Business Plan Guidelines

ESADE Alumni

The Business Plan is a written document that explains and details the plan for a new company, taking into account all relevant elements, resources and actions to be undertaken for the implementation of new business project.

Contents

Introduction

What is a business plan

A business plan is a written document that explains and gives details of a start-up company, taking into account all pertinent information, necessary resources and actions to be implemented to start the new business project.

Relevance

Business plans are extremely useful internally for the entrepreneur or founder team, because they:

- Help organize ideas.
- Help think ahead and plan for the start-up, making it possible to anticipate where problems may arise and have alternatives ready.
- Provide a global vision of the project and guidelines for each phase of the start-up process.
- Can be a self-assessment tool.

And also externally:

- To promote the project to other people: to obtain finance, convince investors, negotiate better terms from suppliers, attract key personal, strike up agreements and alliances, etc.

They can also:

- Considerably reduce the risk of failure.
- Be a training tool.
- Pinpoint business opportunities and the most promising markets of interest to the company.
- Raise awareness of the obstacles to be overcome.
- Create a framework for communication and sales.
- Be used to analyze costs and profitability.

Structure and wording

A business plan may contain the following chapters:

- **Summary**
- **Entrepreneur or founder team**
- **Marketing plan**

- **Productions or operations plan**
- **Organization plan**
- **Legal and taxation plan**
- **Economic and financial plan**
- **Appendices**

It must be said that every business plan is different because each one reflects the specific characteristics of a given business project. In each instance, emphasis is placed on the most relevant parts of the business project under way.

As regards the wording of the business plan, the document must be short, concise and realistic, and have clear, well-structured contents. A maximum of 40 pages (including appendices) is usually recommended. The plan should be drafted by all the partners or persons behind the project to get them involved in the company launch and development.

Presentation

A written business plan must:

- Be neat and clear: a business plan is an entrepreneur or founder team's business card
- Contain quality information: up-to-date, real and confirmed data, without too many personal opinions or self-satisfaction.
- Be brief, easy to read and have short paragraphs
- Be well structured, clear and to the point
- Feature colour, photos and graphics (but not too many).

The Business Plan

1. Executive summary

A business plan should start with a short, two- or three-page summary that highlights the key aspects of the start-up project. The quality and accuracy of this summary undoubtedly affects how the rest of the plan is received. This summary must include a description of the business idea and the main strategy to be followed by marketing, production and finance, and point out the competitive edge of our product or service and also the risks that the new business may entail.

Incorporating responsible criteria into our company management may contribute value added. Some relevant information about the entrepreneur or founder team should also be provided. However, although the summary appears at the beginning of the business plan, it is actually written whilst the plan is being drawn up because it is a summary of the project and is fine-tuned after the final document is written.

2. Entrepreneur or founder team

Aims

— Present the entrepreneur or members of the founder team.
— Explain the reasons for the start-up company.

Key considerations

2.1. Personal traits

Details such as age, education, experience in this business and industry, family's business background are necessary.

It is essential to provide future investors, financial backers and suppliers with key information about the entrepreneur or founder team.

When applicable, it may also be useful to detail how members of the management and founder team complement each other, with an analysis of their strengths and weaknesses both as individuals and as a team.

More detailed information about the entrepreneur or founder team should also be given in their CV in the appendices.

2.2. Reasons why

Explain the main reasons for the business project: personal interests, the desire to implement an idea of one's own, to create jobs, to be one's own boss, to escape from unemployment, etc.

3. Marketing plan

Aims

Analysis of the business environment:
— Define the need(s) satisfied by our goods/services.
— Describe the key features of our goods/services.
—Detail the general backdrop and market of the company's core business, its potential customers and competition.

Marketing policies:
— Outline information about selling the goods/services.
— Customers increasingly apply responsible consumption criteria so we should use our goods and services as a vehicle for our actions.
— Using a sales approach, detail the goods/services to be sold, how they will be advertised, distributed and the selling price and, if applicable, the pre- and after-sales service envisaged.
— Draft a sales forecast.
— State the general marketing policy to be followed to meet the envisaged cost and sales goals (combination of product, advertising, distribution and pricing policies and complementary services).

