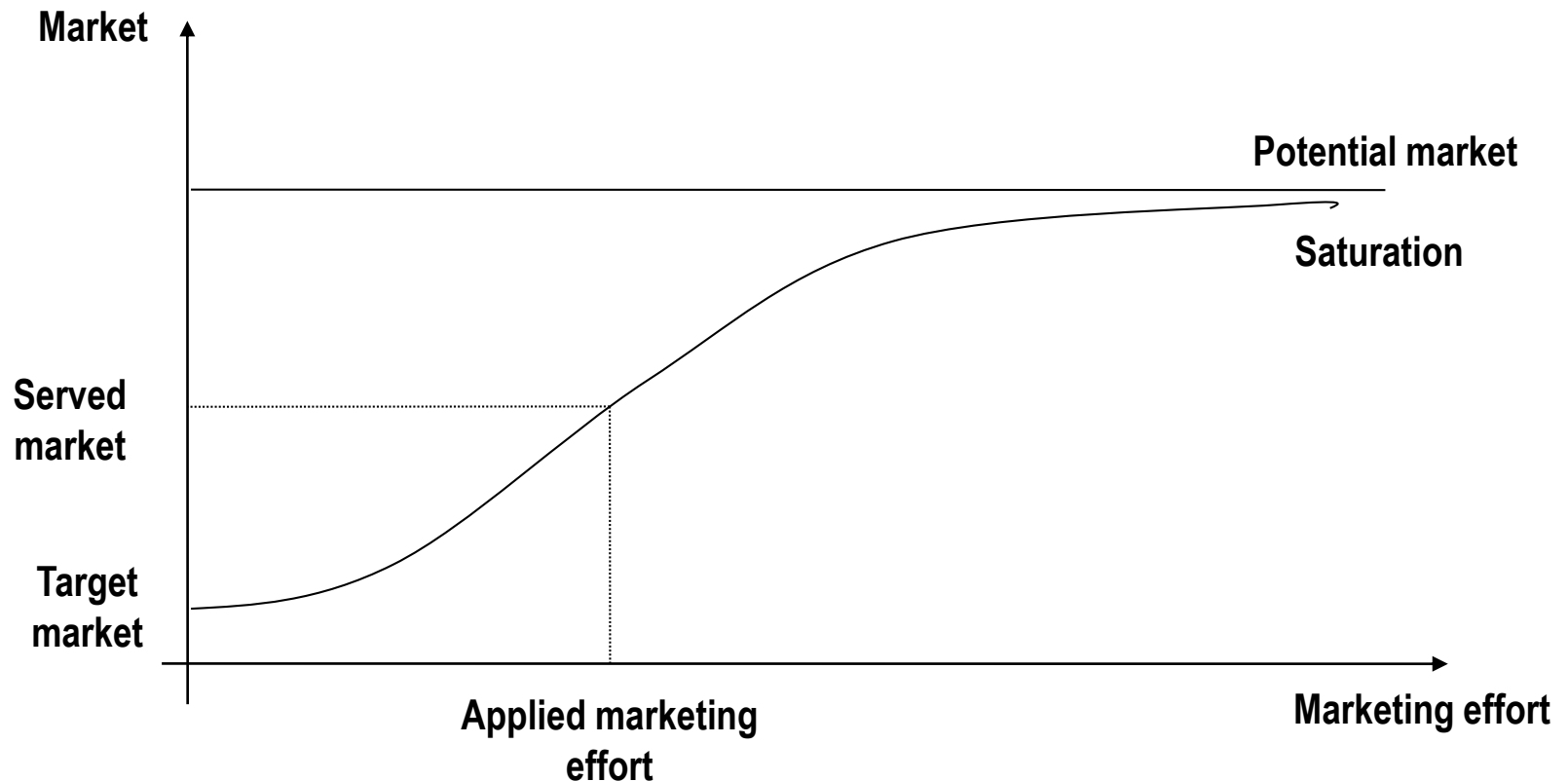


Business Plan: Marketing Plan



Business Plan: Marketing Plan

Analysis and evaluation of the market (Segmentation)



Business Plan: Marketing Plan

Forecast of revenues (Break-even analysis)

Operative Profit (EBIT) = Total Revenues – Total Costs = $p * X - C_v * X - C_f = (p - C_v) * X - C_f = m * X - C_f$



