

Cyprus Entrepreneurship Competition

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Business Plan Manual

A practical guideline for business planning



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Foreword

The Cyprus Entrepreneurship Competition (CyEC) initiative aims to provide an incentive for young scientists, researchers and students to capitalise on their innovation talent and create tomorrow's leading high-tech companies. Through a process of learning, the CyEC participants will gain a unique experience in transforming their innovative ideas into Business Plans for the launch of the leading high-tech companies of tomorrow.

Developing Business Planning skills is vital for any entrepreneur wishing to start-up a business in today's competitive environment. The whole process of developing a Business Plan forces the entrepreneur to pay particular attention to the key factors that will determine the success of his/her venture, thus addressing promptly and mitigating potential risks. The Business Plan then becomes a planning and monitoring tool to the entrepreneur in implementing the venture. It should be stressed that Business Planning is a dynamic process, with the Business Plan being constantly reviewed and updated to take account of changes in the market environment or changes in the strategic focus of the company.

The Business Plan serves another important function for the entrepreneur. It is the tool with which the entrepreneur communicates with the potential financiers (venture capitalists, banks) of his/her venture. The quality therefore of the Business Plan in terms of both content and attractiveness of presentation, determines to a large extent the entrepreneur's success in attracting interest for funding.

The purpose of this manual is to serve as a guide to the CyEC participants in developing their Business Plans. It was originally developed by its authors for the European Commission's eTEN Unit under the Project BPS, as part of support measures to the eTEN candidates and projects. The CyEC organisers consider this manual to be a very useful aid for the CyEC participants who are not very familiar with business planning techniques as

it gives a step by step account of the business planning process and includes lots of examples and very useful tips.

The CyEC organisers are very grateful to the authors, SystemConsult Theis & Partner, who have very kindly offered this manual for the purposes of the Competition. The CyEC organisers are also grateful to the European Commission's eTEN Unit for allowing the CyEC to make use of the BPS material.

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About this Manual

This manual offers practical assistance on how to present your business idea (draft Business Plan) and develop your full Business Plan. If you read it all in one go, the manual will provide you with a comprehensive set of information. Step by step, you will be supported with the development of your business idea and your business plan. However, the manual can also be used as a work of reference because the sections are self-contained units.

Of course the manual is no substitute for training in business administration. Nor is it a substitute for discussion and collaboration with a business consultant or legal advisor. What it does do, though, is to prepare you for those discussions.

Please bear in mind that the importance or emphasis you attribute to the various parts of the business plan depends on your own particular project or company. The manual deals with all possible constituent parts of a general business plan. You have to judge which points you should take into account and which ones are of no relevance to you. If a plan involves setting up a new company, for example, it is not possible to fall back on or refer to existing data. Consequently, you will not be able to go into detail on company history, existing products, balance sheets from the last 2-3 years, etc.

This Business Plan Manual is divided into two parts.

Part 1: The Draft Business Plan describes what you have to take into account in developing and presenting a business idea in the form of a draft business plan.

Part 2: The Business Plan systematically goes through all the points that should be dealt with when developing a full-fledged business plan. Each subject area contains detailed explanations, examples and tips. Using the checklist at the end of each section, you can make sure that you have taken into account all the relevant aspects of the subject area. If you already have basic business knowledge, just skip the explanations.

Part 1

The Draft Business Plan

The Beginnings of a Successful Business Idea

A successful company has its origins in a sound business idea. But how do such ideas arise? Anyone who sets about examining successful business concepts will discover that success stories are always based on five essential factors:

1. Successful business ideas are frequently copies of existing ideas already being exploited but they are better than those offered by competitors.
2. Successful business ideas are based on current trends so they are ahead of their time.
3. Successful business ideas deal with the needs and wishes of potential customers and address them concretely.
4. Successful business ideas have their starting point in the customer's problem, not in the entrepreneur's ability.
5. Successful business ideas have already dealt intensively with the benefit for customers and offer distinguishing features compared with the competition, thus making the offer unique.

To find partners and investors for an idea, the business idea must be formulated from their viewpoint. You must therefore explain concisely what your business idea actually is and why it will be of interest to investors. The following outline is designed to support you in this.

Formal Structure of the Draft Business Plan

Good investors receive up to 40 business ideas (short versions of business plans or draft business plans) a week on their desks, and the time they have available is limited. Thus, the presentation of your draft business plan easily becomes the first touchstone for the effort you have undertaken so far. It is important to get noticed and to arouse interest – in terms of both content and attractiveness of presentation.

Clarity is the top priority. Never assume that the readers are acquainted with the technology of your product or the technical details of your service. So describe your idea in words which are generally comprehensible, and make sure that the content and language used are concise. You will be providing detailed descriptions and full financial forecasts later on when you develop your full-fledged business plan.

You can base your draft business plan on the following structure:

Front page

- ◆ Designation of the product or service
- ◆ Names of the participants (founders/entrepreneurs)
- ◆ Confidentiality warning

You can formulate this as follows, for example:

Confidential

This document is confidential. The business idea itself and individual items of information taken from the document must not be reproduced or passed on to third parties without prior permission in writing from the author(s).

Text

- ◆ Length: up to 30 pages for the entire draft business plan
- ◆ Type size: not less than 11-point
- ◆ Line spacing: 1½
- ◆ Margin: at least 2.5 cm
- ◆ Clear structure: headings and indents

Appendix

- ◆ Brief CVs of key personnel (approx. ½ page per person)
- ◆ Charts, photographs, drawings, tables (if necessary for better comprehension)
- ◆ Homogeneous presentation

Content of a Convincing Draft Business Plan

Your draft business plan should emphasise 3 different aspects:

- ◆ the product, the technology, or the service and its benefits for the customer;
- ◆ the market;
- ◆ the profit-making opportunities.

The following key points serve as a guide and help you when dealing with these aspects.

1 Abstract

This is the summary of your draft business plan. Summarise the essence of your venture in a few sentences, e.g.

- ◆ "Biotechnological Development and Manufacture of Oligofructoside Preparations from Inuline"
- ◆ "Development, Production and Distribution of Test Instruments for Electrophysiological Measurements in Biology and Medicine"
- ◆ "Creation of a digital market offering an integrated set of services, supplied by a group of small enterprises, craftsmen, retail trade stores, and public administrations"
- ◆ "Development of Customised E-Commerce Solutions for Financial Service Providers".

2 Description of the Business Idea

What innovative products, processes or services form the basis of your business idea? What are the characteristics of your business concept?

At this point, describe what your business idea is all about. Explain to the reader with what product, what new technology/process or what service you wish to establish your company. In your description, take criteria such as the following into account:

- what your product/service can do;
- how people can use it;
- who the potential customers might be;
- whether something similar already exists, and if so, what is different or new about your venture;
- what the specific benefit of your product/service is.

Name the *function* that your product has for your customers. Discuss the state of the art and explain clearly to what extent you are offering an innovation.

Info: Although in the following sections the term 'product' is used, it is to be understood as synonymous with the business idea. Consequently the 'product' can always be a service, a new technology / new process or 'tangible' goods.

Remember:

Investors are not necessarily scientists, so avoid technical details and try to express yourself in simple language.

3 State of the Art of the Product/Process/Service

Is your product/process/service ready for the market? If not, at what stage is the development and how long do you think the required development period will be? How can you safeguard your competitive lead? Do you have any processes or products that can be protected by industrial property rights? Have any industrial property rights already been registered/acquired?

An investor is particularly interested to know at what stage of development the product is at the moment: is it still being developed, is there a prototype or is it already ready for the market? The existence of a pilot customer who is already using the product demonstrates to the investor that the market is interested.

If your product is not yet completely developed, provide information about the likely length of time required and the expected costs up to when the product is ready for the market.

Indicate what further development steps are planned. Are you possibly aiming to enter into special co-operation agreements on Research and Development?

Tip:

It is often useful to specifically co-operate with other institutions in the areas of Research and Development, for example with universities, technical colleges or research institutes. The advantages of such partnerships are essentially that the purchasing costs are not incurred twice, and time and money are saved because less effort is spent on reconciling the results of research.

Protection of the Idea

You must also provide information about the patent and licensing situation with respect to your product/technology. Do rival companies hold patents or licence rights? Have you yourself registered any patents, utility models or the like, or are you planning to do so? If patents already exist, indicate their lifetimes.

Study the information below on the subject of patents and trademarks. For detailed information about industrial property law and its significance especially for international projects, you can refer to the EU funded IPR-Helpdesk (www.ipr-helpdesk.org).

Protecting the Idea with a Patent

You can protect the results of intellectual product development work with the aid of industrial property law. The holder of an industrial property right can use the protected items himself but he can also grant licences in return for a fee. In addition, the property right entitles him to take legal action against any third parties who use the items without his permission. Within the meaning of industrial property law, 'use' is understood to be manufacturing, offering and/or selling. Technical innovations, i.e. inventions, are protected by patents and utility models.

Before you register a patent, examine for what market you will need it in future and register it immediately for all the countries where it is to be offered. Even though it may seem expensive at the moment, it is nevertheless worthwhile. After all, you will have the opportunity to sell the rights of use for territories that you do not plan to develop yourself.

Tip:

Register first, then publish! Anyone who publishes an idea before the patent is registered, for example, by presenting papers at conferences, holding presentations at trade exhibitions, or generally selling the item, thereby prevents the item from being patented!

Protection by Creating a Brand

You can also protect your idea by creating a trademark. To establish a brand name, though, you will have to invest heavily in advertising. You must harmonise the company, the brand and the product or service by means of image advertising. What would the brown-coloured beverage be worth if it weren't called Coca-Cola? The recipe for Coca-Cola, by the way, was never patented because it would have been easy to circumvent patents by introducing slight changes in recipe having no effect on taste. What is protected, however, is the brand. That way anyone who uses the Coca-Cola trademark can be sued for violating it – and that can be very expensive.

When a brand has acquired such popularity, it is extremely valuable to the manufacturer. The value of the Coca-Cola brand, for example, is estimated to be over \$ 40 billion, that of Marlboro is of the same order, and even IBM is valued at nearly \$ 24 billion.

4 Customer Benefit and Target Market

Which customers are you addressing? Why should your customers want to buy your product? Describe the market you are aiming at. How do you want to contact your customers? Can you describe the image/profile your company is aiming to establish?

Customer Benefit and Main Competitive Advantages

The key to long-term success is satisfied customers, not magnificent products. The key principle behind a successful business idea is therefore that it clearly indicates what need it can satisfy and how.

In only a very few instances will your idea be an absolute innovation. The PC has already been invented, but perhaps you can offer special customer services or maintenance that your competitors do not offer. A new project based on a new product idea must have at least one aspect that is better than those of existing products. It is precisely that benefit, which you should emphasise.

So, to what extent does your product or service provide better performance than existing products? Is it cheaper? Are the delivery times shorter? Is the state of the art higher or newer? Where possible, the benefit for the customer should be expressed in figures.

When formulating it, put yourself in your customer's shoes, i.e. consider what problems people or organisations have and put forward arguments from their viewpoint . In other words, offer solutions to their problems! After all, *what you do* is not so much of interest to the customer as *how it benefits them*. Although a legal costs insurance company could advertise with "We Insure you for Legal Matters", the customer will more easily recognise his personal benefit if the advertising slogan is "We Want You To Get Your Rights Pushed Through!".

Mr L. gets annoyed every morning about the tiresome procedure of shaving: electric shavers are not thorough enough for him; ordinary razors, on the other hand, are too thorough because they always leave terrible scars. Mr L. has therefore identified the problem as the "need to remove facial hair", not to improve the shaver, which the manufacturers of shavers are already working on avidly. After conducting research for nights on end, the solution to the problem was born: lotion that gets rid of the stubble – even for different lengths of stubble, depending on the mixture!

Adapted from: Rasner, Fuser, Faix: Das Existenzgründer-Buch

Target Market

A potentially successful business idea must correspond to a concept that can become established in a market – otherwise it would be devoid of any commercial value.

This is where you indicate what groups of customers ('customer segments') are most likely to be interested in your offer, compared with the competition – you should refer to your direct competitors by name.

Dividing potential customers up into segments is crucial because it is usually not feasible to adapt your marketing specifically to each individual customer. The selection must be made according to reasonable criteria, so that it leads to customer groups that can be addressed with the same marketing concept.

When dividing up private customers into segments, the following features can be considered, for example, depending on the particular product:

- socio-demographic features such as sex, age, occupation, income, place of residence etc.
- psychographic features such as lifestyle, opinions and basic attitudes, expectations of the product, purchasing and consumption behaviour, etc.
- geographic features such as country, region or density of population (town/city/country).