Key aspects

3.1. Pinpoint, define and justify the needs our goods/services will fulfill

Answer the following questions:
— What are the needs of our target customers?
— What evidence is there about the reasons why potential customers might buy our product?
— Why do they exist and how long might they be expected to last?

3.2. Description of the goods/services provided and their usefulness

Specify the distinguishing features that will make potential customers choose our goods/services rather than competitors'

3.3. Analysis of general background

Depending on each case, the plan must:
— Analyze the labour market (availability of qualified labour and specialists in a given field, etc).
— Analyze the economic factors (industrial policy, entrance barriers, economic climate, etc), technological factors (new technologies, R&D policy, scientific infrastructures, etc), political and legal factors (legislation governing economic, administrative, linguistic, taxation considerations, etc) and cultural factors (changing trends, traditions, specific usage, etc).
— Analyze background changes anticipated in the future.
— Analyze language factors in the location chosen for the start-up.

3.4. Market analysis

Study potential customers and competition with particular emphasis on:

— Geographic areas envisaged for the sale of goods/services.
— Estimated size of market.
— Market growth rate
— Our company's estimated market share
— Stage in the market's life cycle
— Analysis of current entrance barriers, replacement goods/services and future trends envisaged in the market under study.

Define potential customers and their profile as accurately as possible:

— Who are they
— How many there are
— Where they are
— Their purchasing power
— Their purchasing needs and reasons
— The goods/services they currently buy
— Their main reasons for buying our goods/services.

Describe the main features of any direct competition, compare it with our company and determine whether their position is stronger or weaker than ours by answering the following questions:

— What direct competition is there now?
— Where is it located?
— Who and where is its target clientele?
— What goods/services do our competitors sell?
— What are the most outstanding characteristics of those goods/services?
— What replacement goods/services are there?
— Who might be competitors in the future?

— What strengths and weaknesses do competitors have in comparison with our company?

Mention must be made of other groups with a stake in our business – economic agents, social entities, public authorities, associations, etc – and what they expect of our company.

In the case of new products or services, it may be difficult or even impossible to answer many of the above questions (market size, structure of the competition, etc).

In the case of a very small company, market size, estimated market share, etc, may be irrelevant in this first phase.

3.5. Policy of goods/services

The goods/services to be sold must be accurately described in detail:
— Number and type of varieties
— Quality
— Brand
— Packaging
— Design
— Advertising language
— Innovative features
— Stage in the product's life cycle
— Others

These features must be compared with competitors' goods/services.

3.6. Communication policy

— Describe the best media (internet, local press, pamphlets, etc) and actions (sales promotion and advertising) to raise awareness of our goods/services in each specific case.
— Take into account the official languages when designing the image of the goods/services.
— It is advisable to establish two-way communication channels to permit feedback from our stakeholders.

3.7. Distribution policy

— State whether sales will be direct or indirect.
— Indirect sales: describe distribution channels (wholesaler and/or retailer) to be used to get goods/services to the final customer.
— Specify the role of intermediate services or people (agents, distributors, representatives, etc), as applicable.

3.8. Pricing policy

— Give details of the best pricing policy for our company in order to set the selling price of goods/services.
— Specify the method used to set prices (fixed and variable costs, demand, or competitors' prices), discounts and rates, payment terms and conditions.

3.9. Associated service policy

— Specify the type of associated services that the company will offer customers before purchasing the goods/services (estimates, advice, etc) and afterwards (aftersales service: maintenance, warranty, etc).
— Define the specific aims of the associated services and calculate their cost.

4. Productions and operations plan

Aims

— Specify the aspects related to the production process or, if providing a service, give details of the essential operations required.
— Describe the resources needed (premises and facilities, technical equipment, human resources, raw materials, etc) to carry out the company's business, and the supply policy.
— Calculate the cost of goods/services.
— State the technology applied, quality management, workplace accident prevention and environmental considerations when applicable.

