



V3 PARTNERS

ENTREPRENEURIAL TECHNIQUES

CHAPTER 5 – BUSINESS PLANNING

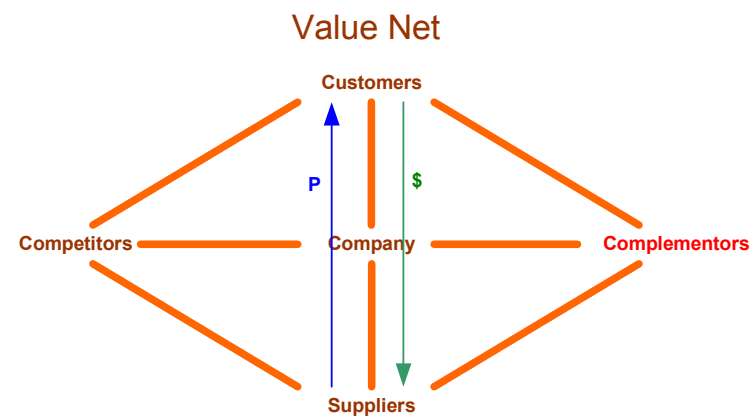
“BY FAILING TO PREPARE, YOU ARE PREPARING TO
FAIL.”

- BENJAMIN FRANKLIN



CONTENT

- motivation
- business planning
- business model
- business plan details
- reality checks
- selling the plan





MOTIVATION

- find a need, else you'll fail - “a list of 895 (un)needed inventions”
 - lipstick-proof linen
 - deck chairs allowing sideways sitting
 - slot machine that halves pennies
 - book shredders for households
- idea must withstand the cost/benefit – added value - test
- separate trends from fads - businesses built on fads are short-lived by definition
- failed businesses - 50% due to lack of market for product



BUSINESS PLANNING

- making a plan for a new business or the continuation of a business. However, we can also plan for the discontinuation of a business.
- inventory and definition of players, rules, tactics, scope, by which we plan to play the game. *Must state clearly your added value!*
- a set of assumptions and even rules based on our best ability to foretell contingencies.
- a wish list of things we hope will become reality



BUSINESS PLANNING

contingency planning - important but often neglected part of planning

- what if.....
- few business can determine the outcome of the game(s)
- must plan for unexpected changes in players, rules, tactics, and scope of the game
- planning must reflect this



FAILURES AND SUCCESSES

failures

- well-qualified drop-outs: 19%
 - have all credentials
 - no staying power
- arrow-catchers: 32%
 - demonstrate market
 - persistent
 - no protection for product
- hapless amateurs: 50%
 - have no credentials
 - no demonstrated need
 - slip through funding process

successes

- sure bets: 52%
 - demonstrated market
 - good skills
- market makers: 18%
 - demonstrated market
 - protection successful
 - good execution
- lucky dilettantes: 25%
 - protection exist
 - limited other skills
- distribution players: 5%



CONDITION FOR SUCCESS

- isolation from competition during start-up
 - new or novel idea with protection
 - remain under the horizon of potential competitors
 - keep information confidential
- demonstrated need for product/service
 - existing prototype
 - existing market, distribution
- qualified management with experience
- sound business model



BUSINESS MODEL

- **clearly stated satisfied need**

is your home the next one to get damaged by fire caused by an unattended Christmas tree?

over 600 fires and resulting damages exceeding €100m are caused every year by Christmas trees left unattended in the homes of the Lüneburg region. With its fire-resistant trees, SafeTrees gmbh helps prevent these fires and offers peace-of-mind to family Christmas celebrations.

SafeTrees sells and delivers fire-resistant Christmas trees and provide related services.

- **major drivers of**

added value

our unique, SafeTree™ fire-resistant, live Christmas trees, offering families peace of mind for the celebration of Christmas. SafeTree will unlock a local market worth €15m/y.



