

# The Business Plan

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Gerald Schwetje · Sam Vaseghi

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# The Business Plan

How to Win  
Your Investors' Confidence

With 39 Figures and 25 Tables

 Springer

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Translation from German by Paula and Susanne Schwetje

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Library of Congress Control Number: 2007932195

ISBN 978-3-540-25451-5 Springer Berlin Heidelberg New York

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Production: LE-TeX Jelonek, Schmidt & Vöckler GbR, Leipzig

Cover-design: WMX Design GmbH, Heidelberg

SPIN 11412335

42/3180YL - 5 4 3 2 1 0

Printed on acid-free paper

# Preface

The business plan is a versatile means and is not only restricted to start-ups or company founders. Big companies have more or less large staff divisions which have the task of thinking about strategic questions and their orientation in order to work out the plans for the next years.

What does this look like in mid-size or small companies, which cannot afford their own staff divisions or planning departments to compile and plan their strategy. In such a case it is the manager's or entrepreneur's task to develop a strategy, to define future plan data and to implement them.

Many mid-size or small companies fail, because they recognize market developments too late, because they do not promote the right products, because they have not thought about certain technological processes, because they have not adapted their organization in time. Many reasons can be named why such companies fail.

In a successful company business and strategic situations are thought about continually and decisions are made early enough in order to act successfully within the market. We believe the business plan to be a means for mid-size and small companies of thinking about their company and positioning it correctly within the market. More and more do small and mid-size companies also have to compete and view their markets from a global perspective. Only someone who has prepared himself thoroughly for this step stands a chance within the tough competition.

This book has helped many companies within the German market to think about their company and to position it correctly. That is the reason why we have decided to offer it on the international market as well. We believe it will encourage small and mid-size entrepreneurs to work out a strategic plan that will enable them to be successful within the market, also within the global market.

With this book we do not simply wish to introduce you to the theme of drawing up a business plan, we also wish to offer you a "book of thoughts", which – with all its questions – will motivate you to think about your company, to write down your ideas and plans and with these to find suitable strategies for making your company competitive.

This book could only be compiled with untiring effort of those people who helped us to translate and shape it. We are particularly thankful to Paula and Susanne Schwetje who spent many hours of their free time devoting their energies to translating the book. We also wish to thank Anna-Katharina Wenzel, who gave excellent support in correcting and completing the book. Last but not least, we would like to thank our families, who gave us the time to let this book become reality.

Hamburg, June 2007

Gerald Schwetje

Kopenhagen, June 2007

Sam Vaseghi

## **Preface to German edition**

Due to the globalization of business activities and the internationalization of the capital markets, demands on internal and external company reporting have increased, primarily the reporting of future chances and risks has taken an outstanding position in this context. Against this background the publicity policies of a company have to be adjusted to structure the information conveyed with financial accounting and other media in such a way that the addressees (e.g. shareholders, investors, suppliers, creditors, employees, tax authorities, analysts, publicity) act in accordance with the set company goals. Thereby those responsible for such information policies should align their activities to the goal of increasing the company value (value reporting).

In this context the business plan presents an indispensable instrument of reporting, with which essential qualitative and quantitative company information can be documented for investors in a compact form, information regarding existing growth or risk potentials, beyond annual financial statement and report. The script at hand gives an extensive overview about the goals, concepts and instruments of an effective business plan. The practise oriented remarks are supported by a multitude of illustrative examples. The drawing up, using and updating of a business plan is clarified with know-how but easy language to founders of new businesses and managing directors of mid-size companies with respect to the latest knowledge in business studies.

I wish the excellent handbook a high circulation and the readers success when realizing the recommended strategies and concepts.

Hamburg, December 2003

o. Univ.-Prof. Dr. Carl-Christian Freidank,  
Tax adviser

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# 1 Necessity of planning

A business plan, in principle, can be seen as a document that commercializes your business idea as a whole towards potential investors and stakeholders. A business plan is successful if you succeed in conveying to the reader the most significant opportunities and growth capacities of your company realistically.

A business plan should justify and describe your business idea and further business development in a clear and adequate manner. It should not merely aim at emphasizing the strengths of the company, but rather at presenting a realistic portrait of its problems, risks and obstacles. In addition to this, appropriate solutions should be proposed and discussed in detail.

A business plan can be used for specific purposes. One target might be to obtain new means of investment for the development of a product or the marketing of a new product.