Specify who your target group is and why. Do your customers have special requirements? Why will your customers be purchasing from you? And why will some customers not? What is important to the customers: quality? price? service?

If you already have customers, list them and provide information about their short and long-term sales potential.

Remember:

The more evidence you can provide that you know the needs and motivations of your potential customers, the sooner the reader of your business plan will be persuaded that you can genuinely be successful at selling.

'Differentiation' and 'Positioning'

When you have defined your target segments, establish how you want to distinguish yourself from other suppliers. In some aspect, be it price, quality, service or anything else, your product must offer 'something better'. You must get this unmistakable benefit – in marketing jargon it is called the *Unique Selling Proposition* (USP) – across to your target group, and ensure that it is firmly anchored there. This activity is referred to as *'Positioning by Differentiation'*.

You will find practical suggestions about the *implementation* of your plans in the Marketing and Sales section in the work instructions for your business plan (pages 52 et seq.). At this juncture it will no doubt be interesting for you to read that section.

5 Financial Forecast

Do you have a (provisional) schedule of costs? What sales targets are you aiming at? What is your estimate of the amount of financing required for your start-up and how do you plan to meet those needs? Do you have any capital of your own?

A successful business idea has to be profitable in the long term. Here you have to show that you have given some thought to how you can earn money with the business idea, and how much.

If possible, try to roughly estimate the costs and revenues from the idea. In most cases your calculation will be as follows: on the one hand you purchase materials or services from suppliers; when you pay suppliers you incur costs. On the other hand, you sell products or services to your customers; that brings in revenue. If your business idea works according to this traditional mechanism, present it with appropriate figures.

As regards the sales targets: forecasting these is probably one of the biggest difficulties with which you will be confronted. Detailed planning, as required by the business plan, is not yet necessary at this stage. The reader of the draft business plan merely wants to see that you have approximately estimated revenues based on verifiable evidence.

If you assume that you have to spend money on further development and/or other investments, there will be a certain need for financing. Based on your calculations so far, estimate how high it will be. If it goes beyond your own capital resources, you will have to procure financing in some other way. If you already have any thoughts about the possible source(s) of financing, write them down in one or two sentences.

Remember:

You are not expected to submit your own suggestion for a complete financing concept: when it comes to that, a professional investor will develop the package together with you.

6 Opportunities and Threats

How do you see the advantages and disadvantages of the product/process/service compared with existing offers from the competition? In what areas do you see opportunities for your business idea? Where are the risks? Where do you want to be with your company in three to five years?

Any new venture is bound to be fraught with risks. However, anyone who is in a position to recognise the potential risks and include them in planning proves that his idea has been thought out properly. With an honest and complete risk analysis you not only do the investors a favour but also yourself: you protect everyone against unpleasant surprises.

So include information about any imminent dangers. For example, there may be a risk that competitors are quicker and launch alternative technologies/processes/products (substitutes) on the market, satisfying the same customer need.

The opportunities for your business idea should be a logical consequence from what you have written down under the preceding topics. Briefly formulate the main opportunities here again. Try to combine this with a medium-term vision, i.e. consider how you want your company to look in three to five years.

7 ... Made It!

With the formulation of your business idea in the form of the draft business plan, you have compelled yourself to think hard about the chief aspects of your project and to make some strategic decisions, or at least prepare them.

You will discover that what you have written down not only helps yourself but also advisors and investors to conduct a genuinely constructive discussion. For this reason take your writings with you to future meetings or – even better – send them to your contact in advance so that he can prepare himself and then discuss specific issues with you.

Part 2

The Business Plan

"A Business Plan, Why?"

The business plan became established as an instrument in the USA in the 1970s, at a time when many inventions were being made in the area of new technologies. Many ideas ended up being shelved, however, because implementation would have called for immense sums of money.

In those days the term venture capital came into existence - in some European countries it is often incorrectly referred to as risk capital. Perhaps the term *opportunity capital* would be more appropriate, because such financing provides entrepreneurs and investors with an opportunity to achieve exceptionally high increases in value. The principle is that groups of companies and/or private individuals invest their funds to enable inventors to put their ideas into practice. The prerequisite for investment of capital was and is the existence of a sound business plan.

A plan is equally required if you apply for bank loans, subsidies, or other types of financing.

This way, the business plan serves as a means of communication and promotion vis-à-vis the outside world – particularly to attract investors (*external function of the business plan*).

The *internal function of the business plan*, however, is just as important: as a planning and monitoring instrument, the business plan supports management and the shareholders of the company. After all, writing the business plan compels the promoters to completely think through the business venture in a most systematic and extensive manner.

[Target-oriented action requires planning!](#)

When do you need a business plan?

A business plan is required by any entrepreneur who is about to embark on an innovation or the restructuring of his/her company, or intends to establish a completely new company (start-up entrepreneur). The following business processes come under the heading of such strategic changes or beginnings:

◆ **Starting up a business**

High pre-production costs for capital investment, research & development (R&D) and marketing, possibly in conjunction with the need for public financial aid and private capital.

◆ **Expansion of the company**

Expansion and modernisation investment, diversification, opening up new markets, market penetration, mergers and acquisitions, etc.

◆ **Innovation**

Developing and launching new products and processes, expanding research and development, restructuring into high-growth fields of technology.

◆ **MBO / MBI**

Management Buy Out (MBO): acquisition of a company by its own experienced management.

Management Buy In (MBI): external qualified managers intend to buy shares in the company.

◆ **Spin-off**

Managers or employees of an existing company or external people hive off part of the company and lead this part as an independent company.

◆ **Initial Public Offering (IPO)**

An IPO, also referred to as “flotation” or “going public”, is the sale or distribution of a company’s stock to the public for the first time. Financing made available to a company expecting to go public within six months to a year is called *bridge financing*.

Research into start-ups, spin-offs and MBO/MBI projects has shown that the more technology-oriented the projects are, the less it is possible to finance them with own resources. In the field of biotechnology, environmental technology or information technology, for instance, seven-digit figures are quite normal costs for establishing companies or spin-offs. Also, take-overs of companies, arising from an increasing lack of management successors in small and medium sized companies (SMEs), can often no longer be accomplished without private equity financing.

How to Write a Business Plan

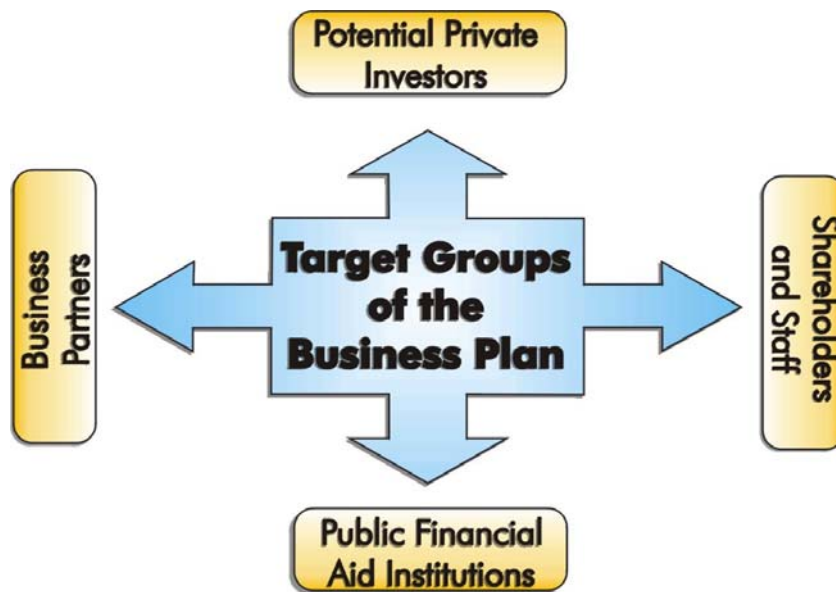
Formal Structure

Just as a house is built from the foundation to the roof, the elaboration of a business idea takes place in a process of consecutive logical steps. The formal structure of your business plan will follow this process. As the architect of your business idea you now plan the individual development of all project stages. The pattern is as follows:

- Cover sheet
- 1. Executive Summary
- 2. The Company
- 3. The Business Idea
- 4. Production, Purchasing, Quality, Administration
- 5. Market Review
- 6. Marketing and Sales
- 7. Management and Organisation
- 8. Financial Plan
- 9. Opportunities and Threats
- 10. Appendices

Target Group Orientation

When developing your business plan, try to put yourself in your readers' shoes. Generally speaking, your business plan will be addressed to people in one of the categories named below.



The potential investors will be banks, venture capitalists, or the like. They often only have a small amount of time available to go through a large number of business plans, in order to filter out those which, in their opinion, are worth investing in.

Institutions providing public financial aid will check whether your start-up has been planned on a sound footing and whether you meet the general conditions for funding.

Shareholders, personnel and business partners are interested in whether you are in a position to meet your commitments.

Take these aspects into account and make sure you guide your reader along a central thread from the business idea to a promising business venture, which ultimately arouses his interest and willingness to participate in the venture.

Brief, Concise, Consistent, Attractive

The length of a business plan varies from project to project, however most professional business plans do not have more than 35 pages in total, not including the appendices. You will see the recommended lengths of the individual sections in our checklist at the end of each chapter.

Formulate your business plan so that it is clearly understandable and avoid falling into raptures. You can only convince investors by presenting facts, so remain objective and restrict yourself to the statements and assumptions which have arisen logically and comprehensibly or have come about as a result of market research or other surveys. Make sure you present the essential facts in an accurate, precise and clear way.

Another very important point is the outward appearance of your business plan. Ensure that the entire plan can be seen to originate from a single source. If more than one person has been involved in the work, one person should put the complete plan on paper in order to avoid different styles or different layouts.

To ensure good legibility we recommend you use at least an 11-point font size, 1 ½ line spacing and a margin of at least 2.5 cm.

A word on “packaging”: the presentation of your business plan is essential to its overall impact and success. If it is presented physically, use a simple spiral binding with a clear plastic cover, front and back. This makes it easy for the reader to move from section to section, and it ensures the document will survive frequent handling.

Tip:

The development of a business plan is a dynamic process, in the course of which you will constantly acquire new knowledge. Always integrate it into the business plan, which will otherwise no longer be in conformity with your actual project.

Structure and Content of the Business Plan



1. Executive Summary

This section is the most important component of the business plan. It has to contain the 'selling points' for the project being presented in a concise, convincing form.

For that reason the Executive Summary must neither be regarded as an introduction nor as a simple summary of the individual points of the business plan. Rather, it must show the potential investor the key points of the participation or financing offer and arouse his attention. Often, after having read this section he will decide whether to continue reading or not!

We recommend you write this section at the very end, because only when you have dealt with all the modules of your business idea will you be able to accurately formulate the most powerful arguments in favour of your project.

On these two to three pages, list all the key aspects of your planning according to the following structure:

- Purpose of the business plan (e.g. search for investors prepared to contribute capital)
- Presentation of the project (goals and objectives, possibly the development so far)
- Project management
- Presentation of the product and its main competitive advantages
- Major competitors
- Market potential, sales forecast
- Opportunities and threats
- Capital requirement and intended use
- Planned financing structure and role of the financial partner

Executive Summary

The Company

- ◆ Company profile / company history
- ◆ Company ownership / shareholder structure
- ◆ Products / services
- ◆ Location and facilities of the company
- ◆ Objectives

The Business Idea

Production, Procurement, Quality, Administration

Market Analysis

Marketing and Vertrieb

Management and Organisation

Financial Plan

Opportunities and Threats

2. The Company

This section deals with describing the company in its present and future planned form. Naturally, if your company has not been formed yet, not all of the points listed here (e.g. company history) will be relevant.

Company profile / company history

Here, provide details about the time and form of company formation, about founder members and company objectives. Name the place where the company has its registered office, as well as any branches, subsidiaries or companies that are associated in terms of staff and finance.

At this point you can also provide a chronological description of the development and business of your company to date, possibly with diagrams and charts. Membership in chambers of commerce and professional associations may also be of interest to the reader.

The legal form of the company will be of special interest. The decision in favour of a particular legal form depends essentially on the following factors:

- Liability
- Managerial powers (company management, representation, co-determination)
- Financing possibilities (how capital can be attracted)
- Flexibility with regard to admission and withdrawal of new shareholders
- Fiscal treatment
- Legal regulations (auditing and disclosure obligations for joint stock companies from a certain size upwards)
- Start-up cost

Company ownership / shareholder structure

This section should explain briefly who the company proprietor, company manager and shareholders are. In one or two sentences also describe what other rights of joint consultation or information exist, for example for a supervisory board, advisory board or board of directors. Often forgotten, though most important, are succession arrangements for the proprietor(s).