BUSINESS MODEL

major drivers of

revenue

sales channels: internet, agents and franchisees
franchise locations are rented and controlled by SafeTrees

sale of fire-proof trees, margin:	60%
delivery services margin:	75%
decoration services margin:	80%
used tree collection services, margin:	80%
pine scented mulch for indoor plants, margin:	90%
sale of accessories and ornaments, margin:	55%
franchise fees	4% of total sales



BUSINESS MODEL

major drivers of

cost

procurement - cost of goods

commissions

rental fees of franchise locations

delivery cost

profit / EVA

building economies of scale, keeping rental charges low, and expanding the franchise network



BUSINESS MODEL

the game:

seasonal but can be converted to all seasons

players:

competitors

home supply stores (praktiker, baumax, OBI, brico, etc)
other merchants selling trees and accessories
producers (tree farmers)

suppliers

tree farmers (swedes, danes, norwegians, russians, US...)
manufacturers (trinkets, ornaments, decorations, etc.)
delivery services providers
real estate location owners

complementors

candy manufacturers
Christmas spirit makers - music, cards, TV programs, etc.

customers

consumers



BUSINESS MODEL

the game

rules:

- first crack at supply of the best trees destined for your region
- lock up supply of fire retardant spray
- auctioning the best trees - “big blast”
- last minute auctions



BUSINESS MODEL

the game

tactics

- beat the competitors' price
- one price - for fire-resistant trees with full service - delivery, decoration, cleanup
- rent-a-tree for larger organizations
- all trinkets €2
- two for one trinkets over €100 purchase
- free delivery over €150 purchase
- UNDER PROMISE AND OVER DELIVER



BUSINESS PLAN

the audience

- board of directors?
- investors?
- upper management?
- your family and friends?
- you and your team?
- some or all of them?

a sales tool

- speaks to the audience
- a reflection of you and your team
- expecting favorable decision - a close



BUSINESS PLAN

summary

- the most important elements of your business
- the need you serve, market
- your products/services, Unique Selling Proposition
- required investment
- return to investors: 2X, 3X, 5X



BUSINESS PLAN

table of contents

- major headings
- tables
- graphs
- references
- illustrations
- appendices



BUSINESS PLAN

SECTIONS

1. brief background and history

this is a sales section. how you formed your company, how it developed, what new markets you are addressing, new technologies, future plans. make the reader want to join the ventures

2. products and services

how your products address the NEED you have uncovered, why do people will want to buy them

3. market description

include: classes of customers, their buying profiles, total market and your segment of that market, you penetration of your market in years 1 - 5, describe the growth of your industry, further customer demand, and the character of your market



BUSINESS PLAN

SECTIONS

4. introduce the game

what game you plan to be in, who are the players, what your added value is, the rules - how you plan to influence the bargaining power of the players, tactics- how you plan to influence the perception of the players, and the scope - what a the potential opportunities in other connected games

5. marketing, sales

distribution, milestones, setting up training, motivating, sustaining sales effort, sales forecasts for the next five years, sales metrics, sales budget, details of sales closing techniques of various types of customers.

6. manufacturing plans

present how each product or service will be produced, manufacturing milestone that are in synch with sales projections



BUSINESS PLAN

SECTIONS

7. quality assurance and reliability plans

how you will set up objectives then measure and correct non-conformance, planning, implementations, and enforcement of policies.

8. financial plans

pro forma profit/loss statements, balance sheet, cash flow, and use of funds, some ratio analysis compared with industry benchmarks, the statements should be monthly for the first two years, quarterly thereafter to five years.

bottom up plans are recommended! do not present sales forecast from market share assumptions (top down forecasts), which is usually done in larger companies where the planners are young MBA graduates with no sales experience. it should be apparent that your income is derived from the sales forecast presented above.

financial control procedures should be included here: how you plan to guarantee financial integrity.

include here money leveraging strategies. how you plan to stretch working capital, operating loans, factoring techniques if any.



BUSINESS PLAN

SECTIONS

9. ownership distribution

type of company (corporation, LLC, limited partnership, sole proprietorship, etc), how you plan to have investors exit

10. organization

founders, key employees, organization chart with job descriptions, responsibilities, brief CVs of key employees. personnel info in the appendix. how this organization will change over time as the venture matures

11. incentive systems

option plans, incentive systems to employees, commissions, and bonuses.