1. Operative Profit = 0 $\Rightarrow m * X - C_f = 0 \Rightarrow \mathbf{X_{be} = C_f / m}$
2. Operative Profit = $m * X - C_f \Rightarrow \mathbf{X_{be} = (Operative Profit + C_f) / m}$

If a multi-product company

3. Operative Profit = $\sum (m)_i * \partial_i * X - C_f \Rightarrow \mathbf{X_{be} = (Operative Profit + C_f) / \sum (m)_i * \partial_i}$

Business Plan: Marketing Plan

Marketing Levers (Marketing Mix)

Product

Features
Brand Name
Packaging
Services
Warranty

Price

List price
Discounts
Allowances
Credit terms
Payment period

Place (Distribution)

Outlets
Channels
Coverage
Transportation
Stock Level

Promotion (Communication Mix)

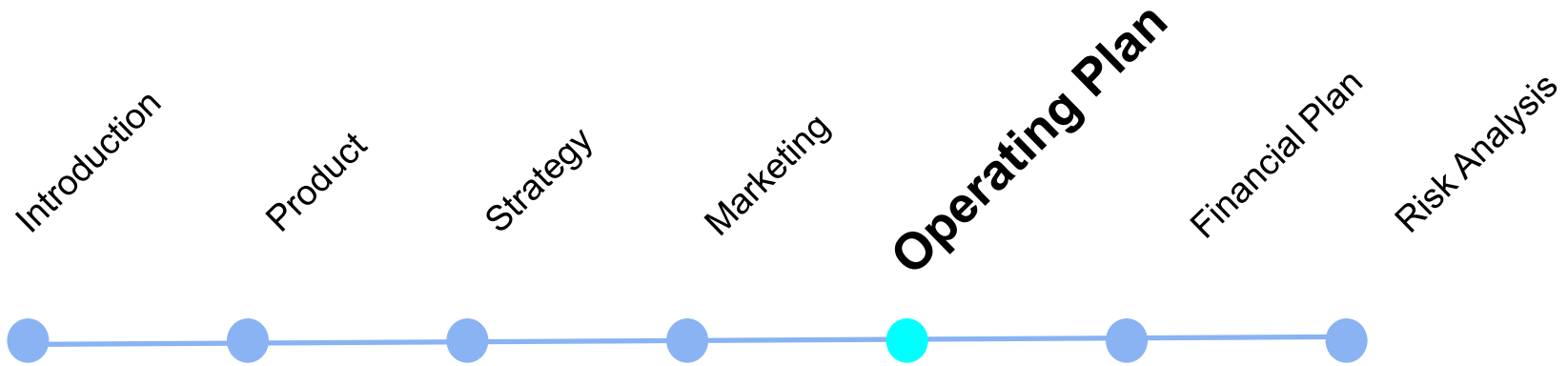
Advertising
Personal Selling
Sales Promotion
PR & Press
Direct Marketing