Products / services

Provide a brief description of existing product groups as well as their target customers and main factors contributing to success. The presentation of your new venture will be discussed in the following section “The Business Idea”.

Location and establishing of the company

Outline the position and size of your company’s locations and indicate whether you have purchased, rented or leased the premises. List the activities performed at each location and the costs incurred.

In this section, you describe the future positioning of your company: what long-term objectives have you set yourself? With what strategy do you plan to achieve these objectives? How do you plan to reach the objectives at operational level, i.e. what are your measures and concepts? Here, it is advisable to set milestones and stages on the journey towards your goal. In practice this means: draw up an overview of projected sales figures, employees, investments, profits and equity capital for the next three to five years.

This section must demonstrate to the reader that you are striving for company growth, with all its consequences. Preparation of this part of your business plan calls for a high degree of abstraction. At this point your thoughts should be formulated very concisely: the presentation of a company vision is at stake!

Checklist: The Company

Can the reader clearly see

- how the company has developed from its formation to the present day?
- what ownership and shareholder structure it has?
- what line of business you cover?
- what main factors contribute to your success?
- what vision you have?
- what strategies you have in order to implement that vision?
- what milestones you have set yourself on the journey towards your goal?

Length: 2-3 pages

Executive Summary

The Company

The Business Idea

- ◆ Description of product / service / technology
- ◆ Development
- ◆ Customer utility and main competitive advantages
- ◆ Protection of the idea

Production, Procurement, Quality, Administration

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3. The Business Idea

Description of product / service / technology

You already dealt with describing the content of your product, service or technology when you formulated your business idea. Allow yourself time for this key element of your business plan and read again the explanations on page 8.

You can support your description in the business plan visually, i.e. with pictures, drawings or diagrams. Complex technological analyses and all the relevant technical information belong in the Appendix. This ensures that any reader without sufficient technical knowledge is not disturbed in his reading by details that he does not understand. However, if experts are consulted, they can use the Appendix to clarify further details and perform certain checks.

Development

You already dealt with development when you formulated your business idea. Refer to the explanations on page 8.

When describing the product in your business plan, consider whether any official permits will be necessary to implement your idea. For example, the investor will be interested in what national and foreign laws and regulations could have an impact on the production or sale of your products. Explain how they can be complied with, whether permits have already been applied for, and what the chances are of being granted the permits.

Here, you can also indicate the potential of your product to be developed into a production line or the possible ancillary sales-generating potential of your company's business activities – e.g. in the electronics field, trading in electronic components from a foreign supplier, or in the software field, offering supportive services such as training.

Customer benefit and main competitive advantages

Please refer to the remarks on page 7.

Protection of the idea

Please read pages 9 et seq.

Checklist: The Business Idea

Can the reader clearly see

- what function your product/service fulfils?
- where the innovation is?
- what its stage of development is?
- what the benefit is for the customer and how significant it is?
- what major advantage the product has compared to competing products?
- how the idea is protected or can be protected?

Length: 2-5 pages

Executive Summary

The Company

The Business Idea

**Production, Procurement, Quality,
Administration**

- ◆ Production
- ◆ Procurement strategy
- ◆ Quality assurance
- ◆ Administration

Market Analysis

Marketing and Sales

Management and Organisation

Financial Plan

Opportunities and Threats

4. Production, Procurement, Quality, Administration

Production

Here, describe your methods of manufacture/production processes. You can use the following points as a rough guide:

- Method of manufacture (mass production or custom manufacture)
- Sequence of the production process
- State of the art
- Level of automation
- Strengths and weaknesses of the method of manufacture
- Production costs
- Description of manufacturing facilities/production systems and the infrastructure

In particular, go also into the **organisation** of manufacturing: what are the responsibilities and competences? How long are the processing times? Where are the potential bottlenecks in the production process? How high is the total capacity and how high is the free capacity, with regard both to production equipment and personnel? Based on the information about the utilisation of capacity, the potential investor can see whether any major investments in production facilities are necessary if the company grows substantially.

Tip:

If in the future you are likely to require a further injection of equity capital for manufacturing purposes, you should ensure that the partner you select is large enough to finance those investments.

This section deals with the aspects of internal or external production as well as the purchasing of goods and materials.

Make-or-Buy Analysis: Buy It or Make It Yourself?

You can buy in products or services entirely or partially. When analysing potential suppliers you should not only compare prices but also qualitative features such as ability to supply, quality and reliability.

The main decision-making criteria in establishing whether to manufacture your products yourself, buy them in or have them manufactured, are, on the one hand, the resulting direct and indirect costs. Indirect costs can, for example, arise due to under-utilisation of capacities, imminent production bottlenecks or supply bottlenecks.

The second important consideration involves the core competences of your company. As soon as you give drawings, process descriptions or the like to people outside the company, you expose yourself to the risk that your know-how may be copied and your contractor suddenly becomes your competitor. Bear in mind that your contractor could be taken over by a larger company, possibly your direct competitor. For this reason, make sure you identify the original core strengths of your company and keep them in-house.

If you choose the 'somewhere in between' solution, you must make a decision with regard to production depth, i.e. address the question of the extent to which you want to manufacture your product yourself. Will you purchase ready-made units that you only have to assemble or do you wish to manufacture each part yourself? To help you make these decisions, you can obtain current figures (average cost per production unit, average personnel costs etc.) from the relevant industry associations.

In the case of a service company, such a make-or-buy analysis could relate to the question as to whether you wish to have the planned service performed by your own people or by subcontractors. The advantage of using subcontractors is that they do not have any employment contract claims against you, but you will always be operating in a highly controversial grey zone.

Tip:

If you do decide to use subcontractors, it is strongly recommended that you have the contracts checked by a lawyer specialising in industrial law, to avoid any possible claims of recourse by social security institutions.

For your business plan that means the following:

Provide information about production depth, i.e. whether and which processes are to be performed externally. Indicate the reasons for your decisions. The reader is interested in your possible dependence on individual suppliers or contractors. For this reason, indicate who your suppliers/manufacturers/subcontractors might be and what kind of contracts have already been concluded. As far as the purchasing of goods and materials is concerned, where do the raw materials come from and how are prices developing? To detect any potential risks, the reader is also particularly interested in what the critical parts are and what their delivery lead-times are.

Quality Assurance

Another aspect that belongs in this section is the subject of Quality Assurance and Quality Control. Key concepts are TQM (Total Quality Management), CIP (Continuous Improvement Process), Quality Circles, Learning Organisation, etc. Expressed in simple terms, this is basically about developing a system in which each member of staff is responsible for the quality assurance of his process and constantly looking out for improvements.

The section should also cover the topic of documentation (ISO 9000). All the processes in the company are documented, aiming to ensure that the individual steps in the operational work processes always take place in an identical manner and ultimately the quality or a certain standard can be assured.

Administration

Depending on the field of activity of the company, the administrative area covers various functions. This means, for instance, that requirements for operational accounting may differ. Here, explain briefly how the administrative area is structured, what electronic data processing and office capacity is available, etc.

***Checklist: Production, Procurement, Quality,
Administration***

Can the reader clearly see

- what manufacturing methods/processes will be applied?
- what the production process will be like?
- how high the production depth is?
- what the supplier base will be like?
- how high the present and projected production capacity is/will be?
- how manufacturing and purchasing costs are structured?
- what quality assurance measures are being taken?
- how the administrative area is organised?

Length: 2-4 pages

Executive Summary

The Company

The Business Idea

Production, Procurement, Quality, Administration

Market Analysis

- ◆ Market and market research
- ◆ Situation and development of the industry sector
- ◆ Target market
- ◆ Competition
- ◆ Planned sales volume

Marketing and Sales

Management and Organisation

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Opportunities and Threats

5. Market Analysis

In this section you should describe the environment in which your product / service will be traded and how you want to position yourself in it. The prerequisite for this is naturally that you have first investigated the market in detail. The market consists of sellers (supply) and buyers (demand) of the product. After all, you must demonstrate to the reader that you will not be a market crier standing where there are no customers romping around.

Let's take the example of a fruit and vegetable market, where the market description of a strawberry seller could be as follows, expressed in simple terms: Seller Mr Better has strawberries that are organic produce and also look bright red and have a good flavour – for € 3 a kilo. Seller Mr Cheap is offering mass-produced strawberries for € 1.50 a kilo. There are also two small stalls with a mediocre offering. On average the market is attended by 200 persons a day, of whom approx. 30 buy from Mr Better and approx. 90 from Mr Cheap. The other visitors to the market go to the other stalls. Mr Better's customers are quality-conscious, private individuals with a good income (80%) and buyers from local upmarket catering establishments (20%). Mr Cheap's customers are mainly students (20%), pensioners (25%), working people (45%) and others (10%).

Market and market research

Now, how does one go about obtaining information for an industry or a market that is somewhat more complex than the strawberry market?

Primary research

The most convenient method of obtaining good data and hence a sound basis for decision-making would be to commission a market research institute and have the necessary information delivered 'to your doorstep'. However, this service does not come cheap.

If you have sufficient time and manpower, you could also organise and conduct such research yourself by observing, in a way similar to that shown in the example, your target market and simply questioning the potential buyers. However, you should bear in mind that you have to survey a sufficiently large base to obtain a representative result.

These methods of obtaining data are referred to as primary research, i.e. the data are recorded in this form for the first time.

Secondary research

Apart from primary research there are different ways of conducting secondary research, i.e. accessing existing statistics. This method of obtaining information is much less expensive and probably more practicable in many cases.

There is a wide variety of very different sources from which you can meet your requirements for information, often highly specifically.

Sources of Information

The **Industry Associations** can usually provide you with average figures and comparative values that help you with your calculations and comparisons with other companies (benchmarking). You can also ask for industry turnover, market volume, and market development figures.

The **Chambers of Commerce and Industry** can also assist you in finding information. The Cyprus Chamber of Commerce and Industry (www.ccci.org.cy) has developed a comprehensive system of information provision to enterprises, as well as to the general public of Cyprus. This national umbrella organisation can also tell you the address of your local chamber.

You can also search for potential customers in industry directories or in CD-ROM databases, or obtain information at relevant trade exhibitions.

Let us now return to your business plan: in the Market Analysis section you now describe the results of your market research. Should no reliable information about any particular area be available, say so. It is important that the reader sees that you are very well acquainted with your market and can exploit its unwritten laws and special features to your advantage.

In particular, you should comment on the following aspects:

1. Situation and development of the industry
2. Your target group
3. Your competitors
4. Your forecast sales volume

Situation and development of the industry

Provide an overview of the industry in which you are operating. A rule of thumb is: proceed from general aspects to specific aspects, i.e. from the total market to the submarket and from there to the individual market segment. In the automobile industry, submarkets would be e.g. motor cars, commercial vehicles and special-purpose vehicles. The market segments in the motor cars submarket would then be compact cars, middle range and top range.

Indicate why you are operating in the market segments selected and what special features these segments have, e.g.

- whether there is a large number of suppliers on the market (as with food or stationery) or only a few (as with ERP systems);

If there is a large number of suppliers on the market, it will take a long time until the established suppliers even take notice of you. If there is only a handful of suppliers, you will soon be spotted because the others will miss the business you have taken away from them. They will not stand and do nothing but take measures to crowd you out.

- whether your product has to meet certain standards (e.g. software has to run under Microsoft Windows, the electric car you have invented has to have two airbags);
- at what stage of development the market is (e.g. the market for high-temperature supraconductors is only just evolving, replacing the cryogenic supraconductor market).

If there are any market limitations or barriers to market entry (e.g. are permits required?), you should draw attention to them.

Provide information about the size of the market: number of buyers, number of units sold, value of total industry sales.

A sample estimate:

Approximation of market volume for the shoe retail business in the city of Karlsruhe

Check list: **Approximation of market volume**

Formula:

$$\frac{\text{Inhabitants or households in catchment area} \times \text{purchasing power index}}{100}$$

Example:

Inhabitants in the catchment area (e.g. Karlsruhe)	270,000
Purchasing power index (Karlsruhe city 1994)	112.2
Retail trade-related per capita expenditure on shoes in Germany in 1995	€ 125.00

$$\text{Market volume} = \frac{270,000 \times 112.2 \times 125.00 \text{ €}}{100} = \underline{\underline{\text{€ 37.85 million}}}$$

Space for your calculations

Adapted from: Karlsruhe Chamber of Industry and Commerce

The market's and the specific market segment's growth rates are of major importance. You can give historical values but the focus should be on the trends to be expected in the future. In doing so, you should show that you are aware of the factors likely to influence market growth. For example, these could be government influences or changes in the law. You cannot necessarily influence such factors, but you can indicate to what extent you are in a position to counteract or avoid them.