BUSINESS PLAN

SECTIONS

appendixes

- **products and services**
detailed information about products and services signed by the management of the company
- **research and development**
highly proprietary section including detailed r&d plans, technologies used, signed by the r&d manager
- **manufacturing**
detailed manufacturing plans, methods, control systems, etc. written and signed by the manufacturing manager
- **marketing**
the marketing organization, product and market management, communications, PR, etc. written and signed by the marketing manager



BUSINESS PLAN

SECTIONS

appendixes

- **finance**
should include departmental budgets, detailed financials, written and signed by the controller
- **administration**
presents how the company is built into and managed as a team, list milestones for each department and for the company, written and signed by the president
- **organization and personnel**
detailed resumes of the key people - listing all jobs have ever held - letters of references, personnel and human resources plan, job descriptions, responsibilities, staffing profile in synch with the plan, written and signed by the HR manager



BUSINESS PLAN

SECTIONS

appendixes

- **management systems**
MBO, MBI, MBE, etc, how they will be applied and change as the company changes, written and signed by the management team
- **assumptions**
all major assumption made in the plan, why they are valid and what if they are not, written and signed by the controller
- **problems areas**
any areas you know has or likely to have problems that require extra focus and care, honesty is on display here.
- **case histories of similar companies**
analysis of similar companies close to you venture those that failed and ones that succeeded, answer the whys.
- **letters of reference**
from potential partners, sales channels, purchasing agents, potential customers stating that your products are needed.



FINANCIAL PLAN

SAFETREES GMBH

Income Statement €000	2005	2006	2007	2008	2009
Income					
SafeTrees	244	486	734	1,192	1,694
Other income	<u>12</u>	<u>39</u>	<u>73</u>	<u>107</u>	<u>186</u>
Gross Income	<u>257</u>	<u>525</u>	<u>808</u>	<u>1,300</u>	<u>1,880</u>
Direct costs					
Direct product cost	125	249	377	611	869
Import cost	13	25	38	61	87
Commissions	<u>12</u>	<u>19</u>	<u>29</u>	<u>48</u>	<u>68</u>
Total direct costs	<u>150</u>	<u>294</u>	<u>444</u>	<u>720</u>	<u>1,023</u>
Net Income (Gross Margin)	<u>107</u>	<u>232</u>	<u>364</u>	<u>579</u>	<u>857</u>
Operating expenses					
Salaries	47	63	81	101	122
Salary expenses	5	8	11	15	19
Other expenses	<u>51</u>	<u>58</u>	<u>71</u>	<u>80</u>	<u>85</u>
Total OPEX	<u>103</u>	<u>129</u>	<u>163</u>	<u>196</u>	<u>227</u>
EBITDA	3	102	201	384	630
Depreciation	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>
EBIT	<u>1</u>	<u>100</u>	<u>199</u>	<u>381</u>	<u>627</u>
Other interest income	-	-	-	-	-
Other interest expense	-	-	-	-	-
Taxes (18%, 2% local tax)	<u>5</u>	<u>28</u>	<u>50</u>	<u>92</u>	<u>147</u>
Net Profit	<u>(4)</u>	<u>73</u>	<u>148</u>	<u>289</u>	<u>480</u>



FINANCIAL PLAN

SAFETREES GMBH

Balance Sheet €'000	2005	2006	2007	2008	2009
Assets					
Cash	29	62	171	386	786
Accounts Receivable	20	41	61	99	141
Inventory	<u>32</u>	<u>64</u>	<u>96</u>	<u>156</u>	<u>222</u>
Other Current Assets	<u>52</u>	<u>104</u>	<u>158</u>	<u>256</u>	<u>363</u>
Investments	-	-	-	-	-
Investment 1	-	-	-	-	-
Investment 2	-	-	-	-	-
Investment 3	-	-	-	-	-
Fixed Assets	10	14	17	21	25
Other Assets	-	-	-	-	-
Accumulated depreciation	(2)	(4)	(6)	(9)	(12)
Total Assets	<u>89</u>	<u>176</u>	<u>339</u>	<u>654</u>	<u>1,162</u>
Liabilities					
Short term liabilities	-	-	-	-	-
Accounts payable	<u>21</u>	<u>35</u>	<u>51</u>	<u>76</u>	<u>104</u>
Current Liabilities / Reserves	<u>21</u>	<u>35</u>	<u>51</u>	<u>76</u>	<u>104</u>
Long term liabilities	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total Liabilities	<u>21</u>	<u>35</u>	<u>51</u>	<u>76</u>	<u>104</u>
Capital					
Paid-in capital	72	72	72	72	72
Net profit / (loss)	(4)	73	148	289	480
Retained earnings	-	(4)	69	217	506
Stocks	-	-	-	-	-
Capital and loss reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Stockholders equity	<u>68</u>	<u>141</u>	<u>289</u>	<u>578</u>	<u>1,058</u>