Key aspects

4.1. Operations or production process

Describe in detail all the actions and decisions related to product manufacturing and necessary resources. Production process decisions include:
— How much is produced in a given period of time?
— What is the company's production capacity?
— What raw materials are needed and how much and when?
— What human and material resources are needed?
— Are spare parts and technical assistance available?
— What specific technology is applied?, etc.

The product design must involve sketches, building plans, lists of components or materials, prototypes, formulae, etc. These details can be included in one of the business plan appendices.

The decision to manufacture or buy must be taken beforehand. Manufacturing may ensure higher quality products but buying will entail fewer fixed assets and less capital, and hence more flexibility.

When providing services, no physical product is involved so the most important features of the service provided must be listed, such as:

— How often the service will be provided (days per week, hours per day, etc)
— How much time is needed to provide each service
— How much self-service is needed
— Appearance inside the premises where the service is provided (atmosphere, decoration, size, layout, etc)
— Available staff, etc.

4.2. Infrastructure, equipment and labour

The best location for our company must be chosen on the basis of variables such as:
— Proximity to customers, labour and supply companies
— Availability of infrastructures and good communications in the area
— Regulations and other legal provisions (local restrictions, opening hours, subsidies)
— Others

The possibility of locating the start-up in a business incubator or start-up centre should be considered.

List the resources required for manufacturing or operating processes such as:
— Premises, buildings, land and other types of facilities
— Machinery, tools, fittings, technical and computing equipment
— Supplies and means of transport, labour

Plans of the premises, building, etc can be included in the appendices. The amount and cost of resources must also be calculated.

Decide whether to buy or rent or lease fixed assets such as buildings, machinery, etc.

Labour considerations include:
— Number of workers needed
— Description of jobs
— Training required.

The organization plan must include a detailed organization chart of the company's operations and its staff policy.

4.3. Technology plan

This should explain:

— The type of technology used and its main features
— Current and forecast climate of the market of the technologies used.

Very important in the case of new technology companies.

4.4. Stock management: supply and storage

Specify:
— Raw materials, semi-finished products and finished products needed for manufacturing or for direct sale
— Suppliers (prices and sales conditions, delivery periods, best order size, etc).
— Location of stock storage, their cost and method used to value stocks (FIFO, LIFO, average weighted price, etc).

The possibility of incorporating responsible management criteria into our company's procurement policy is reflected mainly by the creating procurement procedures that feature environmental considerations or give priority to local companies.

4.5. Cost of goods/services

Specify the envisaged costs of the company's business, distinguishing between overheads (which do not depend on the volume of sales) and variable costs (which vary in direct proportion to the number of units sold).
Further details will be provided in the economic and finance plan.

4.6. Quality management

— Specify whether the quality management of our goods/services will be taken into account.
— State the quality indicators applied in the framework of corporate social responsibility concerning the company's language policies.
— When applicable, specify the "measurable" quality metric variables envisaged (easy to identify, specific, and can be defined and described in economic terms). For example: customer complaints, complaints book, number of faulty items in the production process, etc.
— Give details of the quality control mechanisms used in the operations or production process and also possible systems for enhancing the quality of:
— Actions related to goods/services (e.g. adapting and enhancing features of the goods/services).
— Actions related to the clientele (e.g. pinpointing their new needs).
— Actions related directly to the company's results (e.g. cost cutting, mainly costs related to poor quality, by improving and rationalizing the company's production process).

4.7. Health and safety and environmental management

— State the type of workplace accident prevention measures and, more specifically, the health and safety measures required in the company's specific business.
— State whether any environmental accident prevention measures are envisaged and their cost and also whether our company's business must comply with any environmental protection regulations.

Pertinent legislation must be consulted about accident prevention in the workplace and environmental management.

Once the regulations related to these aspects of our business are complied with, we can move on to improving the quality of industrial relations and environmental conservation, which may situate our company as a benchmark in the market. They can both be incorporated into a socially responsible management system.