Remember:

Do not simply provide figures but also verbal descriptions of the market and the market players. Indicate where and how you have acquired your information.

Target market

Basically there are two initial situations:

1. You have a new idea and must consider what groups of potential customers could benefit from it, i.e. how you could create a market. The photocopying machine, for example, had to begin by first creating its market – until then people had 'managed without'.
2. You know a problem for which you have found an appropriate solution. Then the target group is defined roughly, but you should give some thought to whether that problem or similar problems might exist in other areas and whether your solution might be suitable for those target groups as well.

You will find important explanations on how to deal with this aspect in pages 12 et seq.

Indicate who your rivals are and what they are doing. Conduct research into who is operating on the markets of relevance to you and observe the offerings and methods of your most important competitors.

Trade exhibitions at which the competitors present themselves – and where your potential customers are present – are particularly suitable for this. On the one hand, you have the opportunity to get to know your competitors and their products. On the other, you have the chance of asking potential users of your product or service which aspects they attach special importance to, who their preferred suppliers are, and what is so special about the latter, i.e. what their competitive advantage is.

If there are too many competitors, concentrate on the largest ones, on the newcomers and on those who have suddenly entered crises. The information about your competitors should include the following points: market share, sales in the various market segments, number of staff, image, etc.

Draw up so-called strength/weakness profiles of the suppliers. It is advisable to present the competition situation in a matrix. The aim is to illustrate to the reader the competition situation in the target market. On the basis of this strength/weakness profile, you can clearly emphasise the competitive advantages of your product and company. Think particularly of factors such as development, product range, sales, marketing and location. Explain how stable your competitive advantage is and how you intend to retain it and expand on it.

The following checklist for competition analysis has been adapted from the *Collection of Checklists for Company Founders and Young Companies in Retail Trade* published by the Karlsruhe Chamber of Industry and Commerce.

Checklist: Competition Analysis									
List of factors for assessing rival companies									
Checklist for <u>weak-point analysis</u> for competitors A, B and C									
Assessment Criteria	Competitor A			Competitor B			Competitor C		
	1	2	3	1	2	3	1	2	3
Sales by value/earning situation									
Level of sales									
Sales trend									
Cost structure									
Personnel expenses									
Earnings									
Promotional effects									
Advertising generally									
Shop window									
Campaign advertising									
Image									
Shop design									
Premises									
Sales area									
Presentation of merchandise									
Assortment									
Breadth									
Depth									
Genre/level									
Price ranges									
Service									
Range of services									
Standard of service									
Advice									
Parking spaces									
Other									
Location									
Customer structure									
Suppliers									
Customer flow									
Sub-total									
Total									
3 marks = very good 2 marks = satisfactory 1 mark = poor Maximum score: 72 marks = very good Minimum score; 24 marks = very poor									

Planned sales volume

After the review above, you should now be able to say what share of the total market potential you are aiming at. If possible, provide specific figures on how your projected sales volume is going to develop.

The projection horizon in the case of short-lived commodities such as computers is approx. 5 years, whilst for longer-lived capital investment goods you should forecast 10 or more years.

You should also include the following considerations in this connection: what strategies can be expected from your competitors in the future and how will you respond? Could your company's key personnel be enticed away by the competition? How close are the relations with your competitors?

Checklist: Market Analysis

Can the reader clearly see

- how the industry is developing in general and what trends are affecting it?
- how large the market is and how fast it is growing?
- how you can overcome any barriers to market entry?
- who your groups of target customers are?
- how you plan to position yourself and set yourself aside from the competition in the market?
- who the strongest suppliers on the market are at the moment (your direct competitors)?
- what strengths and weaknesses your competitors have?
- how the market shares are divided up and what market share you are aiming at for yourself?
- how your sales volume is likely to develop in terms of figures?

Length: 2-4 pages

Executive Summary

The Company

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Production, Procurement, Quality, Administration

Market Analysis

Marketing and Sales

- ◆ Sales-promotion factors
- ◆ Market entry strategy
- ◆ Marketing mix
 - Product: product policy
 - Promotion: communication policy
 - Place: distribution policy
 - Price: contracting policy

Management and Organisation

Financial Plan

Opportunities and Threats

6. Marketing and Sales

Technology companies often concentrate to a large extent on research and development. Unfortunately they frequently underestimate a key consideration: a sound marketing concept is required to successfully sell the results of research and development, i.e. ultimately a product or service.

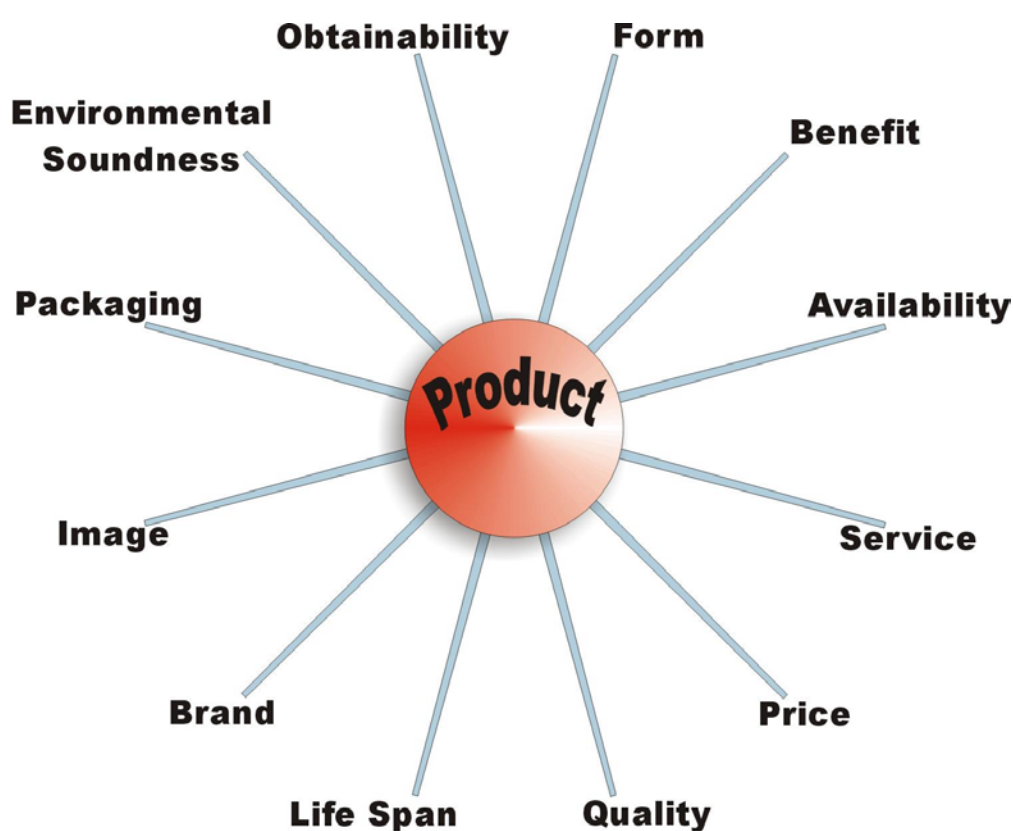
This section deals with the presentation of the strategy for market entry and the sales concept. In particular, your business plan must indicate your approach to the following points:

- steps planned for market launch
- features of the product/service
- type of communication with (potential) customers
- selection of sales channels
- price strategy and pricing

Marketing/sales strategies depend on many factors and there is no 'patent recipe' to suit all situations. Depending on whether you are a manufacturer, dealer or service provider, the points of emphasis of your marketing plan will be different. For example, a service provider does not have to give any thought to the packaging design for his 'product'. If you intend to manufacture control units for special conveyor systems in the mining industry, it makes little sense to consider opening a shop in a major city. If you have invented a revolutionary drug, all you need to do is, exaggerating slightly, issue a press release and the media are bound to report about you – the result being that everyone will be chasing after your product (cf. Viagra). However, you will only find such a situation in very few cases. Normally, after conducting painstaking market research activities you will have to work out a broad-based marketing concept.

Before you prepare a marketing plan it is worth considering the factors that can influence a product's sales.

A product is purchased or not purchased for a wide variety of reasons. One person buys it because of the quality, another person because of the brand name, another because of the excellent service. Consequently, there are many factors that can promote sales of a product, if they are emphasised skilfully and successfully. Conversely, if not enough attention is paid to them, they can act as a brake on sales and turn your brilliant idea into a flop. These factors particularly include



Market entry strategy

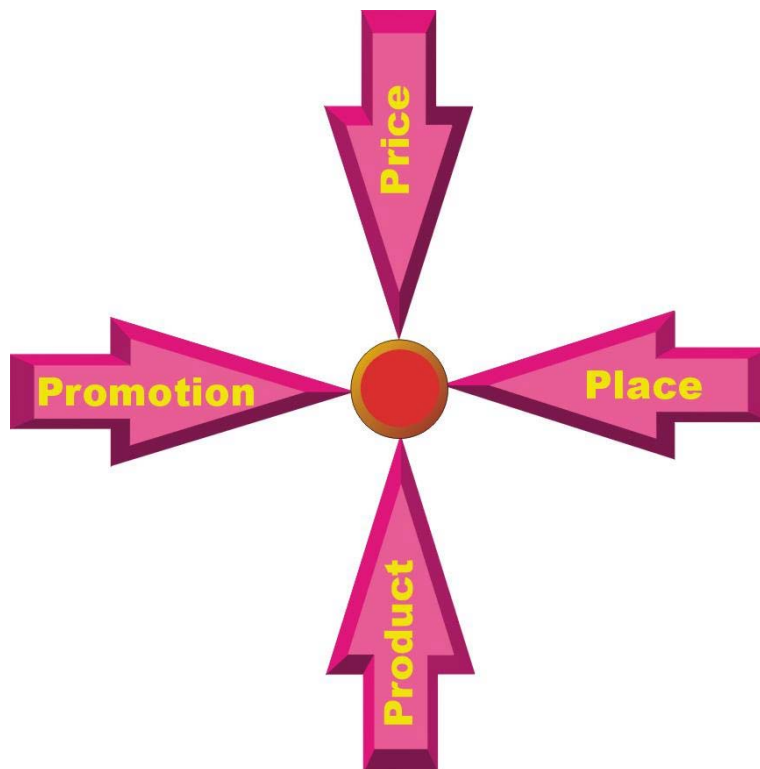
Launching the product or service for the first time is of special importance. Indicate what steps and what timetable you have planned for this. What important milestones are to be achieved?

Tip:

Costly campaigns are often less successful than a systematic launch via projects that become references. If you succeed in obtaining companies as pilot customers, they can become opinion leaders in the industry.

Marketing mix

The various marketing tasks can be divided up into four core areas, the object of which is ultimately to promote sales. The blend of these four areas, which all aim at a common goal, is called the marketing mix.



Each of these areas is primarily concerned with a different aspect of marketing, whereby it is ultimately the sum of all the parts that determines success or failure.

Product: product policy

Let's say you have invented the brilliant software with the aid of which anyone can determine his personal insurance requirements and pension scheme – without having to ask a financial consultant or insurance consultant. Although the first step has been taken, there are still a few important points that you have to address within the scope of product policy, e.g.:

- Are systematic variations, differentiations or adaptations necessary for individual customer segments?
- Is the external appearance of the product attractive?
- Is the product designed to be user-friendly?
- How adaptable is the product if external factors change (e.g. changes in insurance premium tables)?

In our example, this means you would have to tackle questions of ergonomics, i.e. whether the software is easy to use and the user interfaces are attractively designed. In addition, you would have to consider expanding your offering to include motor insurance, company insurance, etc. – to be able to serve as an all-rounder.

Promotion: communication policy

Now there you are with your insurance software and its excellent product policy, but who takes any notice of it? To make contact with potential customers, you can choose from a number of options:

- Traditional advertising (TV / radio / printed media)
- Direct marketing (mail shots, telephone marketing)
- Participation in exhibitions and trade fairs
- Sales-promotion measures (displays)
- Public relations (press releases, sponsoring)

Communication policy also includes the task of monitoring and ensuring that the company maintains its corporate identity. Developing and maintaining this corporate identity involves aspects such as the logo and co-ordinating advertising claims.