Business Plan: Marketing Plan

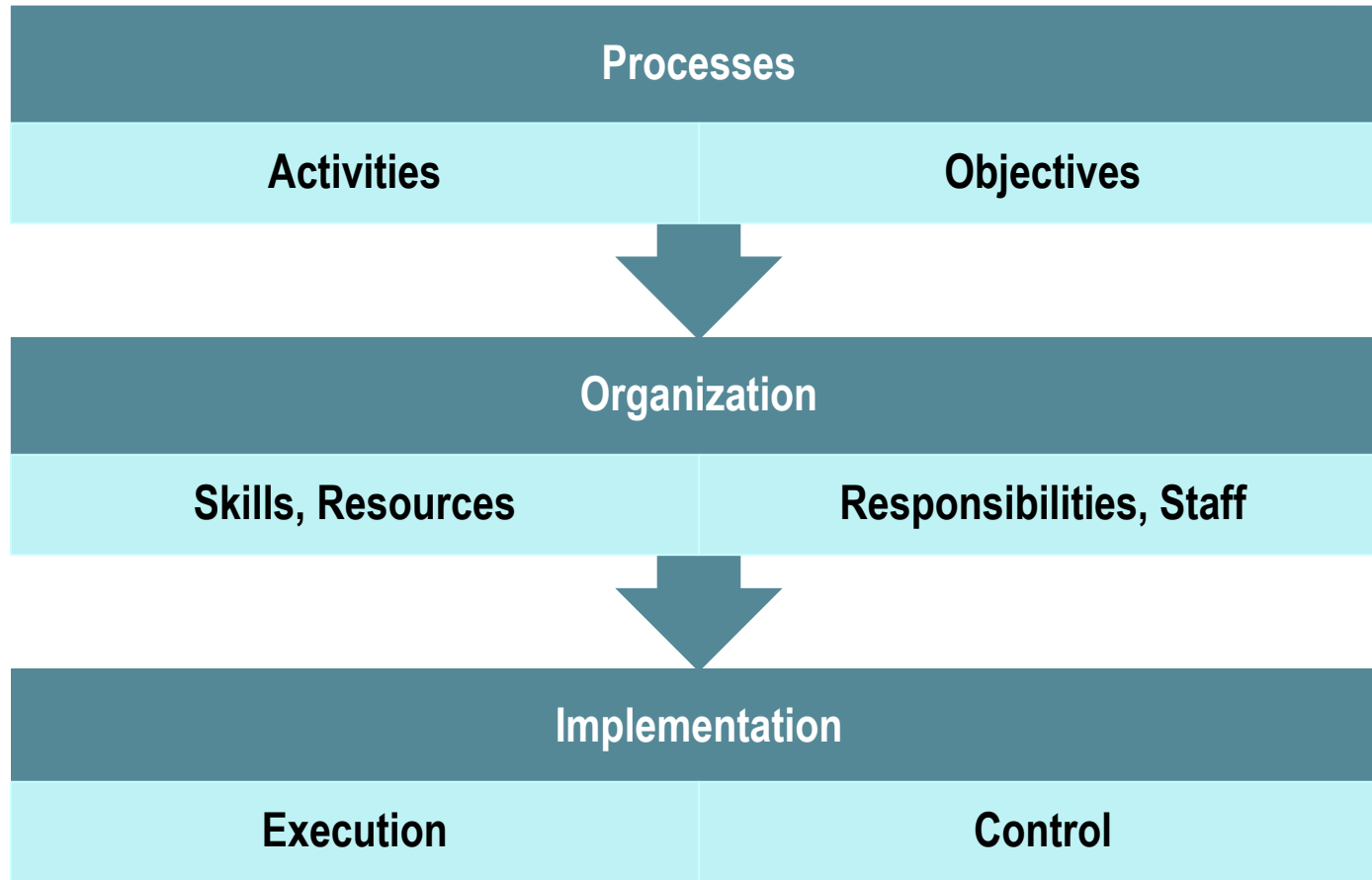
Marketing Plan as a series of decisions

- Decision 1: Market and Product Development strategy
- Decision 2: Business and Revenue Model strategy
- Decision 3: Segmentation and Targeting
- Decision 4: Positioning and Differentiation
- Decision 5: Pricing
- Decision 6: Distribution
- Decision 7: Communication
- Decision 8: Customer Engagement
- Decision 9: Evaluation of performances: Metrics (KPI)

Business Plan: Operating Plan



Business Plan: Operating Plan



The operating plan is the translation of the strategy into a plan of day-by-day activities: who does this and that and how?

Business Plan: Operating Plan

Step 1: Processes

Processes	
Activities	Objectives
<ul style="list-style-type: none">a. Break the project into the smallest possible components' activitiesb. Identify linkages and critical paths (critical path is the longest path)c. Order the activities with the critical and higher risk ones scheduled as early as possible and group them logically (e.g.: by function)d. Set measurable objectives for each activity	

Business Plan: Operating Plan

Step 2: Organization

Organization	
Skills, Resources	Responsibilities, Staff
<ol style="list-style-type: none">List the types of skills and resources that you need to realize the activities defined in step 1 and reach the defined objectives.Identify lacking skills and resources and ways to get them on board.Assign the people responsible of each functional area (e.g.: marketing, production, sales, customer assistance, R&D, etc.)Identify the staff (nr and type of FTE) per each functional area.Define a method to organize the flow of decisions and activities.	

Business Plan: Operating Plan

Identification of responsibilities and staff

- Identification of critical human resources
 - entrepreneurial group
 - key people
- Organization design
 - definition of individual positions
 - macrostructure design
 - definition of lateral connections
 - decision-making system design
- Identification of human resource management systems
 - recruiting
 - training
 - incentive
- Identification of the evolution of the workforce

