

The background features abstract, overlapping geometric shapes in various shades of purple, ranging from light lavender to dark, almost black tones. These shapes are primarily located on the left and right sides of the frame, creating a modern, layered effect.

Innovative Entrepreneurship Theory and Practice



Lesson 23: Business Plan - part 2

Group business plans

Draft a business plan for your group:

- Executive summary
- Mission, vision, and culture
- Company description – including team roles
- and legal structure
- Opportunity analysis and research
- Marketing strategy
- Funding request

**TODAY WILL
HELP!!!**

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Management
& operations
- making the plan
happen

Strategy and Implementation

- ▶ What is your long term plan?
- ▶ What is your short term plan?
- ▶ What do you want to achieve and by when?

Management Team

- ▶ Do you have partners?
- ▶ What are your skills?
- ▶ What are your partner's skills?
- ▶ What experience do you have?
- ▶ Do you have a business track record?

Management and operations: Making the plan happen

- ▶ The team must be composed of an effective balance of members with technical expertise, experience in the field, and life experience.
- ▶ Briefly discuss the current and proposed management team and reference their resumes in the appendices.
- ▶ descriptions of key roles and responsibilities

Management and operations: Making the plan happen (cont.)

Operations:

- ▶ If your business will be involved in **research and development**, this section should describe it.
- ▶ Include **the state of development**, such as prototype, testing, or commercialization.
- ▶ Any patents, patents pending, or other intellectual property should be discussed and the stage of commercial readiness.
- ▶ The description of the physical location is similar to the discussion of place in the marketing mix but with the emphasis on logistics and workforce readiness.

Management and operations: Making the plan happen (cont.)

Operations (cont.): proximity

- ▶ geographic proximity to customers and/or suppliers or distributors may be a critical site factor.
- ▶ Other aspects to consider are business-friendly laws and courts, tax rates and structures, overall quality of life, and environment.
- ▶ For example, if you require a concentration of highly skilled scientists, you might want to locate near a university with a strong science orientation or near other firms with similar labor-pool requirements.

Management and operations: Making the plan happen (cont.)

Operations (cont.):

- ▶ The business plan is an opportunity to
 - ▶ set inventory control systems,
 - ▶ production processes, and
 - ▶ quality-assurance methods.

Mind map Strategy and Implementation

1 operations

- what do you need to start to run your business?
- What do you need day-to-day, week-to-week, month-to-month?

2 plan

- What is your long term plan?
- What is your short term plan?
- What do you want to achieve and by when?

3 strategy

- how are you going to achieve your plans?

4 people

- What are your skills? What experience do you have?
- Do you have partners? What are your partner's skills?

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Financial
analysis & projections
- translating action
into money

Financial analysis

- ▶ What are your financial predictions?
- ▶ How much capital do you need?
- ▶ When will you break even and start making profits?
- ▶ Profit and loss tables
- ▶ Cash flow tables

Financial analysis and projections: Translating action into money

the numeric representation of all that you wrote previously.

- ▶ demonstrate organizational viability in financial terms.
- ▶ likely to show initial losses, show this.
- ▶ should match both the general market and the other information you provided throughout the business plan.

Financial analysis and projections: **Translating action into money**

Source of capital:

- ▶ Start-up costs
- ▶ description of capital requirements
- ▶ make the list as complete and accurate as possible.

Financial analysis and projections: Translating action into money

Start-up cost examples:

Energy Mavens LLC Estimated Start-Up Costs		
Start-Up Expenses	Estimate	Notes/Assumptions
Certifications	\$ 20,000	Federal certifications for manufacturing
Consulting Fees	\$ 5,000	Manufacturing consultants
Expensed Equipment	\$ 3,000	Computers, printers, and the like
Financial Institution Fees	\$ 5,000	Loan fees at 2%
Identity Set/Stationary	\$ 2,000	Letterhead, business cards, envelopes
Insurance	\$ 6,000	6 months
Licenses	\$ 300	City, State, County
Marketing	\$ 19,000	Pre-venture advertising and promotion
Marketing Materials	\$ 20,000	Website, brochures, presentations
Owner's Wages	\$ 7,500	Pre-opening 3 months
Payroll (with taxes)	\$ 40,000	Engineer and manager 3 months
Permits	\$ 200	Building permits for leasehold improvements
Professional Fees - Accounting	\$ 1,000	Set-up of accounting system
Professional Fees - Legal	\$ 3,000	LLC formations, lease review, contracts
Professional Fees - Other	\$ 2,000	Professionals involved in leasehold improvements
Rent	\$ 15,000	\$4.00/sq. foot - 15,000 sq. foot - 3 months
Research & Development	\$ 5,000	Technical analysis
Supplies - Office	\$ 1,000	General supplies
Telephone/Internet	\$ 300	\$100 per month for 3 months
Travel/Fuel (.55xMILES)	\$ 10,000	Pitching product to companies & investors
Utilities	\$ 9,000	Eventually switch over to panels
Web Fees	\$ 500	Web - URL and fees
Other	\$ 300	Accounting software
Total Start-Up Expenses	\$ 175,100	