Place: distribution policy

Distribution policy covers all issues associated with the product's journey towards the customer.

In what way does your product travel from your finished-goods store to your end customer? How does your customer have access to your service?

The so-called sales channels range from direct sales to multi-stage channels (e.g. wholesale and retail). The choice of sales channel depends on what type of product or service you are offering: consumer goods and durables, capital investment goods or services.

Possible sales channels:

Consumer goods and durables	Capital investment goods	Services
<ul style="list-style-type: none"> • Travelling salespeople / commercial agents • Wholesale • Retail • Trade fairs • Franchising • Internet 	<ul style="list-style-type: none"> • Direct sales • Travelling salespeople • Trade • Trade fairs 	<ul style="list-style-type: none"> • Direct sales • Travelling salespeople • Agent / broker • Franchising • Internet

Franchising

In 1954, a flavoured milk representative entered a restaurant in San Bernardino in the west of the USA. Instead of then continuing his journey, as he would normally have done after a sales talk, he remained in his car and observed the restaurant the whole day with increasing amazement: customers were going in and out all the time. The representative was fascinated by this popularity. A few weeks later, he paid a visit to the proprietors and shortly afterwards acquired a licence to market that type of restaurant. On 2 March 1955 he established his own company. The name entered on the register of companies was: McDonalds.

In the 1960s, franchising gained a foothold in Europe too. With this type of selling, the franchiser grants the franchisee the right to exploit his business idea independently. The franchisee uses the franchiser's trademarks, names, brands, design of sales rooms, etc. The outside world has the impression that the franchisee's firm is a branch of the franchiser.

An elementary component of franchising is that the franchiser passes his know-how on to the franchisee in return for payment of a franchise fee. The franchise fee can be an agreed fixed amount or a percentage of turnover.

The advantages for both parties are evident:

Franchiser	Franchisee
<ul style="list-style-type: none">• Rapid expansion with minimal capital input (the investments are undertaken by the franchisees)• Control over the selling system	<ul style="list-style-type: none">• Largely independent• Managerial advice provided by the franchiser (he has proven know-how from the outset)• Exploitation of the franchiser's good name

Price strategy and pricing

In the traditional price calculation you will calculate costs per hour, add the cost of materials and then add your mark-up.

As a basis for pricing you can also apply the benefit to the customer instead of cost. With this so-called **value-based pricing**, you estimate or calculate how much the benefit of your offering is worth to your customers. The resulting price can be significantly higher than the one derived from a traditional calculation. For example, your new machine enables the industrial customer to avoid heavy metal in the production process. Until now, the conventional machine plus disposal of the heavy metal has cost the customer approx. € 500,000. For your new machine, which costs you only € 50,000 to manufacture, you can ask a price of € 500,000.

Customer benefit may also be a value that cannot be determined as a figure but represents purely emotional value. Then you can apply **power pricing**. The pharmaceuticals industry shows us how: the price of a drug is only marginally dependent on the cost of research and manufacture. The question is rather: how much is the drug worth to customers? And precisely that price is then used. The model also works in the area of business-to-business. Power pricing adds the extra benefit that the customer acquires with your product.

However, value-based pricing and power pricing do not always work; you need to have a lead over the competition. Be sure to exploit this lead if you can: any price that has been set too low at some time is extremely difficult to correct later.

The area of contracting policy also includes issues of terms of delivery and payment, e.g.:

- what rates of discount do dealers, key accounts, etc. receive?
- is leasing or hire purchase offered?
- what modes of payment are accepted (prepayment /cash on delivery/invoice)?

Here, there are normally industry conventions. In mechanical engineering, for instance, it is normal to make progress payments, i.e. agreed so-called milestones where the customer pays a certain part of the total amount. This way you do not have to finance the entire cost of manufacture in advance.

Checklist: Marketing and Sales

Can the reader easily see

- what steps are planned for the market launch?
- how your product or service is designed so that it attracts attention in the market?
- in what way and by what means potential customers are to be addressed?
- through which distribution channels your product or service is to be sold?
- what pricing strategy you are pursuing and how your prices are calculated?

Length: 2-4 pages

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Market Analysis

Marketing and Sales

Management and Organisation

- ◆ Management team
- ◆ Voting rights situation
- ◆ Organisational structure
- ◆ Operational structure
- ◆ Personnel planning
- ◆ Personnel expenditure

Financial Plan

Opportunities and Threats

7. Management and Organisation

Management team

Investors understandably want to know exactly to whom they are entrusting their money. After all, the success of their participation basically depends on the acts performed by the management team. It can thus be taken for granted that investors attach maximum priority to the abilities, wealth of experience, talents and integrity of the management team. Quite often, the Management Team section of the business plan is even read straight after the Executive Summary. This section may even be inserted towards the front, with the Company section.

Investors invest in minds, not in products or ideas!

Establishing a project or a company in a team has major advantages. For one thing, the boat is not without a captain if a particular individual is not available. The most important point, though, is that the various strengths of the individual team members are combined – after all, no one is an all-round genius. A well-balanced management team usually offers greater security than the alleged jack of all trades.

Make sure the management team is well-balanced. If friends from student days or colleagues form a company together, they naturally often have the same background. If a company then has only engineers in the management team, for example, managers with an understanding of financial and marketing issues will be missing. A typical point of criticism on the part of many investors is as follows: "In technology and development there are hardly any deficits; the first weak points crop up in production, especially in logistics and organisation; substantial deficits are usually to be found in sales. Frequently company management lacks a commercial expert because the company came into being through a product idea."

A correctly balanced team also achieves an overall result that is more than the sum of its individual contributions! The prerequisite for this is that everyone has a common vision. The ideal size for an effective management team has proved to be at least three persons and a maximum of six.

In your business plan you must present the team as a whole and the individual team members. Who has what training and experience? Bear in mind that the investor's demands on team members are not only expertise but also 'soft' factors such as social competence, communication skills, initiative, assertiveness and negotiation skills. The description of the team members can be kept short at this point – a third of a page per person is generally sufficient. However, in the appendix you should enclose the complete curriculum vitae of each one.

In your business plan, also draw attention to gaps in management. By disclosing these you demonstrate to the future investors that you have addressed the requirements for managerial structure and that you are open to constructive assistance.

With teams there is another side to the coin: the question of ownership, which you should also answer in this section.

"Friendship doesn't extend to money matters": disputes about money have already destroyed many companies or projects, even when the founders were friends of youth. Often, attention is only devoted to this point when the company or project is well-established. Or when problems arise. As you know, success has many fathers, but failure only has one, the other person!

For this reason, agree on financial issues right from the beginning. With the aid of an experienced lawyer, draw up a memorandum of association or partnership agreement that regulates aspects such as distribution of profits, liability issues, management, divorce, inheritance, etc.

Tips on how to select lawyers and consultants:

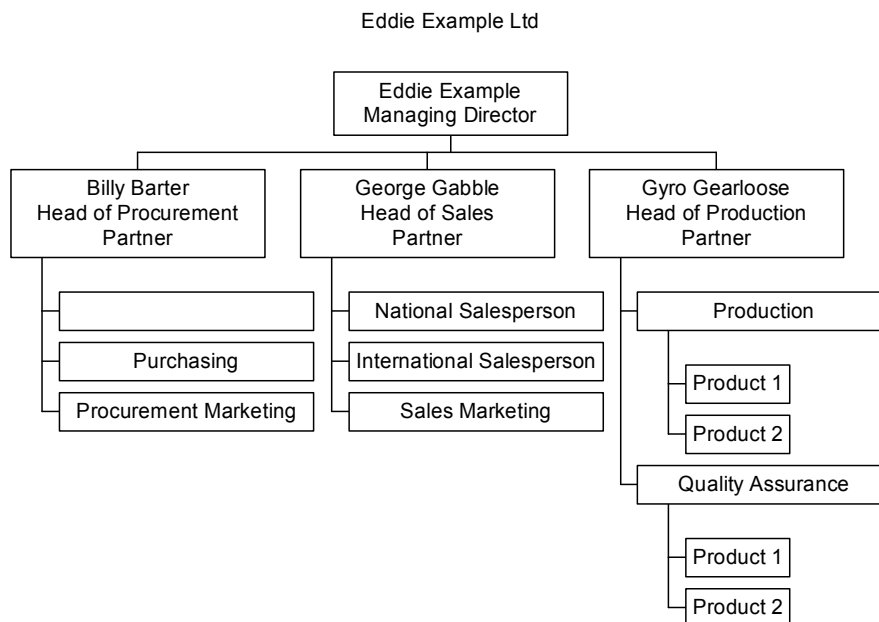
- Each type of company has its group of consultants. So look out for references. Does the lawyer/consultant have relevant experience?
- In selecting the lawyer or tax consultant suited to your problems, the local chambers of lawyers and tax consultants can be of assistance.
- Have one lawyer draft the document, and have another check it!

Inasmuch as there are other bodies who have rights of joint consultation/control and possible influence, you must provide appropriate information. In particular, an advisory board or supervisory board may be involved.

Organisational structure

Now you can describe how you plan to fill the key functions. Usually this will be mentioned in the description of the management team. Show the reader, using the so-called organisation chart, who is responsible for what. An organisation chart presents the organisational structure of the company as an illustration, showing the division of tasks and responsibilities.

Organisation chart of a company structured by functions:



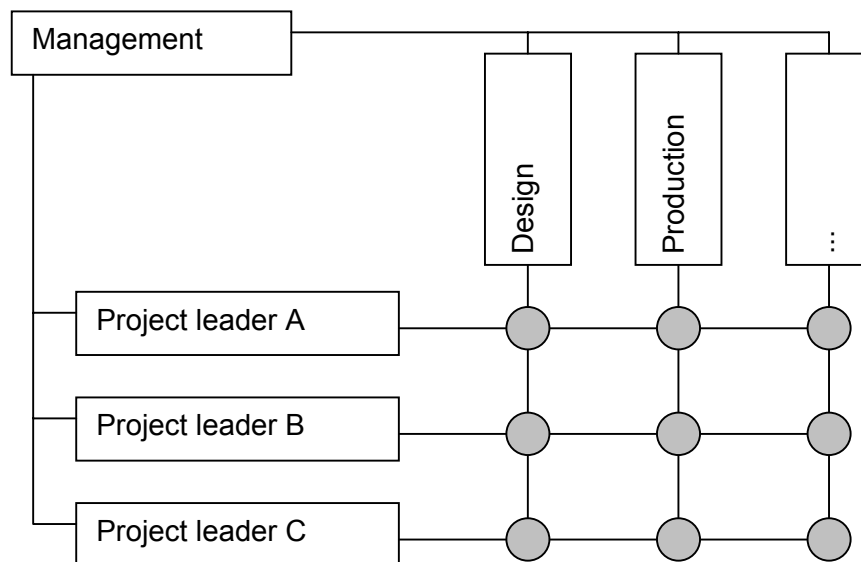
For a start-up company, a simple structure with only a few levels is usually adequate: managing director, departmental managers, employees.

Another possible organisational structure, which is gaining importance, is the so-called matrix structure/project management. In this organisational structure, there are on the one hand heads of department in charge of operational performance in various specialised departments. The project managers or product managers, on the other hand, coordinate all the measures necessary for their particular projects or product lines.

This means the product or project managers and the heads of the various functions share authority. Consequently, the smooth operation of the business process depends on good collaboration among those involved.

The advantage of this type of structure is particularly that on the one hand the entire special knowledge of all the specialised departments is available for each project and, on the other hand, the customer buying a product / project only has one person to contact who knows all about the entire project.

Example of a matrix structure / project management:



Such an organisation chart includes job descriptions that indicate what activities and competences are included in each occupation. Enclose these in the appendix to your business plan.

Arrangements must be made as to what individual activities are necessary to implement the business idea and how they interact. All the steps necessary to manufacture the product or to provide the service must be co-ordinated and executed systematically and at reasonable cost.

The operational structure of a typical industrial company contains the following blocks:

- Research & development
- Production
- Marketing and sales
- Service

When analysing the various blocks or particular areas within a block you should determine what your core competences are – in other words, what your company can do better than anyone else. Focus your attention entirely on this. That way you ensure that you use your time most effectively to create a special benefit for your customers and thus distance yourself from the competition most meaningfully.

Explain with what external agents (lawyers, trustees, advertising agencies, banks, management consultants) your company works. If there are any personalities from industry or the financial sector helping you as competent advisors, this will give the investor additional security.

