

# iMDE: international Market-Driven Engineering

## LECTURE 6: Business Plan

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## Our Definition of a Business Plan

- It's a document that convincingly demonstrates that your business can sell enough of its product or service to make a satisfactory profit and be attractive to potential backers
- It is a selling document
- The business plan is all but: abstract, uninformative, theoretical or mysterious



## Goals of Business Plan

- 1) consider important aspects and decide whether to “go or no go”
- 2) initial planning document for a new business
- 3) serves as a tool to communicate the idea of the new venture to potential investors, bankers, key employees
- 4) serves as a record to monitor and compare results



## Next Questions

- Which type of plan is best for you?
- What should the plan look like?
- How should it be arranged?
- What should be included in each section?
- How long should it be?



## Three Fundamental Types of Plans

- First Type: [The Summary Plan](#)
- contains only the most important information about a business and its direction
- 10-15 pages, concise, terse in style
- business strategy stated in one sentence
- works best when applying for a loan, if you are well-known, not seeking funding from other investors, need money quickly



## Three Fundamental Types of Plans

- Type 2: [the Full Business Plan](#)
- standard issue, 30-50 pages in length
- from 10-30 pages of support documentation
- i.e., resumes, letters of support, promotional materials
- introduction detailed, explanatory
- works best when you want to explain key issues fully, looking for a lot of money, looking for a strategic partner



## Three Fundamental Types of Business Plans

- Type 3: **the Operational Business Plan**
- internal planning document of an operational company
- usually much longer because it takes more time to describe ongoing business
- more history, products, people
- heavy on the quantitative analysis
- meant to inspire managers, best for fast-growing company, gives order to growth
- used as part of an annual review



## Various Parts of the Business Plan

- 1) cover page
- 2) executive summary - small version of BP
- 3) company strategy - what's your identity?
- 4) marketing issues - who are the buyers?
- 5) product/services issues: What are you selling?
- 6) sales and promotion: How will you sell?
- 7) financial issues



## Part 1: Cover Page

- Name of company
- address
- phone number, fax, e-mail
- chief executive's name
- **Hints:** don't make the banker look up your name and phone number
- number the copy of the plan
- follow-up with non-disclosure agreement



## Part 2: Executive Summary

- Stands alone as a business plan within a business plan
- logical, clear, interesting and exciting
- requires less than 4 minutes to read
- no more than 2 pages (so that's what they're up to!)
- not an abstract, introduction, preface, random collection of highlights
- it's the BP in miniature



## The **Better** Executive Summary

- Explains why the timing is right for the company to be formed
- Establishes its strategy
- Explains how it will compete effectively, concise, to the point
- Emphasizes marketing aspects
- Positive in nature, says what a prospective investor wants to hear
- Synthesizes talents of team; written, re-written



## Part 3: **Company Strategy**

- Asks: What is your company's identity?
- Every company has an underlying philosophy and logic (examples):
  - decentralization of decision-making
  - interest in funding expansion of the company via earnings as opposed to outside investment



## Four Principle Strategy Issues

- 1) **overall company strategy**: overall approach to producing and selling products and services, goals for maximizing success, what is your guiding principle?
- 2) **mission statement**: a statement that encapsulates your company's values and overall purpose in life
- 3) **technology/information assessment**: ability to use technology and manage information
- 4) **management team**: who determines and implements strategy (must have credibility)



## Part 4: Marketing Issues (Who are the Buyers?)

- Everyone engages in marketing, whether they believe it or not
- obtaining clients through referrals and word of mouth is still marketing
- **marketing**: identifying your customer prospects and determining how best to reach them (this is a BP-style definition)
- now-a-days marketing is not selling or promoting
- selling and promoting are the implementation of the marketing plan



## Assessing the Competition

- No businesses are carried out in a vacuum
- if there is no apparent competition, do not take that as a good sign
- maybe the market isn't receptive
- maybe you need to look deeper
- your competitor may not be another business, but another way of doing it
- list your competitors and their weaknesses + strengths
- how will you stay ahead of competition?



## Part 5: Product/Service Issues (What are you selling?)

- The value of a product determines a company's success
- there are really only two issues that come to mind in selling a product:
  - 1) the market should determine the particulars of a product
  - 2) if the market exists, can you deliver in a timely and cost-effective manner?