Financial analysis and projections: Translating action into money

Cash flow projections:

- ▶ This projections show **cash receipts less cash disbursements** over a period of time.
- ▶ Creating your cash flow projections for three years will bring financial potential and risks into clear focus both for you and your stakeholders
- ▶ It will also allow you to review your business plan and to reconsider your business approach.
- ▶ In **a start-up business**, cash flow is likely to be negative at various points, such as the early months or in certain seasons.
- ▶ A business cannot survive long with negative cash flow, so it must increase cash coming in (revenues, loans, equity investments, and the like) and/ or reduce the amount of cash going out (expenses, equipment purchases, debt repayment, for example).

Financial analysis and projections

Exhibit 2-3 *Cash Flow Calculations*

Starting Cash	(+)
Cash In from Operations [Sales]	(+)
Cash Out from Operations [Cost of Goods Sold, Expenses, Taxes]	(-)
Cash In from Investing [Equity Infusions, Earnings on Investments]	(+)
Cash Out from Investing [Equipment Purchases, Repaying Investors]	(-)
Cash In from Financing [Loans]	(+)
Cash Out for Financing [Repayment of Debt]	<u>(-)</u>
Ending Cash Balance [Starting Balance for Next Period]	(=)

Financial analysis and projections: Translating action into money

Balance sheet projections:

- ▶ It provide **snapshots of your business at specific points in time**, such as the last day of a month, quarter, or year.
- ▶ Balance sheets show the business's assets (what you own), liabilities (what you owe), and net worth, or owner's equity

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Financial analysis and projections

Exhibit 2-4 Balance Sheet Summary Format			
Energy Mavens LLC			
Balance Sheet as of December 31			
	2014	2015	2016
Assets			
Short-Term Assets	\$200,000	\$300,000	\$450,000
Long-Term Assets	<u>3,500,000</u>	<u>3,200,000</u>	<u>2,800,000</u>
Total Assets	<u>\$3,700,000</u>	<u>\$3,500,000</u>	<u>\$3,250,000</u>
Liabilities			
Short-Term Liabilities	\$100,000	\$200,000	\$200,000
Long-Term Liabilities	<u>1,500,000</u>	<u>1,050,000</u>	<u>800,000</u>
Total Liabilities	<u>\$1,600,000</u>	<u>\$1,250,000</u>	<u>\$1,000,000</u>
Owner's Equity	<u>\$2,100,000</u>	<u>\$2,250,000</u>	<u>\$2,250,000</u>
Total Liabilities & Equity	<u>\$3,700,000</u>	<u>\$3,500,000</u>	<u>\$3,250,000</u>

Financial analysis and projections: Translating action into money

Income statements projections:

- ▶ It summarizes **income and expense activity over a specified period**, such as a month, quarter, or year, and shows net profit or net loss.
- ▶ **Generally, start-up enterprises suffer losses** for several months, or even a few years, depending on the type of business.
- ▶ You can show initial losses in your statements, but **they must be comparable to industry norms**, and you must have cash to cover any shortfalls

Financial analysis and projections

Exhibit 2-5 *Income Statement Summary Format*

Energy Mavens LLC			
Income Statement for the Year Ending December 31			
	2014	2015	2016
Net Sales Revenue	\$2,500,000	\$3,500,000	\$5,500,000
Cost of Goods Sold	<u>1,400,000</u>	<u>1,700,000</u>	<u>3,000,000</u>
Gross Profit	\$1,100,000	\$1,800,000	\$2,500,000
Operating Expenses	<u>300,000</u>	<u>400,000</u>	<u>600,000</u>
Earnings before Interest & Taxes	\$800,000	\$1,400,000	\$1,900,000
Interest Expense	100,000	90,000	80,000
Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u><u>\$700,000</u></u>	<u><u>\$1,310,000</u></u>	<u><u>\$1,820,000</u></u>

Financial analysis and projections: Translating action into money

Breakeven analysis:

- ▶ This calculation will determine your organization's breakeven point—that is, when the volume of sales exactly covers the fixed costs.
- ▶ Calculating the breakeven point will help demonstrate **whether there is a viable market** for your business.

$$\frac{\text{Fixed Cost (\$)}}{\text{Gross Profit per Unit (\$)}} = \text{Breakeven Units}$$

Financial analysis and projections: Translating action into money

Ratio analysis:

- ▶ This analysis help you to understand **your business performance relative to your industry peers.**
- ▶ A business plan should include standard ratios:
 - ▶ *gross profit, quick, current, debt, collection period, receivable turnover, inventory turnover, net profit on sales, net profit to assets, and net profit to equity.*

Financial analysis and projections: **Translating action into money**

Ratio analysis:

By comparing your business from one period to another and looking at the industry norms, you can **adjust the way you will operate**, or you can explain **why you are outperforming your industry** through your **competitive advantages or underperforming** because of specific circumstances.

Financial analysis and projections: Translating action into money

Risk and assumptions:

- ▶ All businesses take risks and make their projections based on assumptions.
- ▶ To present a realistic plan, you will need to state your assumptions and known risks explicitly.
- ▶ You will have done some of this in your SWOT analysis

Funding request and exit strategy: **The ask and the return**

Funding request:

- ▶ Your business plan should explicitly state the amount of funds you will need in accordance with the financial projections you provide.
- ▶ **The reasoning** for the request will have to be clear and compelling.
- ▶ Then you should identify the type of financing you require or are requesting and include your own financial contribution and that of any partners or co-owners, the amount of debt (loans) you will need to take on.

Funding request and exit strategy: **The ask and the return**

The exit strategy:

- ▶ The exit strategy is the way in which you and/or your investors expect to leave the company someday in a planned and orderly way.
- ▶ For investors, this might mean a buyout plan for their equity, or an initial public offering (IPO) when the company goes public—that is, puts itself on the stock exchange.
- ▶ It could mean the sale of the business when certain benchmarks are met or at a predetermined point in time.

Funding request and exit strategy: **The ask and the return**

The exit strategy (cont.):

- ▶ Lenders and investors will want to know how they will recoup their investment and earn enough profit to warrant the risk they are taking.
- ▶ **Any business plan is only as strong as its implementation schedule.**
 - ▶ Therefore, **the schedule—timetable—of milestones (goals) that you include will be important to your business and your stakeholders.**
 - ▶ By establishing realistic deadlines for the completion of activities, you demonstrate knowledge and understanding of the necessary tasks.

Finances & Financing

1 startup costs

- How much capital do you need?

2 costs

- what assets do you have?
- what money will be coming in & going out each month?


3 your finances

- how much will you charge per unit & how many will you sell (per month)?
- how will this increase?

4 predictions

- What are your financial predictions?
- predict your Cash flow
- predict your monthly profit and loss
- When will you break even and start making profits?

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executive summary
cover page
table of contents
appendices

Executive summary

This is a **summary of the whole Business Plan** and serves as an overview of your business for the reader. Fill it in as you go along, or fill it in after you have filled in the rest of the headings.

Venture Capitalists often don't read further than your executive summary, if it is not good enough. Ensure that your business concept and profitability is highlighted sufficiently in your Executive Summary.

Executive summary: A snapshot of your business

- ▶ This part has to be compelling and comprehensive.
- ▶ It can be the hook that either catches potential investors or loses their attention.
- ▶ The executive summary must encapsulate the story of the business clearly and concisely, propose the funding request, and inspire enthusiasm for the possibility of its success.

Executive summary: A snapshot of your business

- ▶ This section should be written last and limited to one or two pages.
- ▶ It should answer the **who, what, when, why, and how** questions for the **business.**
 - ▶ Who will manage the business? What will it do, and what is the owner asking for in the plan? When will the proposed plan be implemented? How will the business succeed?

Cover page and table of contents

Cover page

- ▶ The cover page should be professional, neat, and attractive.
- ▶ It should provide the name of the business and the principals, contact information, and any confidentiality statement.

The table of contents

- ▶ Should be sufficiently detailed so an investor or manager can easily find a section, but not so detailed that it takes up pages of the plan.

Appendices: Making the case in greater detail

- ▶ The appendices will provide you with an opportunity to strengthen your business plan with examples and details that are not critical for inclusion in the main portions
- ▶ Each appendix should be numbered and placed in the plan according to the order of reference in the text.
- ▶ The appendices should be listed in your table of contents.

put it all together

- create the mind map that puts all your mind maps together
- summarize your business
- for example
 1. what you know
 2. what you need to know / do



Thank you!
any questions?