Personnel planning

Growth generates a demand for staff. Provide information about the future demand for staff and how you plan to meet these requirements. Is there sufficient qualified staff in your region? Bear in mind that qualified, specialised staff are often extremely difficult to find – despite the relatively high level of unemployment generally. The only option may be to attract staff from competitors.

Vice versa, there is naturally a latent risk that your own staff could be enticed to rival companies. Especially in the area of new technologies it is most important not to lose your specialists. For this reason, consider how you can commit your own people to your company. Among other things, it is a question of salaries and incentives. Profit-sharing schemes, for example, can make companies attractive to good employees in the long term.

Personnel expenditure

Provide information about the salaries of directors, managers and staff, as well as incidental staff costs. In particular, explain how the remuneration for management is structured (performance-dependent salary components, bonuses, etc.).

Checklist: Management and Organisation

Can the reader clearly see

- who the members of the management team are?
- what abilities and experience the team as a whole and its individual team members have?
- where the team has gaps and how these can be filled?
- what rights of joint consultation there are?
- how responsibilities in the company are divided up?
- what tasks are handled by which consultants and external offices?
- how high the future demand for staff will be and how you plan to meet requirements?
- how personnel expenditure is structured?

Length: 2-4 pages

Executive Summary

The Company

The Business Idea

Production, Procurement, Quality,

Market Analysis

Marketing and Sales

Management and Organisation

Financial Plan

- ◆ Financial analysis and planning
 - Initial situation
 - Financial planning for the next 3 - 5 years
 - Capital/financing requirements
 - Comments on the assumptions and forecasts
- ◆ The financing concept
- ◆ Exit options for investors

Opportunities and Threats

8. Financial Plan

To be able to calculate how much capital will be required to finance a project you have to know some basic terms and techniques of company accounting and financial analysis. The following information chiefly addresses readers who do not have knowledge of business administration. In a very simplified form it provides some basics, which will be necessary to prepare your financial plan within the scope of your business plan. If you have already had training in business administration, please simply skip this section and proceed to the next one.

Remember what it was like when you moved into your first flat. You had to consider what one-off and recurrent expenditure you would be confronted with and how you would meet the commitments. On the one hand, there were one-off costs for wallpaper, floor coverings, a new kitchen, etc., and on the other hand you were faced with running costs for the heating system, household contents insurance, etc.

When you start a new business, you have to fundamentally make the same deliberations. You will have to make one-off investments in plant and equipment, fleet vehicles, etc. and will have to pay regular invoices for water, electricity, rent, maintenance, etc.

The aim of financial analysis is to ensure that your company remains solvent. The best start-up is no use if you run out of money before long. What you have to achieve and protect is positive cash flow.

Cash flow is a concept taken from financial analysis, which reflects the flow of funds from the business process.

For this you may have to procure capital. You require it to make investments (fixed assets) and in order to pay your incoming invoices, i.e. to maintain operations (current assets).

Fixed assets include all items that are designed to constantly serve the business operation:

- buildings
- machines
- vehicles
- ...

The 'remainder' is current assets:

- raw materials
- semi-finished and finished products
- stationery and office supplies
- accounts receivable (outstanding customer invoices)
- credit and banks, cash on hand
- ...

Assets may be financed by three different sources of capital:

Current debt:

These are short-term liabilities, i.e. they must be met within one year:

- Accounts payable (unpaid invoices from suppliers)
- Operating debts (short-term debt incurred in carrying out daily business, such as a current account overdraft)

Long-term debt:

- Mortgages
- Bank loans
- ...

Equity:

Equity or net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

Those are the most important terms we need for the balance sheet, i.e. the list of assets and liabilities:

Balance Sheet	
Assets	Liabilities
Fixed assets	Current debt
Current assets	Long-term debt
	Equity

The right-hand side of the balance sheet (liabilities side) represents the source of funds; the left-hand side (assets side) represents the use of those funds. Consequently, both sides of the balance sheet must always result in the same total.

To calculate the amount of capital required, you must therefore make a list of what investments you will have to make in fixed assets and current assets.

If one now considers another important parameter on the balance sheet, the corporate result for the period under review, the balance sheet looks like this:

Balance Sheet	
Assets	Liabilities
Fixed assets	Current debt
Current assets	Long-term debt
	Equity
Loss	Profit

The profit determined appears on the liabilities side of the balance sheet because it represents additional equity capital. On the other hand, any loss incurred appears on the assets side because it represents an ‘appropriation of funds’ (a loss must ultimately be covered by equity capital or debt).

In practice, therefore, profit brings about an increase in equity capital whilst a loss results in a decrease. But how is the result (profit or loss) of the period determined? For this we use the income statement, which is also called the profit and loss account (P&L). This lists all the operating income and expenditure. The difference in this account then reflects the corporate result:

Expenditure	P&L Account	Income
<ul style="list-style-type: none"> • Cost of goods and materials • Personnel expenses • Rent • Depreciation • Repair expenses • Other expenses • etc. 	<ul style="list-style-type: none"> • Revenue from products/services sold • Extraordinary income • etc. 	
+ PROFIT	+ LOSS	
Σ expenditure = Σ income		

Let us return to cash flow, i.e. surplus cash: it expresses the amount that you 'have in your pocket', so to speak, and can use for investments or to pay off debts. To calculate it, all 'movements of money' are taken into account.

It is therefore necessary to make assumptions that are as accurate as possible regarding future purchases and sales (flows of goods) and future income and expenditure (flows of money). Exact points in time are important. A sale is not equivalent to the receipt of money, whereas a purchase – especially for a young company – often means an immediate expense.

However, before you can make assumptions regarding future income, a preliminary step is required: price calculation. After all, turnover is calculated by multiplying the goods/services sold by the price. Read the information on this provided in the section **Price strategy and pricing**.

Financial analysis and planning

This section of your business plan will provide the potential investor with an overview of the projected financial development and financing requirements of the company. The projection horizon should be at least three to five years.

Initial situation

When a new company is established it is not possible to refer to existing figures. The founder must derive the financing requirements purely from the budgeted figures. With an existing company, the projected development over the next three to five years should be based on the company's actual figures for the past two to three years. In this case, briefly summarize the following points and enclose appropriate copies in the appendix:

- ◆ balance sheet for the last 2 - 3 years
- ◆ profit and loss account for the last 2 - 3 years
- ◆ capital and participation structure
- ◆ credit lines and guarantees
- ◆ public funding applied for and approved
- ◆ etc.

Financial planning for the next 3 - 5 years

Step by step forecasting

The forecasting process takes place at various levels. There is a forecast for unit sales, which results in the trend in sales by value, a forecast for materials input, production, for investment development and for overheads, which particularly accumulate in administration costing.

The **sales forecast** is of major importance because it constitutes the basis for almost all the other forecasts in the company. Since the sales volume has an impact on the extent of virtually all company activities, the costs and expenses are thereby also determined; both the variable ones (e.g. material costs) and, in the long term, the so-called fixed components such as depreciation and salaries for administrative staff.

Sales forecasting, however, is one of the most difficult aspects of your business plan. If you have not conducted any conscientious market research, you will not be able to estimate your sales figures so you will not be in a position to plan with sufficient accuracy.

This is where you contribute your results from market research (cf. section 5: Market Analysis). At least the first financial year should be planned in detail, meaning both quarterly and monthly forecasts.

Tip:

Do not forget so-called 'seasonal influences' in your forecasting. What does this mean? Taking the season into account describes, for example, the phenomenon that chocolate bunnies can normally only be sold before Easter and Father Christmases only before Christmas, winter fashion only in winter and an influenza vaccine only in autumn. Sales and costs therefore occur in cycles.

The effects of future activities are reflected in a cash flow budget and pro forma financial statements (profit and loss account and balance sheet). In addition, a break-even analysis and various balance sheet ratios can be generated. We will be going into further detail on these below.

Cash flow budget

The cash flow budget is a useful instrument of monthly financial planning and control, which directs the planner's attention to the liquidity situation of the company and points to any potential deficit in funds in good time. The

question of liquidity, and hence cash flow, has the same if not higher priority as the question of the corporate result. After all, the reason for insolvency is initially only inability to pay.

Many companies, particularly small firms, are exposed to a specific market situation and can only benefit from it by expanding rapidly in order to achieve market leadership in their special segment. A relatively large quantity of funds will be required to finance such growth. Long before a single item of goods has been sold, stocks must be built up and usually also paid for. As a result there is a difference between cash outflows and inflows, which has to be financed somehow. The cash flow budget indicates in advance what funds will be required at what time.

The cash flow budget consists of three parts:

- a) the first part indicates the inflows of funds, broken down by source, amount and time;
- b) the outflows of funds reflect the company's expenses;
- c) the net funds item indicates the effects of inflows and outflows as well as any possible gaps in financing.

The inflows of funds consist of sales transactions, the amount of which is made up of price and the prospective unit sales.

Pro forma profit and loss account (projected P&L)

Every company needs a way to establish whether its business is successful or unsuccessful. The usual method is the profit and loss account, in which costs are deducted from sales revenues. In the same way that the balance sheet and P&L account are used to assess the success of a past business period, these two accounts can also be used for planning, i.e. for forecasting the results of future periods.

When preparing a P&L account one essential aspect is to establish a reasonable degree of detail. This naturally depends on the size of a company.

Pro forma balance sheet

If the cash flow budget and pro forma P&L describe **what** one intends to do, the pro forma balance sheet describes **with what** one does it. The amount of detail on a balance sheet depends on the type of business.

On the assets side there are fixed assets (land and buildings, plant and equipment, office equipment and furnishings, as well as other assets), current assets (stocks, trade accounts receivable, other accounts receivable and liquid funds) and unpaid contributions to capital. The liabilities side lists information about equity capital and borrowed capital (current and long-term debt such as accounts payable to banks, etc.).

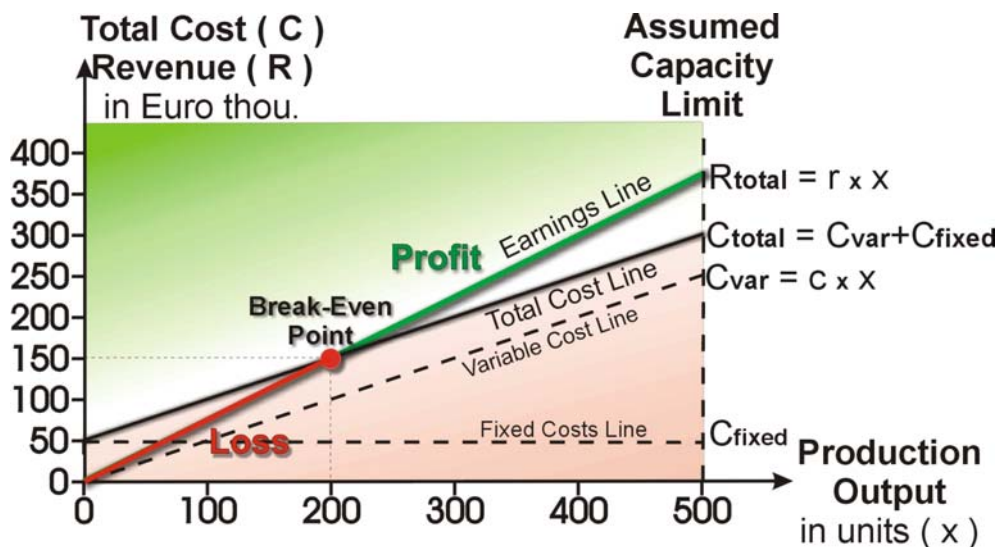
As with the pro forma P&L, the projection horizon should cover 3-5 years.

Break-even analysis

The break-even point is the point in the development of a company on the sales volume axis at which sales revenues are equal to total costs (point where costs are covered). Only when this point has been exceeded is the company making a profit. Projections for prices as well as for variable and fixed costs in years to come are needed to perform a break-even analysis.

Example of a break-even analysis:

A bicycle manufacturer produces the 'Forest Fun' mountain bike. Capacity is estimated to be 500 mountain bikes a month. The fixed costs are € 50,000 per accounting period. The variable costs are € 500 per bike. Each bike is sold at a net selling price of € 750. The break-even quantity is reached at the **intersection** of the earnings line and the total cost line.