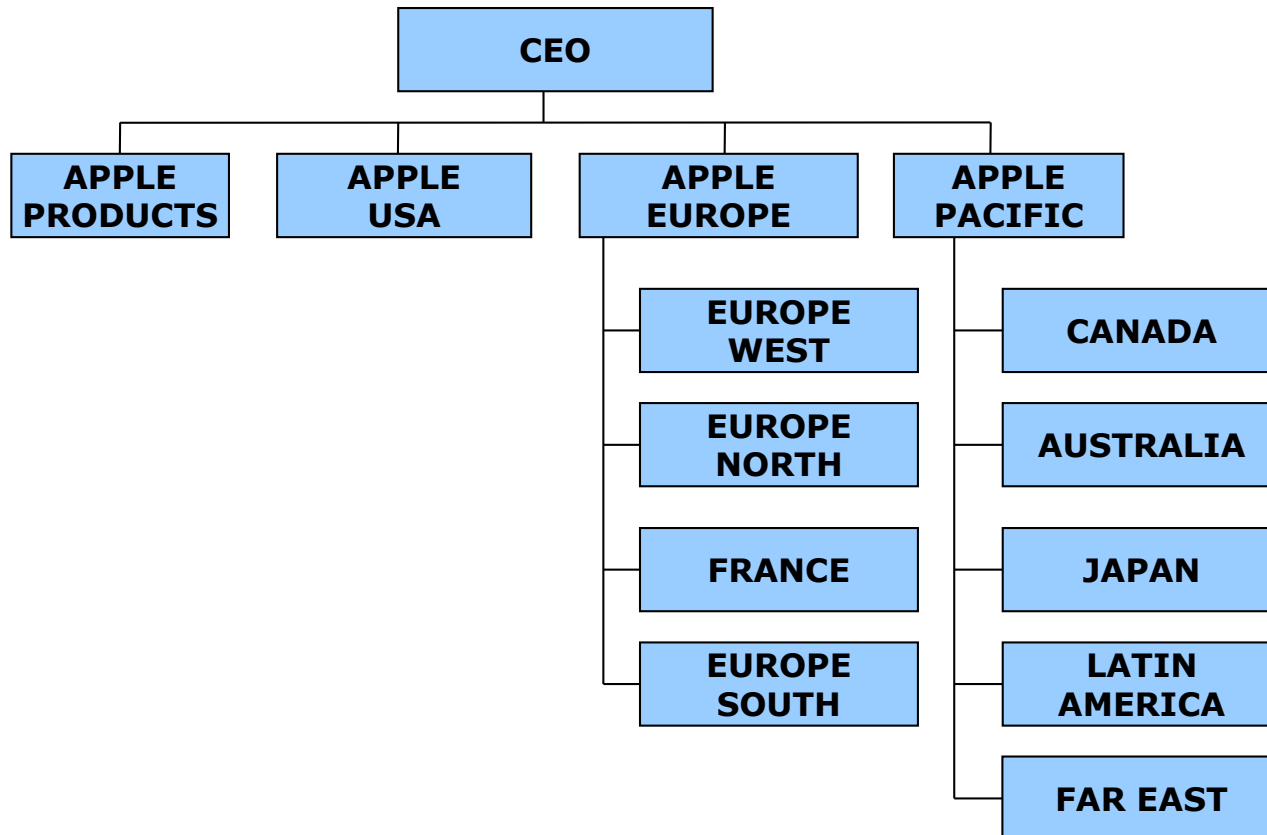
Business Plan: Operating Plan

Identification of responsibilities and staff

- The identification of critical human resources must answer the following questions:
 - What kind of training do they have?
 - For whom have they worked and where?
 - What results, professional and personal, have they already achieved?
 - What is their reputation in the local economic community?
 - What relevant experiences have they had in the sector in which the company intends to operate?
 - What are their abilities to react to adverse situations?
 - Can I choose suitable employees?
 - What is their degree of commitment in the company?