5. Organization plan

Aims

Specify aspects related to both the structure of the organization and human resources planning in the new company.

Key aspects

Because this is a start-up company, these aspects are only relatively important in the business plan as a whole, but they are nonetheless useful in the early stages of any business venture.

5.1. Structure of the organization

Specify the type and number of tasks and/or activities to be carried out in the company and the best people to do them.

Organize the different tasks/activities to be carried out in the company correctly, focusing on the following:

— Who will occupy the jobs and what the specific activities are, depending on the company's overall needs and the competences (abilities, skills and attitudes) of each person.
— As the company grows, more managers and employees will be added. These will be reflected in an organization chart of the functions to be carried out in the company and the persons responsible for carrying them out. The organization chart must be flexible enough to adapt to cater for the organization's needs at any time.

Organizations with a responsible attitude towards their workers promote non-discrimination when distributing the tasks and functions inside the organization.

5.2. Human resource planning

Staff policies must focus on the early phase of the company's life cycle, particularly:

— The number and traits (age, education, language skills, etc) of the people needed to carry out the company's business.
— How people from outside the company are recruited, chosen and hired.
— Any further training they must receive, when applicable.
— Remuneration policies to be applied.
— How profits will be shared amongst partners, if applicable.

It is also necessary not only to describe the company's current staff but also how it is expected to increase or decrease in the medium term.

The application of responsible criteria to staff management and planning is reflected by:
— Incorporating equal-opportunity and non-discrimination criteria into both staff recruitment and promotion processes.
— Adopting non-discrimination wage policies (same work, same pay).
— Providing life-long training for all staff.
— Taking measures to help reconcile work and family/personal life.

6. Legal and taxation plan

Aims

Specify the legal form of the new company and all the legal aspects of its constitution and everyday business. Although they are not specifically part of the legal and taxation plan, the entities and measures giving support for creating companies that our business venture may benefit by must also be taken into account.

Key aspects

6.1. Legal form and constitution of the company. Permits, licenses and registration obligations

Once a trading name is chosen for our company, state the legal form of company chosen and the reasons for this choice.

The key factors when choosing the legal form to be adopted by the new company are basically the degree of responsibility to be assumed by the founder partners (limited or unlimited) and taxation considerations.

The most common legal forms are: sole trader, partnership, limited company, public limited company and cooperative.

List the procedures needed for the legal creation of the company in the desired legal form, using a schedule for legalizing it. Also state the permits, licenses and official accounting documents needed for managing the company.

6.2. Recruitment

When applicable, describe the types of contracts between the entrepreneur and staff, giving details of the most important features and the cost of staff to the company.

Socially responsible recruitment policies foster quality, stable employment.

6.3. Tax obligations and scope of liabilities

Give details of the tax liabilities related to the company's business:

— Personal income tax
— Corporation tax
— Value added tax
— Other taxes

Thought must also be given to insurance our company may be obliged to take out depending on its type of business, and other optional insurance.

6.4. Brands and patents

State whether our goods/services are subject to any legal protection. If so, give details.

The company's distinguishing signs must be protected by registering the brands, trade names and signs on the establishment.

To protect industrial inventions, the pertinent models and patents can be used, and to protect new forms of products, industrial drawings and models must be used.

6.5. Organisms and measures providing support for creating companies

Give details of the organizations (public, private and mixed) and support measures (both economic, e.g. bank loans, subsidized interest, etc, and non-economic such as information, guidance, advice on drafting the business plan, etc) that could benefit our company and state where they can be contacted or applied for, their most important features, requirements for obtaining/using them, etc.

Details of the legislation related to the legal and taxation plan, plus details of the entities and measures providing support for the creation companies can be included in one of the business plan's appendices.

7. Economic and finance plan

Aims

— State the economic and financial aspects of our business project.
— Specify the initial investment plan, finance plan and project appraisal, and provide cash flow and profit and loss account forecasts, calculate the breakeven point and draw up the balance sheet.

The standard forms used to manage the economic and financial aspects of the new company can be found at the end of this chapter. These are, however, merely examples of forms and their degree of detail will depend on each company's circumstances and requirements.