Basically a successful business plan has three important features:

- The short- and long-term objectives are clearly depicted,
- a careful description is given of how the objectives can be achieved in realistic general conditions and
- a description is given of how the realization of the plan will meet the expectations of the investors.

It is very important to clarify beforehand what purpose a business plan will serve and what it aims at. In general business plans are compiled either for an external or internal reason. In the following chapter we will describe these facts in more detail.

## 1.1 External use of a business plan

From an external point of view the business plan represents the main financing tool of your company. In addition, it serves to secure existing or planned business relations between your company and your stakeholders.

Depending on the type of financing and stakeholder relations, various aspects are weighed up and dealt with in different ways in a business plan.

### 1.1.1 Venture-capital financing

As a rule, venture-capital and private-equity investors nowadays only consider business cases which are well represented by a business plan.

When reading a business plan, the investors are primarily interested in good and relevant arguments that promise business growth. Furthermore, investors attach great importance to how and in which period of time a return on investment will be realized, for instance:

- through operating profit or
- by going public or
- by merger and acquisition or
- through a repurchase by the management.

In order to guarantee a high return on investment, investors pay great attention to:

- the company's success on the market,
- the feasibility of the plan in order to achieve its business objectives,
- the unique selling proposition of the products and services and
- the quality and experience of the management team.

### 1.1.2 Financing by bank credits

When granting credits, investment banks focus on one main question: when and how the repayment of the credits and interests will be made. In order to minimize risks, banks usually ask for securities. That is why credit applications addressed to banks should provide more than a list of current and past annual accounts. Moreover, banks will also ask to what extent the companies are prepared for possible setbacks, and how they will be able to overcome such critical situations.

For these reasons banks more and more often demand professional business plans when considering applications for credits. Banks expect business plans to give qualified insight into: the enterprise strategy, the management, the organization, the market, the competitors, the products and the current and future financial and profit situation of the enterprise.

### 1.1.3 Strategic alliances

The formation of strategic alliances by young and growing companies within the framework of research projects, product design, marketing, etc. is gaining increasingly in importance. A strategic alliance is usually the consequence of:

- financial backing or
- access to well-established distribution channels.

Such an alliance may well succeed over several years for the benefit of all parties. The majority of companies, however, request a business plan before consenting to any long-term business relations or obligations within the framework of a strategic alliance.

### 1.1.4 Mergers and acquisitions

Acquisitions present an alternative for company expansion, while selling a company may be seen as the way out of a solvency crisis.

Companies that are looking for acquisition candidates usually request a detailed business plan that will support their evaluation and selection of the candidates.

Similarly, the acquisition candidate himself will also be interested in the long-term plans of any acquiring company, in order to ensure and protect his own interests for the future. This information is also the subject-matter of a business plan.

### 1.1.5 Customer and marketing relations

Winning a major customer or an agreement with a wholesaler is a particularly crucial step towards success for many growth companies.

Most big companies, however, are very reserved and precautions before starting negotiations with rather small and unknown companies. In such cases, a convincing business plan may clear doubts and prove decisive for inspiring confidence, opening negotiations and making further decisions. Hence, business plans effectively help to open doors to potential customers, markets and suppliers.

## 1.2 Internal use of the business plan

A business plan also serves as a valuable management tool from an internal viewpoint of the company. A systematically elaborated and regularly updated business plan, with a profound insight into all business matters, helps the management to efficiently plan the company's development and prepare the necessary modification measures in a structured way. Such a business plan can serve as a guide to the daily decision-making and as a control tool in managing the current business.

The joint realization of the business plan by the management team ensures an overall commitment to the company goals and controls. Achieving this commitment on the management level is most significant for the successful implementation of the plan.

Business plans make a significant contribution to the development of companies which have branches in different locations. By using business plans for each branch, the top management can on the one hand guarantee site-related business planning and on the other hand, continually control performance as well as the attainment of the business objectives. Furthermore, the long-term objectives of the entire company can be balanced by these indicators.

## 1.3 Basic types of business plans

For the majority of authors writing their first business plan, the question arises "How detailed should the business plan be?" To this question there is, unfortunately, no standard answer and no formula.

It is entirely up to you how detailed your business plan should be, and depends solely on the purpose and necessity behind it, as well as on the complexity of your specific business. In general, one distinguishes between three basic types of business plans:

- the short business plan,
- the extended business plan and
- the operational business plan.
- In the following these three types are described.