FINANCIAL PLAN

SAFETREES GMBH

Cash Flow €000	2005	2006	2007	2008	2009
Opening Cash and Securities	72	29	62	171	386
Depreciation and Amortization	2	2	2	3	3
Net Profit	(4)	73	148	289	480
Cash from operation	(2)	75	150	291	483
Investments					
Investment 1	-	-	-	-	-
Investment 2	-	-	-	-	-
Investment 3	-	-	-	-	-
Equity investment	-	-	-	-	-
Other Assets	-	-	-	-	-
Other Current Assets	(52)	(52)	(53)	(98)	(108)
Cash from investment	(52)	(52)	(53)	(98)	(108)
Cash from fix assets	(10)	(4)	(4)	(4)	(4)
Financing					
Paid-in capital received	-	-	-	-	-
Stocks issued and sold	-	-	-	-	-
Other financing	21	14	15	26	28
Cash from financing	21	14	15	26	28
Closing cash	29	62	171	386	786
Opening cash	72	29	62	171	386
Closing cash	29	62	171	386	786
Net cash	(43)	33	109	215	400



FINANCIAL PLAN

SAFETREES GMBH

Income Statement %	2005	2006	2007	2008	2009
Income					
SafeTrees	95%	93%	91%	92%	90%
Other income	5%	7%	9%	8%	10%
Gross Income	100%	100%	100%	100%	100%
Direct costs					
Direct product cost	49%	47%	47%	47%	46%
Import cost	5%	5%	5%	5%	5%
Commissions	5%	4%	4%	4%	4%
Total direct costs	58%	56%	55%	55%	54%
Net Income (Gross Margin)	42%	44%	45%	45%	46%
Operating expenses					
Salaries	18%	12%	10%	8%	7%
Salary expenses	2%	2%	1%	1%	1%
Other expenses	20%	11%	9%	6%	5%
Total OPEX	40%	25%	20%	15%	12%
EBITDA	1%	19%	25%	30%	34%
Depreciation	1%	0%	0%	0%	0%
EBIT	1%	19%	25%	29%	33%
Other interest income	-%	-%	-%	-%	-%
Other interest expense	-%	-%	-%	-%	-%
Taxes (18%, 2% local tax)	2%	5%	6%	7%	8%
Net Profit	(1%)	14%	18%	22%	26%