Key aspects

7.1. Initial investment plan

The initial investment plan refers to the resources that must be invested in order to carry out the company's business. It gives details of the investment, amounts and scheduled dates (model 1).

7.2. Finance plan

The finance plan refers to how the investments are financed and it must specify the sources of finance together with the percentage of each and the dates they must be obtained (model 2).

The main sources of finance are:

— **Own sources:** contributions from associated persons (personal savings, savings of relatives or friends)
— **Outside sources:** bank finance (loans and credit from banks and savings banks) and non-banking finance (credit from suppliers, advance payments from customers, factoring, leasing, etc).

In the case of innovative, high-growth, technology start-ups, it is also possible to use risk capital (a minority stake held for set period of time in the start-up company's capital by risk-capital companies).

7.3. Cash flow provision and system used to collect from customers and to pay suppliers

State the collection and payment provision and the money the company needs at all times in order to anticipate any differences that may occur. In this instance, only flows that generate incoming or outgoing money must be taken into account (model 3).

Take into account the terms and conditions of collecting from customers (discounts applied, collection at 30, 60, 90 days) and paying suppliers (discounts obtained, payments at 30, 60, 90 days).

7.4. Profit and loss account forecast

The profit and loss account states the profit of a given period calculated by determining the difference between the income and costs of said period (model 4).

7.5. Breakeven analysis

Breakeven occurs at the volume of sales where profits are zero. In layman's terms, the breakeven point is the number of units we must sell to cover all costs.

This is a very important figure for start-up companies from both the viewpoint of the entrepreneur or founder team, and that of possible investors or lenders.

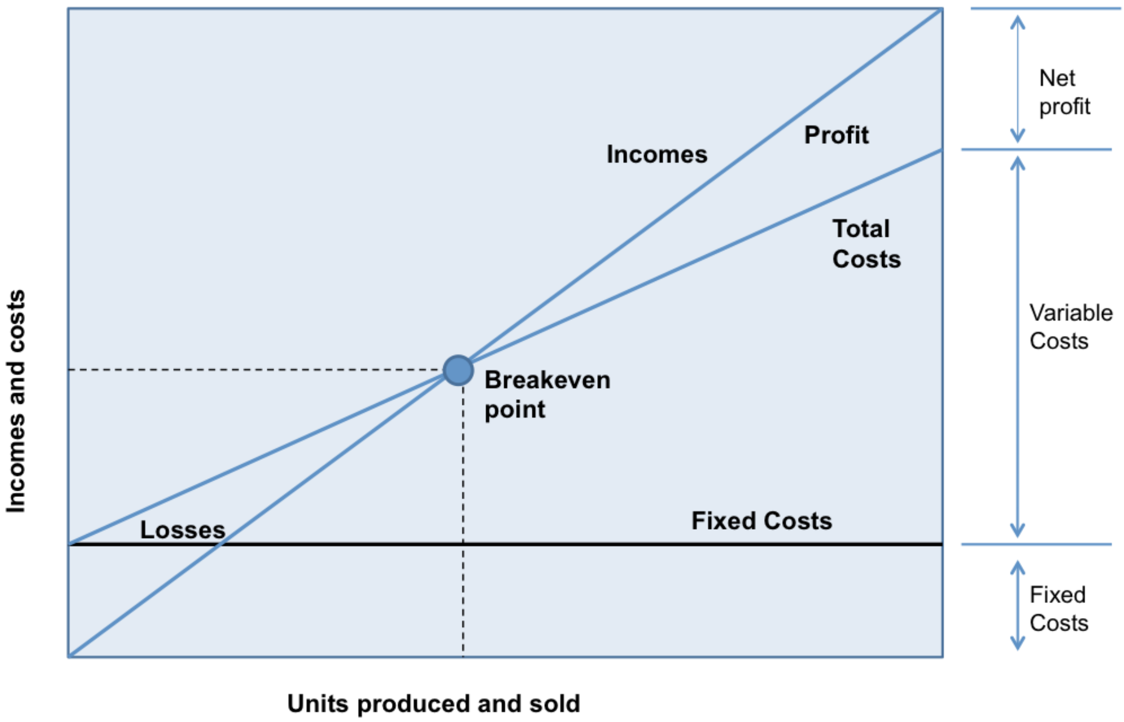
Breakeven formula

$$\boxed{Pe = \frac{Cf}{mg}}$$

Pe = number of units to reach breakeven point
Cf = overheads
mg= gross contribution margin =
= (selling price – variable costs)