## Part 6: Sales and Promotion (How do you Sell?)

- This is the key to everything else in your business
- without it, you cannot sell your product
- most poorly-managed firms take the “sales” approach: they do what everyone else does, know what is acceptable
- that's not enough in today's world
- in this plan, you must show how sales will be cost-effective and get people's attention



## Financial Planning

- This material is still work in progress:



## Financial Plan

- Your lender wants to know if your business will be financially successful.

✓ Your spouse wants to know too!



## Financial Plan

- The financial plan is one of the most important part of your business plan.
- The financial plan is particularly important if you are proposing a major change or a brand new business.



## Financial Plan

- Financial viability is generally evaluated from three perspectives:
  - Solvency
  - Profitability
  - Liquidity



## Financial Plan

- Solvency evaluates changes in net worth
  - growth in your “retirement account”
- Profitability monitor earnings
  - ability to generate income
- Liquidity estimates cash flow and debt repayment ability
  - paying the bills in due time



## Solvency

- Compares the value of the assets in the business (what you own) with the sources of capital (liabilities – what you owe and your net worth)
- Requires an up to date balance sheet



## Profitability

- Measures the earnings of the business
- Requires an accrual income statement
- Optionally use average net income from 3 or more periods



## Liquidity

- Measures the ability of the business to generate cash to meet short term obligations such as paying the bills
- Requires a cash flow statement, usually projected for next year or more
- Detailed close in time, sketchy further in the future



## Financial Plan top three tools

- [Balance sheet](#) assets and liabilities
- [Income statement](#) income, costs, results
- [Cash-flow statement](#) the flow of money in and out



## Financial Plan

- The tools used to communicate a business's financial situation are:
  - Balance sheet - solvency
  - Income statement - profitability
  - Cash flow plan – liquidity



## Balance Sheet

- A snapshot of how funds are invested in a business (assets) and the financing methods used (liabilities and owner's equity) at a given point in time.



## Balance Sheet

- Most producers have an existing balance sheet because lenders require one annually.
- In order to find a suitable balance sheet for your business brows the web.



## Income Statement

- An income statement measures how much income the business is making in relation to the resources used to produce that income.
- Look at the web for suitable set-up



## Income Statement

- Not all producers have an accrual income statement.
- Should develop one for your business plan.
- In order to find ideas for a suitable income statement for your business brows the web.



## Cash Flow Plan

- A cash flow plan is a projection of all sources and uses of cash during a specified planning period.
- It evaluates the business' s ability to meet loan payments and other financial obligations on time.
- Yes – also in this case you find plenty on the web.





## Cash Flow Plan

- Most producers have an annual cash flow plan.
- In order to find ideas for a suitable cash-flow plan for your business brows the web.



## Financial Plan

- Include a balance sheet, income statement, and cash flow plan in your business plan.
- Make a simulation-model in excel connecting the three tools annually and during the x first business years.



## Financial Plan

- A written description of the strengths of these three measurements of your financial projections should also be included.
- Also describe the assumptions you used to make your financial projections.



## Asset Management

- Your financial plan should also describe how you acquire and manage capital assets - purchase, lease, or custom hire.
- How efficiently are assets being used?



## Asset Management

- An analysis of your investment in capital assets relative to the size of your business may be valuable as you plan the future of your business.
- Asset management is often the best indicator of future net worth growth.



## Capital Required

- The final part of your financial plan should describe how much money you need to implement your business plan.
- Describe the sources of your financing.
- Present your financing request if you have one.



## Further analyses

- Risk analysis
- Sensitivity analysis
- Marginal cost analysis
- Key-ratio analysis
- Be careful in selecting valid tools – sometimes less is more.



## Helpful Links

**The business plan**

<http://www.myownbusiness.org/s2/>

**Business Plans**

<http://www.entrepreneur.com/businessplan/index.html>

**7 Ways to Help Ensure Your Business Succeeds**

<http://www.entrepreneur.com/article/223390>

**Business Plan's Necessary Factors**

<http://www.youtube.com/watch?v=cpcHrsQLo1o>

**What They Don't Teach in Business School about Entrepreneurship**

<http://www.youtube.com/watch?v=mHVJF9YaWfo>

**Sample Business Plans**

<http://www.bplan.com/samples/sba.cfm#>

**Real test of an Idea**

<http://www.quirky.com>

**A very good very real idea – 10 years after**

<http://techcrunch.com/2012/08/15/invisible-bike-helmet/>