### 1.3.1 Short business plan

A short business plan is usually about 10 to 15 pages long. It is most suitable for young companies in an early stage of their development when, there still do not exist complex interrelations.

For a well-established company, a short business plan only makes sense if certain investment opportunities are to be roughly approved in advance, in order to prepare an extended business plan on the base of the short version later on.

Even if it is a “short” business plan, the required information should be conveyed in a complete and appropriate manner. The final goal is to convince potential investors that you understand your entrepreneurial business and the market extremely well.

### 1.3.2 Extended business plan

The extended business plan is usually about 20 to 40 pages long. This type of business plan describes the business issues of the company much more profoundly and more detailed than a short business plan would do.

The higher the required capital, the more interesting this type of business plan becomes. If, for example, you require 5 million Euros outside capital for the construction of a new and innovative industrial plant, i.e. you are striving for long-term credits, the preparation of an extended business plan would be advisable.

Such a business plan should contain a thorough market analysis and a revenue, cost and financial planning for a 5-year period.

### 1.3.3 Operational business plan

For well-established companies a business plan can serve the management team as an important operative tool, say a business guideline. Such a plan not only serves as a draft for the entire business organization, but also ensures a consistent appreciation on the part of the entire management with respect to the strategic objectives. Indeed, operational business plans are very long and detailed, usually comprising over 40 pages, in some cases even exceeding 100 pages.

## 1.4 Why managers don't write business plans

The increasing importance of business plans in the business environment possibly results in a recurring solicitude and reservation of business managers towards this topic. Moreover, in attempting to represent a complex topic by means of an exclusive business language and terminology, business plans deter many managers due to their very “academic” appearance.

But the aversion of many managers to business plans often is much more profound, namely that the description of the business objectives appears to be difficult and hardly suits their daily entrepreneurial activities.

Basically, the elaboration of a business plan is a great deal of work and would mean an additional task for the management. However, in an efficient organization, this task is based on the careful fulfilment of managerial activities that are already in progress or ones that are imminent.

Managers too often argue that the development of a business plan would be futile in recessionary times, since the market, i.e. the economic situation, changes rapidly and target specifications made by a business plan could be discarded overnight.

From our experience, there are two important arguments against this:

- The whole development process of the “business plan project” is at least just as valuable as the final “business plan document”. The “business plan project”, of course, encourages the management to reconsider and update their business objectives with the help of company-wide facts and tendencies. In addition to this, much of the information gained throughout the project (e.g. benchmarks), serves as a very valuable source for the evaluation and control of the current and future performance of the company.
- The business plan should not in fact be regarded as an “untouchable codex”, which forbids and punishes any future course deviation along a multi-year plan. However, as a controlling tool, a business plan highlights such deviations from the planned course and also offers a sensitive and flexible framework for regularly updating the facts and figures. Such a tool allows you to quickly respond to market and economic changes in order to efficiently achieve your business goals.

## 1.5 Key questions

- *What goals are you pursuing with your business plan?*
- *What purpose should your business plan serve?*
  - *Preparation for negotiations with banks*
  - *Presentation for investors*
  - *As an internal management tool*

- *What kind of financing are you striving for and how much capital do you require?*
- *Which target groups and people do you want to approach by means of your business plan?*
- *What expectations, needs and demands do your readers have?*
- *Which type of business plan will you choose and why?*
- *Are there any reasons why you would still prefer not to write a business plan?*

## 2 Business plan project

Although business plans vary in their structure and content, they all have some features in common: they propose and describe business models, products or services, describe their corresponding markets, ways of production and service delivery. Indeed, external addressees of business plans usually want to know:

- who the shareholders are,
- how much capital is required,
- how and for what purpose capital is utilized,
- which type of financing will be chosen, and
- in what period of time an adequate return on investment can be realized.

Every business plan should clearly discuss these essential issues, and present them concisely and in a convincing way. The reader should be in a position to understand the business as a whole and to gain confidence in the company.

In order to deal with these issues in a sophisticated and professional manner, it is wise to draw up your business plan within the framework of a company-wide project; this we call the “business plan project”.

It is not advisable to start writing a business plan when you are still unprepared as regards organization and then to expect that everything will be compiled and explained by itself. Instead, sound project planning should precede the development of the business plan.

As shown in figure 2.1 the business plan project is usually structured into five phases:

- Data collection
- Data analysis
- Design of the business plan