— Variable costs: vary according to the company's volume of business (number of units sold), for example, purchases of raw materials, fuel, etc.
— Overheads: independent of the company's volume of business, e.g. staff wages, rent, etc.
— Gross contribution margin: the difference between unit selling price and unit variable costs.

Breakeven point graph



7.6. Project appraisal

Some cases, e.g. complex investment projects like factories producing chemical products or companies using cutting-edge technology, may call for more sophisticated project evaluation techniques such as net present value (NPV) and internal rate of return (IRR).

— NPV calculates the net present value of the cash flows generated by the project and measures the yield of investments. In this respect, NPV is the sum of the positive values (income) and negative values (costs) arising at different times. It is, therefore, an investment selection criterion that takes into account the value of money over time. Because the value of money varies over time, an annual percentage (calculated to be the value the money loses during the investment period) must be deducted from each period. Once this percentage has been deducted, the positive and negative flows can be added together. A result higher than zero means that the project will be profitable. A result of less than zero, means it will not.

NPV is calculated by the following formula:

$NPV=(-original\ investment +(cash\ flow_1/(1+i_1))+\ldots+(\ cash\ flow_n/(1+in)n))$
i: can be the interest rate of charged on the company's liabilities, cost of capital, etc.

— **IRR** measures the internal rate of return on investment. It is also a selection criterion that takes into account the value of money over time and is defined as the discount or interest rate at which NPV is equal to zero, i.e. the value that makes future cash flows equal to the original investment. This is calculated by either removing NPV from the formula or calculating values of i until NPV is equal to zero.

In this instance, for a project to be profitable, IRR must be greater than i, where i is the interest charged on the company's liabilities.

7.7. Balance sheet

The balance sheet states the company's financial situation at a given moment and consists of:
— Assets: the property and rights owned by the company.
— Liabilities: the company's debts and liabilities pending payment to external persons or entities.
— Net equity: the value of funds provided by the entrepreneur, founder team or shareholders plus undistributed earnings. The basic equity equation is:

assets = liabilities + net equity

See model 5

Models for economic and financial management

MODEL 1

ORIGINAL INVESTMENT PLAN			
CONCEPT	**AMOUNT**	**%**	**DATE**
Tangible fixed assets			
Buildings, premises and land			
Facilities			
Means of transport			
Fixtures and fittings			
Machinery and tools			
Computer equipment and applications			
Intangible fixed assets			
Goodwill			
Brands and patents			
Deposits and guarantees			
Prior studies			
Start-up and constitution costs			
Stocks			
Other costs			
Provision of funds			
TOTAL			

MODEL 2

FINANCE PLAN			
CONCEPT	**AMOUNT**	**%**	**DATE**
Personal savings			
Savings of family and friends			
Bank loans and credits			
Credit from suppliers			
Advance payments from customers			
TOTAL			

MODEL 3

CASH FLOW PROVISION				
CONCEPT	**BALANCE**			
	Month 1	Month 2	....	Month 12
Incomings				
Sales (customers)				
Other collections				
TOTAL INCOMINGS				
PAYMENTS				
Purchases (suppliers)				
Commission				
Staff wages				
Social security				
Rent				
Repairs				
Transport				
Insurance premiums				
Advertising				
Supplies				
Tax				
Other payments				
VAT settlement				
Personal income tax settlement				
Investment payments				
Loan installments				
TOTAL PAYMENTS				
MONTH'S BALANCE				
PREVIOUS BALANCE				
ACCRUED BALANCE				