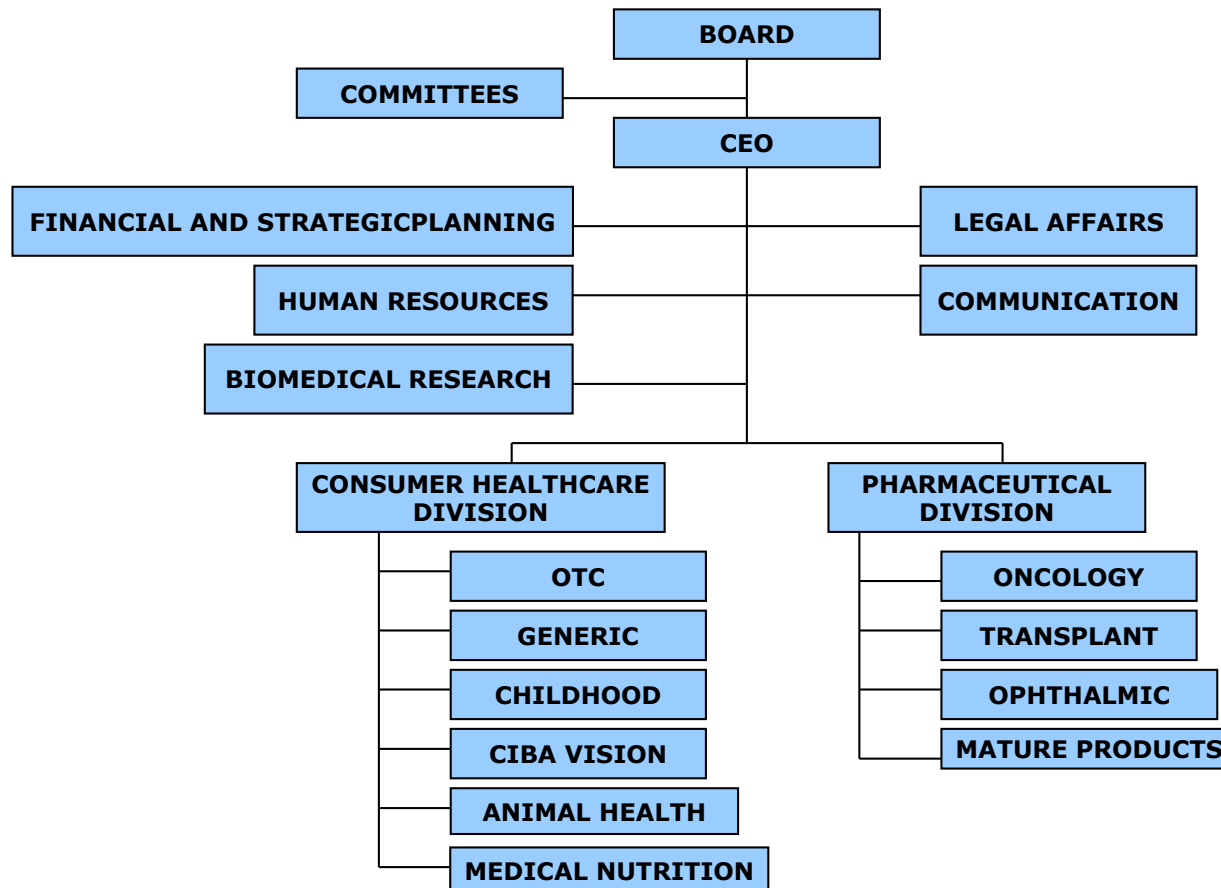
Business Plan: Operative Plan

Examples of Organizational Charts (APPLE)