Balance sheet ratios

Calculation of the various ratios is important both for the entrepreneur and for the investor in determining or assessing the success of a project. The main ratios are:

- financial ratios
- profitability ratios
- sales ratios
- liquidity ratios

Capital/financing requirements

For a presentation of the financial situation and to determine the financing requirements, as described in the above section, it is advisable to work out tables, graphs and charts. With the aid of these the reader can draw comparisons and conduct analyses. You should enclose these detailed analyses with the appendix to your business plan.

In the main section of your business plan, you should present a few well thought-out figures and summarised results. It is essential to answer the following questions:

- ◆ How much money does the company require over what period?
- ◆ How much profit is the company likely to make when it is established?

Comments on the assumptions and forecasts

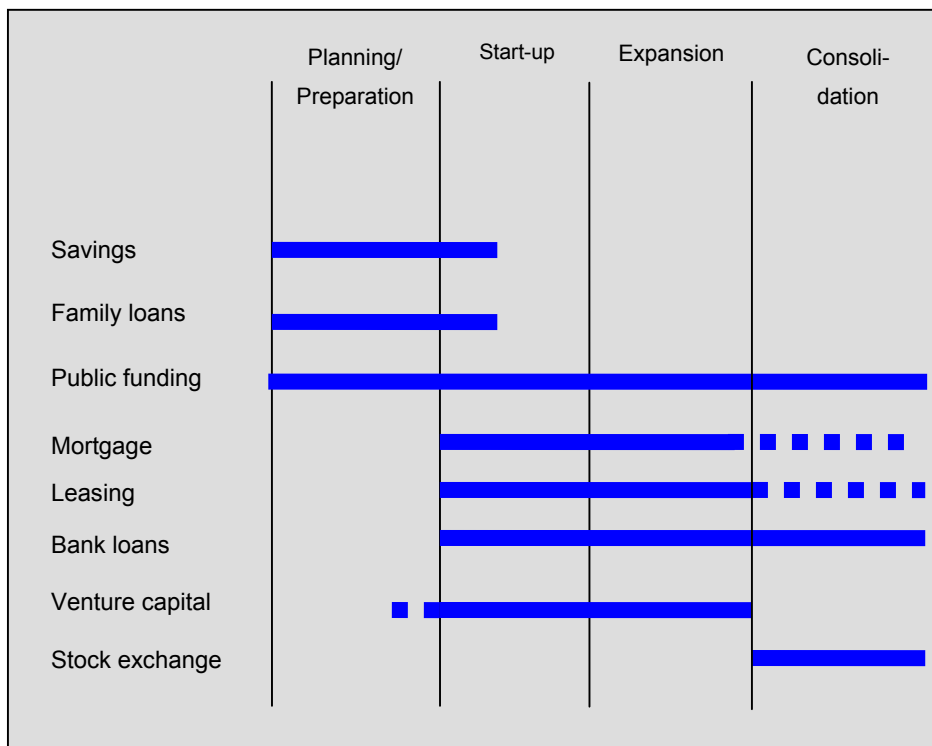
A professional investor's investment decision will be largely influenced by the accuracy and credibility of the figures regarding the expected business development, taking potential risks into account. You should therefore support your assumptions and projections by providing explanatory notes. Partially you will have already made assumptions in the previous sections (price policy, personnel, etc.), upon which your forecasts are based. The qualitative statements you made there must reflect an internal connection with your financial planning. Your financial planning must therefore be a logical consequence of the preceding sections, so that the business plan as a whole makes sense.

The financing concept

Comprehensive financial planning includes considerations as to where you can obtain how much of the required capital. Generally speaking, any professional investor will take it for granted that he will compile, together with you, a financing package that is ideally matched to your requirements. You should only make your own proposal for a financing concept if you have discussed its practicability with potential financing partners in advance.

The portion accounted for by equity capital plays a major role and is a cornerstone of your financing concept. But where should you obtain the rest and when?

Normally you will not require the entire calculated capital all at once but in various rounds throughout the development phases of the company. For the respective development stages, the following sources of finance are possible.¹



¹ Cf. McKinsey & Company, Inc., Switzerland, Zürich 1997
Business Plan Manual [The Business Plan](#) Financial Plan

We have listed some of the most important sources of finance as examples, breaking them down by the main criterion - the investor's legal position - into outside capital and equity capital.

Outside capital

Family loans

If parents, grandparents, brothers and sisters or friends are convinced by your idea and they give you 'launch aid', this is the simplest and possibly also the cheapest option. However, be aware of the consequences at a personal level if you have problems repaying money or if lenders try to interfere with your business.

Public funding

Public loans are often interest-free during the first few years. There are national and regional subsidising banks that are responsible for financing aid. Enquire about the existing possibilities – the funds usually have to be applied for through your local bank. Remember that the application has to be submitted before commencement of the project. Ask about the time required for processing and take this into account accordingly.

Mortgages

You can obtain mortgage loans of land or buildings, which serve as security. Consequently, this form of financing is used to finance long-term investments in land and buildings as well as in machinery, etc. The interest payments are usually due quarterly.

Leasing

In the same way as you are able to lease your new car, you can also lease machinery, office furniture, computer systems, photocopiers, etc. Leasing makes it possible to finance investments without injecting equity capital, so that your credit lines and lending limits remain unaffected. However, in total the interest and incidentals are usually higher than with other forms of financing.

Bank loans

By contrast with mortgages, bank loans are suitable for obtaining short and medium-term working capital. Banks insist on security, e.g. assignment of customer receivables or stocks. As with mortgages, interest is usually payable on a quarterly basis.

Equity capital

Private Equity

Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues – a succession in family-owned companies, or the buy-out or buy-in of a business by experienced managers may be achieved using private equity.

Note: The definitions used here have been taken from the European Private Equity and Venture Capital Association, EVCA.

Venture capital

Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business. There are variations in what is meant by venture capital and private equity in different countries. In Europe, these terms are generally used interchangeably.

The European venture capital industry can trace its roots back fifty years, but growth started in earnest in the 1980s. It now provides the European private corporate sector with permanent access to professional sources of growth capital. Many successful European businesses, such as **Baan**, **Barco**, **Business Objects**, **Denby Pottery**, **Filofax**, **Gemplus**, **Natuzzi**, **Parker Pen**, **Salomon**, **Uniface**, and **Zodiac** have emerged and thrived with the help of venture capital.

The target group of venture capital companies is innovative small and medium-sized companies, which have an above-average growth potential and cannot (yet) finance themselves through the organised capital market. This indicates that the granting of venture capital is associated with particularly high risks. If financing already takes place in the seed phase (before the start-up), it is also referred to as seed capital.

The venture capitalist makes available equity capital that usually remains in the venture company for a period of five to ten years. The venture capital lender is not interested in regular income (dividends or the like) but is aiming at growth in the value of his interests, which he sells at the end of the commitment. He also contributes – and this is at least as important as capital – active managerial support and his existing contacts.

The following phases of company development could be considered for venture capital financing:

Reason for financing	Form of finance	Explanation
Early stage financing	Seed financing	Company or inventor requires money for development, prototype, market analysis, preparation of company concept
	Start-up financing	Product/service is being prepared for market development, R & D costs
	First-stage financing	Market launch, expansion of production facilities, market launch costs
Expansion financing	Second-stage financing	Growth financing to penetrate the market
	Third-stage financing	Expansion of the production and sales system to fully exploit market potential
	Bridge financing	Pre-financing of an equity capital increase, in order to float the company (going public)
Special reasons for financing	Management Buy-Out (MBO)	Takeover of the company by the existing management
	Management Buy-In (MBI)	External managers buy into the company
	Spin-off	New company resulting from an existing company / an existing organisation

Private investors ('Business Angels')

Private investors, so-called business angels, make parts of their assets available for developing younger companies and are also active in those companies as part-time managers. On account of his own experience, a business angel can add value in a particular way to the company being supported, especially if the company belongs to the same industry in which he himself works or used to work. On account of his entrepreneurial attitude, his technical know-how and his business relations, he is in a position to provide management support for strategic decisions. This form of financing is therefore also occasionally referred to as 'smart money'.

The business angel normally takes a minority share. The duration of participation is at least three to five years, but often longer. He is not looking for income from dividends; his profit is the increase in the value of his interest. This is achieved by selling the shares to a venture capital company, selling to a different company, or repurchase by the entrepreneur or the management team.

To a certain extent, business angels may be regarded as a preliminary stage to venture capital financing. They concentrate on seed and start-up financing and also take on small investments that are well below the minimum investment amount of the venture capital company. In practice private investors are often the only source for companies that are in the early phase and have used up their own resources to the full or those of the members of their family.

Frequently there are also co-investments, in which both private investors and venture capitalists participate.

However, when selecting a private investor, we advise you to check whether he actually has sufficient time and energy to meet his commitment to provide support.

Stock exchange

By floating the company, which is also referred to as an Initial Public Offering (IPO), you can acquire large sums of capital from a wide section of the public. In the past, this was very difficult for young companies in Europe. Thanks to the introduction of the new markets, which specialise in young, high-growth companies and where the investors are aware that they are undertaking higher risks, young companies now have easier access to the capital market. In the meantime, specialised analysts have become established for valuing the companies and consulting them when they go public. The new markets are suitable for high-growth companies where the organisational structure is already relatively well developed.

You now know when you require capital and how much. You also know what financing options are available and what you can expect from investors. If you are satisfied with a small firm and want to keep control entirely, you will probably make do with bank loans and the like. If, on the other hand, you wish to expand quickly, you should consult a venture capital company. Although this means you may have to surrender a large share of the company, the venture capitalist wants to make the company successful together with you. He contributes his know-how and does not demand any security.

The essential motivation aspect for the venture capitalist is that he achieves an increase in the value of his participation after the end of a lengthy phase of growth by means of so-called 'disinvestment', also referred to as his 'exit'. Expressed in simple terms: the venture capital company sells its shares so that it can repay its own investors, that is, the capital investors of the venture capital fund, along with an appropriate return. For this it is naturally necessary for the interests in the company to be negotiable in some way – the simplest way is if they take the form of shares. Ideally and typically, the company should therefore be floated.

In practice, the venture capital firm quite often retains a reduced participation even after the company has been floated. On account of the continued participation by the venture capital firm, the reputation of the venture-backed company increases – especially if the flotation has been preceded by a long, intense period of support. This continued participation is regarded as a seal of quality for the company and is thus a highly effective means of advertising to the stock exchange public.

However, flotations are not the only way of liquidating interests held. Other exit methods are: the sale of the shares to industrial buyers or investors, repurchase by the entrepreneurs or by the management, or sale of the shares to a different VC company or financial investor.

In this section of your business plan, make it clear that you are aware of the investor's expectations. The investor must be able to see that you may be willing to accept one of the aforementioned options. However, what was said at the beginning also applies here: the professional investor will make up the ideal financing package together with you.

Checklist: Financial Plan

Can the reader clearly see

- how large the financing requirement is in total?
- when you require money and how much?
- what assumptions your financial plan is based on?
- from what sources the capital requirement will be met?
- what requirements you make of investors and what you can offer them?
- what options there are for investors to realise their profit?

Length: approx. 6 pages

Executive Summary

The Company

The Business Idea

Production, Procurement, Quality, Administration

Market Analysis

Marketing and Sales

Management and Organisation

Financial Plan

Opportunities and Threats

9. Opportunities and Threats

When you formulated the business idea (cf. page 15) we already discussed the fact that you should perform an honest and complete risk analysis not only for the investors' but also for your own sake.