MODEL 4

PROFIT AND LOSS STATEMENT						
CONCEPT	**BALANCE**					
	YEAR 1				**YEAR 2**	**YEAR 3**
	Month 1	**Month 2**	**...**	**Month 12**		
INCOME						

Sales						
Other income						
Financial income						
TOTAL INCOME						
COSTS						
Purchases						
Stocks variation						
External services						
Tax						
Staff costs						
Financial costs						
Amortization						
Provisions						
TOTAL COSTS						
PROFITS/LOSSES						

MODEL 5

ASSETS AND LIABILITIES							
ASSETS				LIABILITIES			
ACCOUNT	Year 1	Year 2	Year 3	ACCOUNT	Year 1	Year 2	Year 3
FIXED ASSETS				NON CALLABLE EQUITY (net)			
Start-up costs				Shareholders' capital			
Constitution costs				Reserves			
INTANGIBLE				Earnings			
Goodwill							
Computer applications							
Accrued fixed assets amortization							
TANGIBLE							
Buildings							
Machinery							
Other facilities				LONG-TERM DEBT			
Furniture				LT debt with credit entities			
Computing equipment				Suppliers			
Means of transport				Drafts payable			
Other fixed assets							
Accrued tangible fixed assets amortization							
CURRENT ASSETS				SHORT-TEM DEBT			
STOCKS				Suppliers			
Stocks				Drafts payable			
DEBTORS				Creditors			
Advance payments to suppliers				Advance payments to customers			
Customers				Payments pending payment			

Receivables				Payment pending to tax authority			
Misc. debtors				Social security entities			
Tax authority receivables				ST debts with credit entities			
FINANCIAL ACCOUNTS				Partners' current accounts			
Cash							
Banks							
TOTAL ASSETS				TOTAL LIABILITIES			

8. Appendices

This section must include any additional information not included previously and which is needed to understand the project better, e.g. project implementation schedule, possible risks and problems in the launch of the start-up company, offers or applications for finance and other complementary information.

8.1. Implementation schedule

Give details of the main activities needed to carry out the business project, together with execution dates or periods. The format recommended for the activity execution calendar is a Gantt chart.

Example of a Gantt chart:

ACTIVITIES

(1) Company constitution	1											
(2) Product design	Rn	2										
(3) Installation completion		Rn	3									
(4) Purchase orders sent out			Rn	4								
(5) Start of production				Rn	5	5						
(6) Distribution system					Rn	6	6					
(7) Advertising launch						Rn	7	7				
(8) Reception of orders							Rn	8	8			
(9) 1st delivery of products									Rn	9		
(10) Collection of 1st sales									Rn	10	10	10
	1	2	3	4	5	6	7	8	9	10	11	12
	DATES (months)											

(Rn) Person(s) in charge of the activity

8.2. SWOT analysis of the business project

A SWOT (strengths, weaknesses, opportunities and threats) analysis of the start-up company project is recommended.

This will enable us to anticipate possible risks and problems and also to anticipate future opportunities and boost the strengths of our business project.

In this respect, project weaknesses might be:
— Failing to meet envisaged sales targets
— Unexpected economic crisis
— Lack of liquidity
— Problems with partners
— Mistakes in supplies of our products
— Production costs higher than expected
— Taking longer than expected to reach breakeven point
— Problems with finance
— New direct competition
— Unexpected response from competitors, etc.

8.3. Loan offer or request

If additional economic resources are sought for the business project, the loan application (amount and terms of the loan) and/or the proposal for participating in the company's shares (percentage participation and terms) must be attached.

8.4. Other additional information (when applicable)

For example:
— CV of the entrepreneur or the founder team and the management team with photos
— More detailed documents of the economic and financial plan (if not included previously)
— Legal documents (regulations, legislation, etc)
— Details of market survey
— Production schedule and details of technology used, mock-ups and details of the product, plans of premises, building, company logo, etc.
— List of potential customers, competitors, suppliers.
— Price list of goods/services, etc.