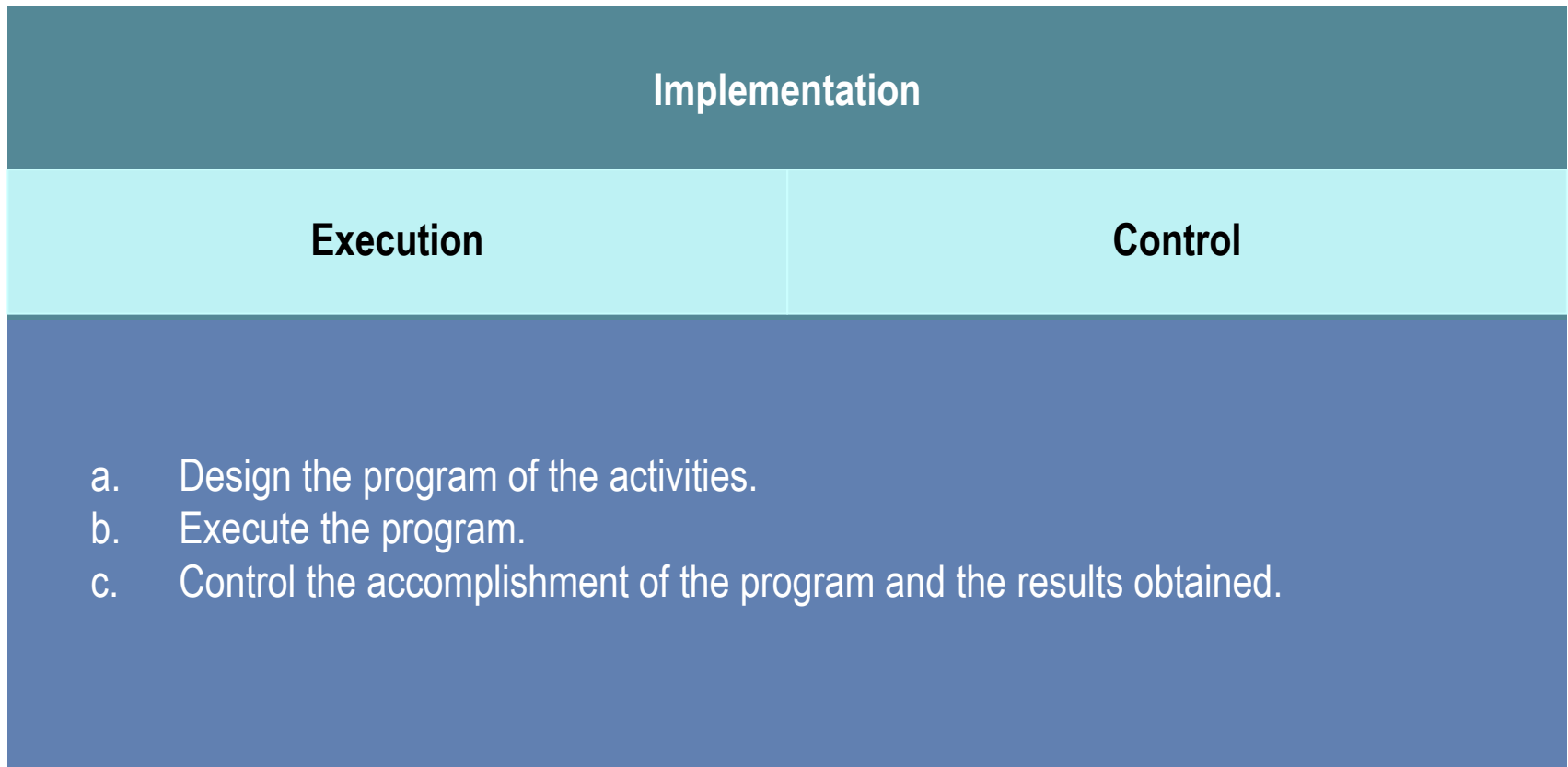
Business Plan: Operating Plan

Examples of Organizational Charts (NOVARTIS)