Risks lurk both in the company itself and in its environment. Here are a few examples:

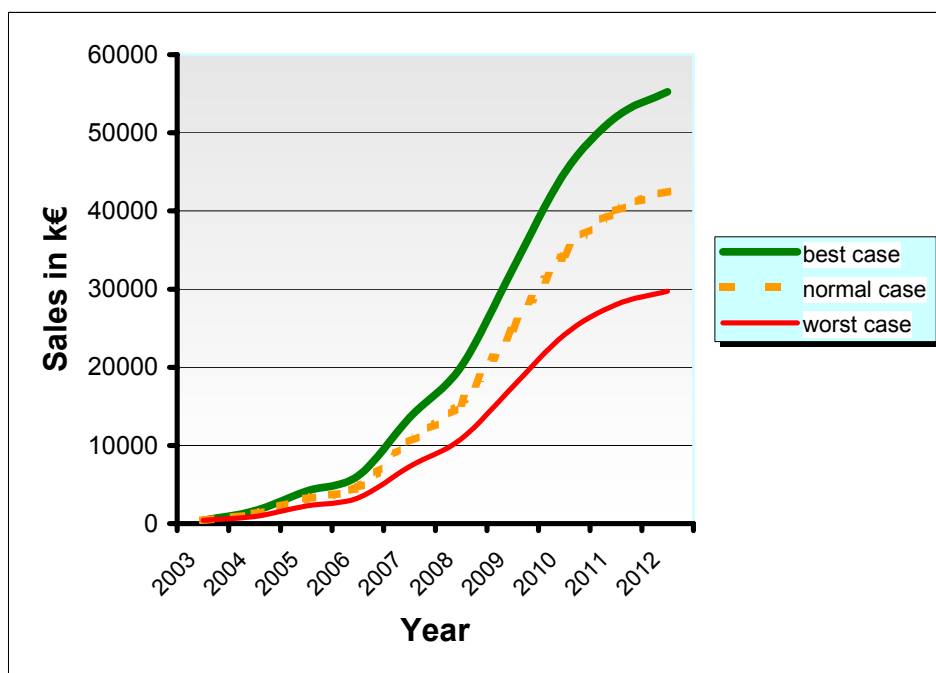
- managerial posts cannot be filled
- in the R & D department the development period is delayed
- other suppliers register patents
- personnel expenditure rises disproportionately
- a system manufacturer abandons the joint product development
- there is a shortage of raw materials
- a sharp fall in exchange rates jeopardises exports

List the potential risks and address them straight away with potential countermeasures. For example, you can protect yourself against exchange rate fluctuations through forward exchange transactions.

Check once again how much leeway is permitted by your realistic planning of assumptions presented so far.

Here, it is advisable to present a 'best case' and a 'worst case' scenario, in which the most important parameters are included. In particular, these include price and unit sales. By varying these parameters, you can simulate how the key figures of your projections might develop under different scenarios. The comparison of the best case and worst case scenario with the 'normal case' (your figures presented according to the best of your knowledge) can be shown as follows, for example:

Year	Selling price in €			Unit sales	Sales by value in k€		
	worst case	normal case	best case		worst case	normal case	best case
2003	68.00	68.00	68.00	6	408	408	408
2004	42.00	60.00	78.00	21	882	1,260	1,638
2005	38.50	55.00	71.50	58	2,233	3,190	4,147
2006	31.50	45.00	58.50	104	3,276	4,680	6,084
2007	28.00	40.00	52.00	261	7,308	10,440	13,572
2008	21.00	30.00	39.00	515	10,815	15,450	20,085
2009	17.50	25.00	32.50	1000	17,500	25,000	32,500
2010	16.10	23.00	29.90	1500	24,150	34,500	44,850
2011	14.00	20.00	26.00	2000	28,000	40,000	52,000
2012	11.90	17.00	22.10	2500	29,750	42,500	55,250



development of unit sales and sales by value for a hi-tech product
- analysis of the normal case, best case and worst case -

Remember: even though all the risks should be disclosed, they should be outweighed by the opportunities. At the end refer again to the main opportunities of your project described in detail in the business plan.

Checklist: Opportunities and Threats

Can the reader clearly see

- what potential risks you detect?
- what countermeasures you are planning?
- how the risks can affect your budgeted figures (worst case and best case scenario)?
- what main opportunities the company offers?

Length: 1-2 pages

10. Appendices

In the appendices, enclose those documents that are too lengthy and too detailed for the text part, but are relevant for underpinning the statements you have made there.

Below are a few examples. You can use this as a checklist for your appendix. It may be that not all of the documents listed are of significance to your project, or you may have additional ones. So shorten the list or add to it as needed.

Company-related information

- Company brochure
- Certificate of Incorporation / Memorandum and Articles of Association
-

Product-related information

- Product brochures and leaflets
- Technical documentation and descriptions
-

Production and quality-related information

- Quality manual
- ISO 9000 certificate
- Other customer certificates or standard certificates
-

Marketing and sales-related information

- Press articles
- References
- Tables, graphs, industry statistics
- Market research results
- Marketing plan
-

Management and organisation-related information

- Curriculum vitae of all members of the management team
- Organisation structure, organisation charts (current and planned)
-

Financial planning-related information

- Financial development of the last two to three years
- Certified annual financial statements for recent financial years
- Financial forecasts for the next three to five years:
 - Pro forma P&L account
 - Cash flow budget
 - Pro forma balance sheet
 - Break-even analysis
- Economic assumptions upon which projections are based:
 - Market share
 - Investments
 - Capacity trend and utilisation
 - Interest rates

- Main accounting principles:
 - Deferrals
 - Variances
 - Valuation of securities and foreign exchange
-

Other information

- Contracts
- Expert opinions
- Auditors' reports
- Letters of reference
-

Glossary

Assets	Items of property (⇒Fixed assets and ⇒Current assets) of a company; they are listed on the left-hand side of the ⇒Balance sheet and indicate the appropriation of the financial resources employed
Balance sheet	Accounts produced by the accounting department of a company for a certain date in the form of a table of items of property (⇒Assets) and capital (⇒Liabilities)
Break-even analysis	Determination of the point in time or the sales total at which the pay-off stage is exceeded; at the break-even point (point where costs are covered or point as of which a profit is being made) the total of ⇒Fixed and ⇒Variable costs is equal to total revenue
Bridge finance	Capital to prepare for flotation
Budget	(Usually short-term) plan which controls the allocation of resources, e.g. personnel or investment budgets
Business angel	Informal ⇒Venture capital provider; wealthy individual who provides equity investment along with 'hands-on' entrepreneurial support
Business plan	A business plan is a concise description of the corporate aims and the strategies and measures to achieve those aims and is written by the entrepreneur (team of entrepreneurs)
Buyback	Company shares are bought back by the original shareholder(s)
Cash flow	Figure that reflects the net flow of funds from the selling process and with the aid of which insights can be obtained into the ⇒Liquidity situation and the financial development of the company. The cash flow is calculated by the following formula (simplified version): <p style="text-align: center;"> Annual surplus + all expenses not affecting outgoing payments - all income not reflected in incoming payments ----- Cash flow </p>
Co-investment	Simultaneous participation of more than one ⇒Venture capital firm in a company
Current assets	Assets which, by contrast with ⇒Fixed assets, can be quickly transformed into liquid funds in the course of normal business

Customer benefit	Advantages or values which result for the customer on account of using the product or service
Depreciation	Reduction of the book or market value of an asset; loss in value (usually calculated on an annual basis)
Direct costs	Costs which can be attributed directly to a certain unit (piece); they particularly include production materials and production wages
Disinvestment	⇒ Exit
Distribution	Distribution of the goods/services to the customers
Distribution channel	Method of distribution; ⇒ Sales channel
Dormant holding	A dormant partner becomes a member of an existing business by means of an informal agreement in return for a capital contribution; the participation is not evident externally; the participation strengthens the equity position of the company, although in reality its nature is often that of outside capital (e.g. a fixed yield can be agreed)
Due diligence	Detailed investigation into the opportunities and risks of a participation conducted by an investor
Early stage	The entirety of the early phases of a company: product development, launch of production, market entry
Exit	Disinvestment; the sale of the shares held by the venture capitalist in order to realise his profit
Expansion financing	Growth and expansion financing; financing of production capacity expansions, further product or market development and/or further working capital
Fixed assets	Assets which, by contrast with the ⇒Current assets, are used more than once, successively or in the long term
Fixed costs	Costs which are independent of the parameter being examined; they do not change automatically along with the parameter being examined
Franchising	Marketing system in which independent franchisees sell in return for a ⇒Licence fee products or services of a company (franchiser), whereby the franchiser stipulates business policy
Going public	Initial public offering (IPO); flotation of the company on the stock exchange and the associated opening up to the public
Income statement	⇒ Profit and loss account, P&L
Initial public offering (IPO)	⇒ Going public
Investment	Long-term investment of capital in tangible assets

Lead investor	Spokesman of a series of investment partners who are simultaneously investing in a company
Leasing	Renting movable or immovable property for use
Liabilities	Sources of capital (equity capital, current debt and long-term debt) of the company; they are listed on the right-hand side of the \Rightarrow Balance sheet (Liabilities side) and indicate the amount and origin of the capital
Licence	Permission, granted by the originator or holder of a \Rightarrow Patent, utility model or other right of use, to completely or partially use that party's right, usually in return for a licence fee
Liquid ratios	Absolute liquid ratio: cash plus short-term receivables x 100, divided by current liabilities Net quick liquid ratio: short-term current assets x 100, divided by short-term liabilities Current liquid ratio: total current assets x 100, divided by current liabilities
Liquidity	Ability of a company to pay on a certain date; the ability to meet payment commitments punctually
Make or buy	Decision whether to manufacture (make) oneself or to purchase (buy) components for the internal value-adding process
Management buy-in (MBI)	Takeover of a company by an external management team; the external management "buys into" the company
Management buy-out (MBO)	Takeover of a company by the present management
Margin	Difference between the price of delivery and the selling price, expressed as a percentage of the selling price; e.g. <div style="margin-left: 40px;"> Price of delivery EUR 100 Selling price EUR 150 = 100% ----- Difference EUR 50 = x% $x = 100 \times 50 / 150 = 33 \frac{1}{3}\%$ (margin) </div>
Marginal costing	Direct costing; form of variable costing where the various products/services are only subject to the costs caused by them and hence attributable to them (\Rightarrow Variable costs). The respective difference between revenue and attributable costs constitutes the contribution of the product/service to profit and serves to cover the non-attributable costs (\Rightarrow Fixed costs). The company achieves a profit if the total of the contribution margins is higher than the non-attributable costs.

Marketing	All measures of market-relevant activities of a company according to selected problem areas of current and future customer potential, using planning, controlling, coordinating, monitoring and marketing instruments, added up in a target-oriented and competition-oriented strategy
Marketing mix	Combination of the marketing instruments used (product, place, promotion and pricing policies)
Mortgage	Lien in a piece of land to secure a loan
Overheads	Indirect costs, joint costs, inseparable costs; costs which, by contrast with the direct costs, cannot be directly attributed to an individual product or individual unit of performance. They must be allocated to the respective cost centres according to an allocation base.
Patent	The exclusive, time-limited authorisation to use an invention, granted to an inventor or his legal successor by the national or European Patent Office
Positioning	Placement of a product / service or of the company as seen by the customer, e.g. placement compared with the competition
Product life cycle	Stages of the life cycle of a product or service are pioneering stage, growth stage, maturity stage, stagnation stage and decline stage
Profit and loss account (P&L)	Income statement, statement of result; listing of expenditure and income to determine the financial result of the company and to present its sources; the P&L is a mandatory part of the annual accounts which have to be submitted by companies
Return on investment (ROI)	Return on capital; ratio which permits a statement on the profitability of the capital invested; the ROI is the ratio of total capital invested and sales to profit; $ROI = (\text{profit} / \text{sales}) \times (\text{sales} / \text{capital invested})$
Sales	Revenue which results from the sale of products manufactured or services rendered (selling price multiplied by quantity sold)
Sales channel	→Distribution channel; journey of the product from the manufacturer to the end-user
Sales forecast	Forecasts of sales quantities and →Sales by value in the various markets and segments of the company. The sales forecast is based on the projected use of marketing instruments and estimation of the behaviour of competitors and customers.
Seed financing	Financing the maturity and implementation of an idea in realisable results, through to the prototype, on the basis of which a business concept is created for a company to be established

Segmentation	Division of the total market into separate customer groups (=segments) that meet certain criteria
Spin-off	Establishing a company from an existing large company, university or research institution
Stage financing	Instead of asking for all the equity finance up-front, the venture capital firm agrees so-called rounds of finance. Such rounds of finance usually take place when certain targets are met, e.g. at the product development stage, at the product launch stage, when the company expands into overseas markets, or when an expansion of manufacturing facilities is required. By limiting the total investment at each stage, the venture capital firm reduces its risk accordingly.
Start-up financing	Initial financing of product development and first marketing steps; the company concerned is being started up or has only been in business for a short while, but has not sold its product yet
Substitutes	Other products that satisfy the same customer need
Total Quality Management (TQM)	Complete elimination of sources of error in a company; principles of TQM: "Do it right the first time" and development of a TQM system
Unique Selling Proposition	USP; unique, powerful selling point or special characteristic, which creates relatively substantial \Rightarrow Customer benefit for a product or service
USP	\Rightarrow Unique Selling Proposition
Variable costs	Business-dependent costs; the portion of total costs that varies according to production capacity utilisation
Venture capital (VC)	Equity investment plus management support for high-growth companies
Venture Capitalist	Provider of venture capital, or the VC firm itself