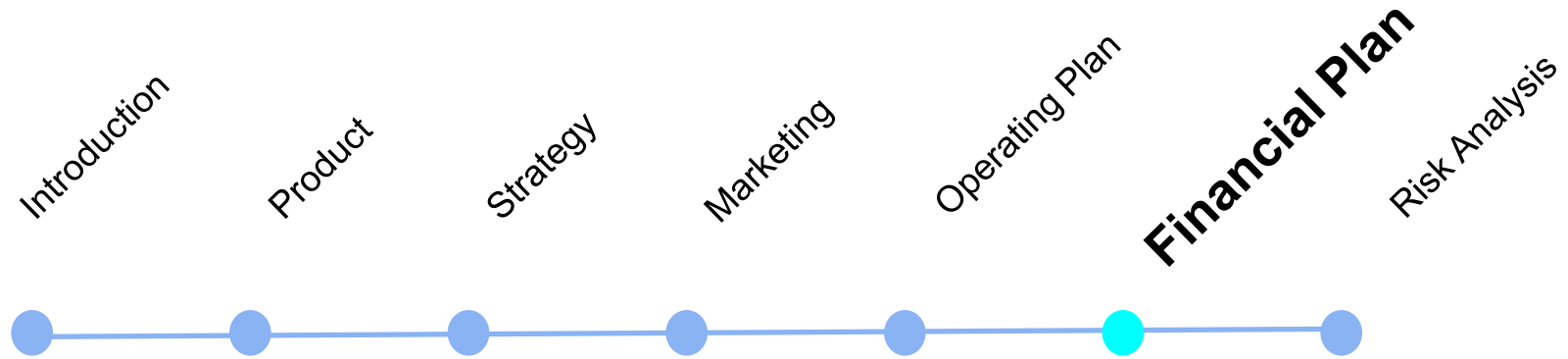


Business Plan: Operating Plan

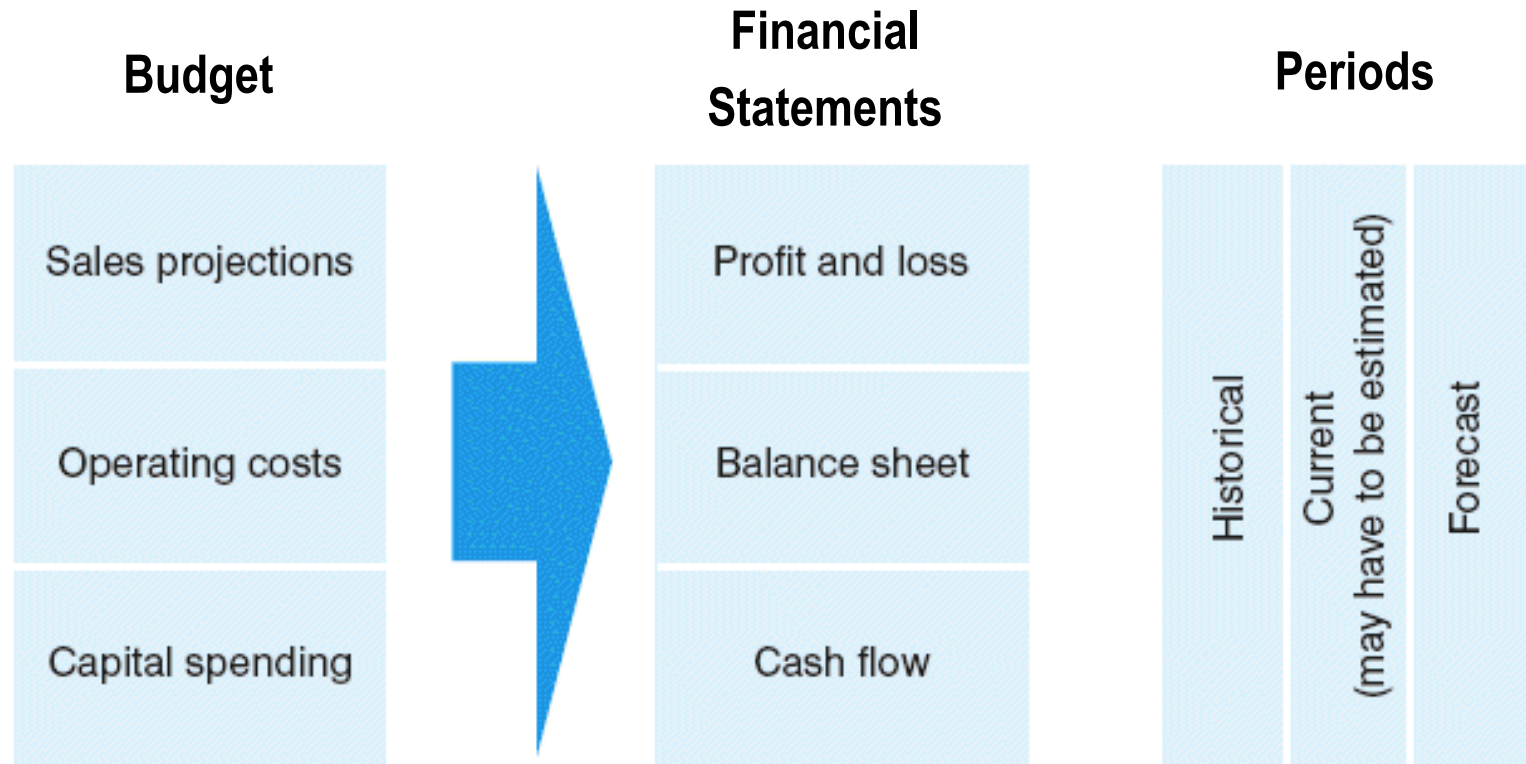
Step 3: Implementation



Business Plan: Financial Plan



Business Plan: Financial Plan



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The Financial Plan consists into forecasting **sales**, **operating costs**, and **capital spending**, drafting **P&L**, **Balance Sheet**, and **Cash Flow Statements**, considering the **past**, the **present**, and the **future** of the business.

Business Plan: Financial Plan

Financial Statements Projections (Hypotheses)

- Objective: to synthesize and translate all the design choices made in previous chapters in economic values
- For example:
 - turnover and advertising budget derive from the marketing plan
 - personnel costs and technology investments derive from the operating plan
 - ...
- Furthermore, it is necessary to estimate the reference time horizon on which to make the economic and financial forecasts (3-5 years)

Business Plan: Financial Plan

Financial Statements Projections (Results)

- Forecasted income statement
- Reclassification of the income statement in order to highlight quantities such as, for example, contribution margin, gross margin, EBITDA (MOL), ...
- Forecasted balance sheet
- Profitability indicators, such as, for example, ROE, ROI, ROS, RA ...
- Liquidity indicators: Current Report, Acid Test, Financial Balance (CF / D) ...

Business Plan: Financial Plan

Estimation of Cash Flows (Net Present Value / Internal Rate of Return)

$$NPV = \sum_{t=1}^T \frac{NCF(t)}{(1+k)^t} + \frac{V(T)}{(1+k)^T} - I_0$$

NCF(t) = net cash flow year t

k = discount rate

I₀ = initial investment

V(T) = terminal value

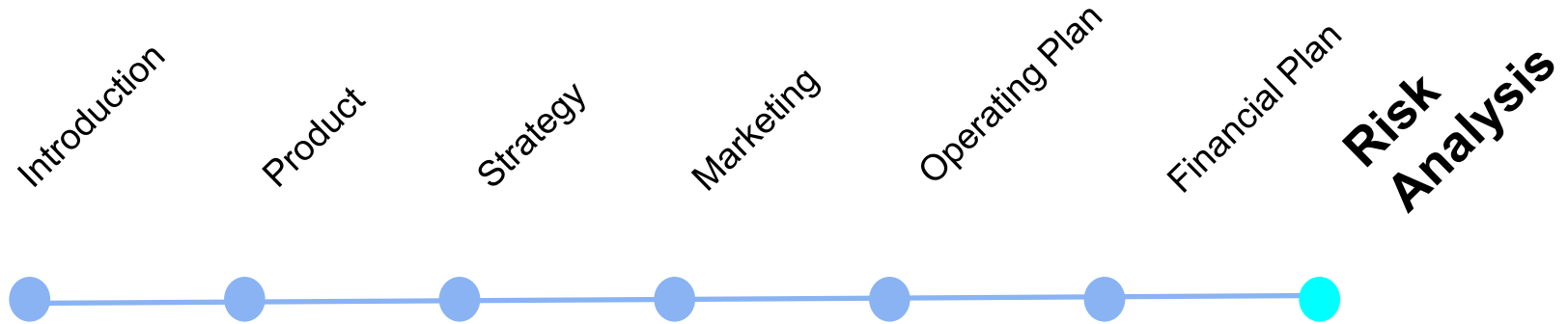
$$\sum_{t=1}^T \frac{NCF(t)}{(1+IRR)^t} + \frac{V(T)}{(1+IRR)^T} - I_0 = 0$$

Business Plan: Financial Plan

Funding Sources

- Debt capital
 - Credit institutions
 - Public institutions
- Capital “of service”
 - Public bodies (technology parks, business accelerators, ...)
 - Private companies (corporate incubators, ...)
- Risk capital
 - Venture capitalists
 - Business Angels
 - Acquaintances, family, friends, ...

Business Plan: Risk Analysis



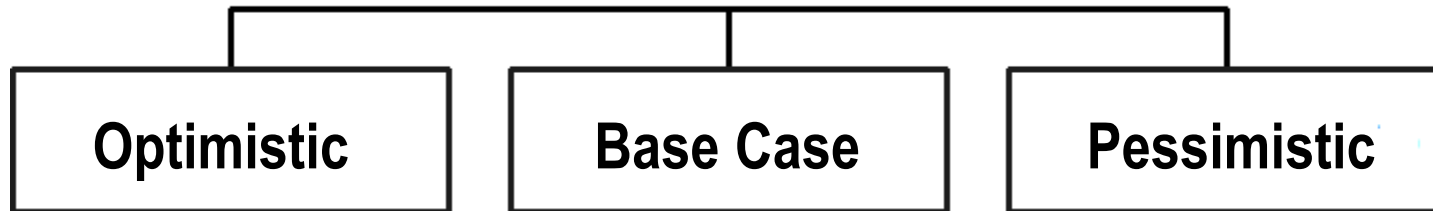
Business Plan: Risk Analysis

Methodologies

- What-if analysis
- Worst-Best case (scenario) analysis
- Distribution of observations (mean, standard deviation, skewness)

Business Plan: Risk Analysis

Scenario Analysis



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Business Plan: conclusions

The Business Plan must not be a “marketing” document, which serves to sell a business idea, but a critical analysis of the chances of success

(Harvard Business School)

References

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