FINANCIAL PLAN

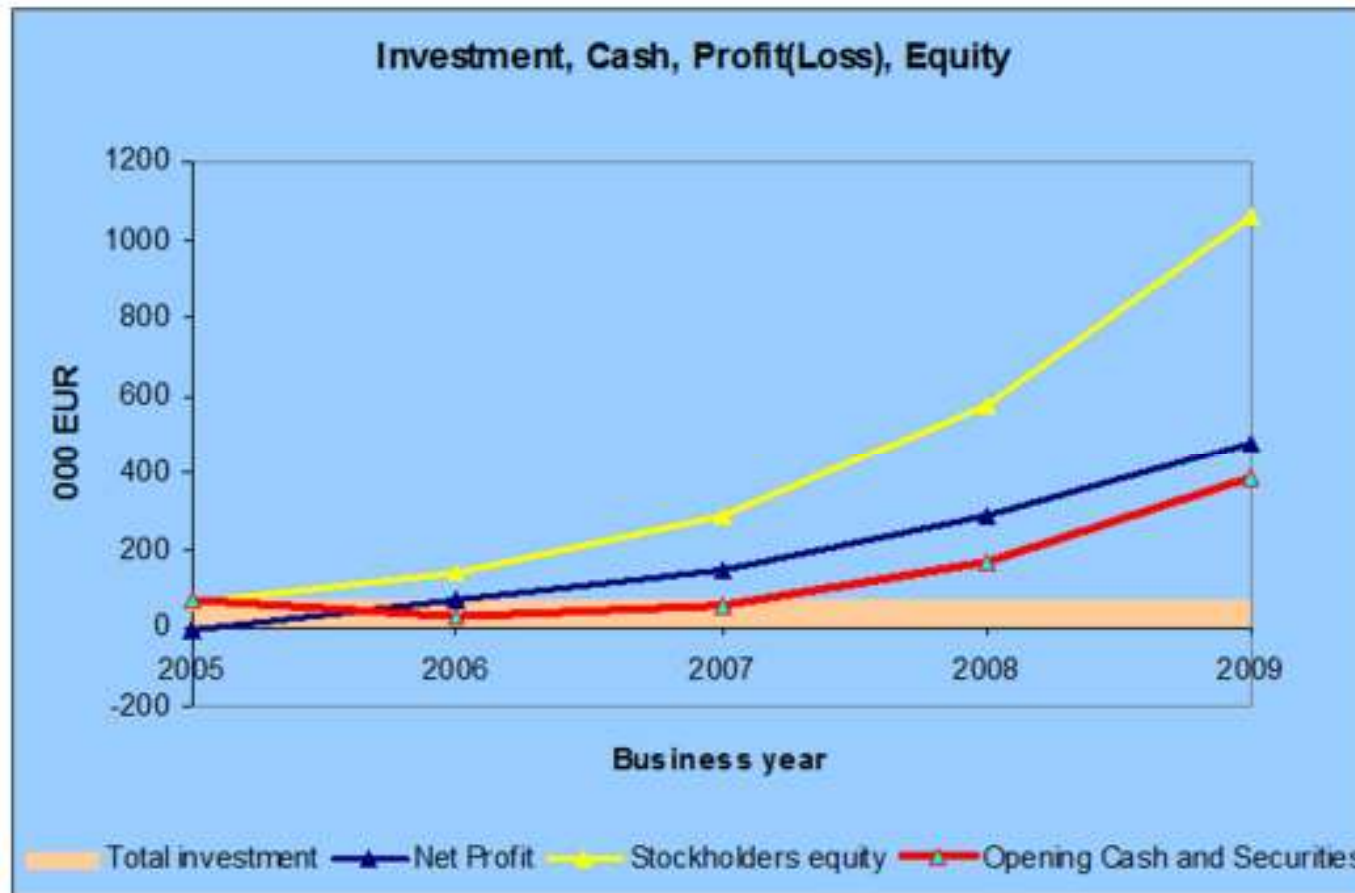
SAFETREES GMBH

Metrics	2005	2006	2007	2008	2009
Inventory turn	8.00	8.23	8.38	8.31	8.46
Assets turn	2.88	2.99	2.38	1.99	1.62
ROA	-4.3%	41.2%	43.6%	44.2%	41%
ROE	-5.6%	51.6%	51.3%	50.0%	45.4%
ROI	-5.3%	100.8%	205.7%	401.0%	667.4%



FINANCIAL PLAN

SAFETREES GMBH





REALITY CHECKS

revenue	check market share: rule of thumb to gain a respectable market share (15% or so) you must spend 75% of the leaders yearly revenue if you compete head on (barrier to entry); normally difficult to sustain growth faster than 2X year-to-year; business model must support growth expectations from a bottom-up perspective; use top-down calculations (market share based) to see if two approaches meet
margins	gross margins (cost of sales) should be consistent with industry expectation, unless business model explicitly substantiate better figures
expenses	in the service sector rent and salaries can make up more than 2/3 of expenses; in retail rent could be as high as 1/5 or more of total
sources	good source for summary data on US businesses: www.BizStats.com www.census.gov, www.oecd.org, www.worldbank.org, www.bizminer.com



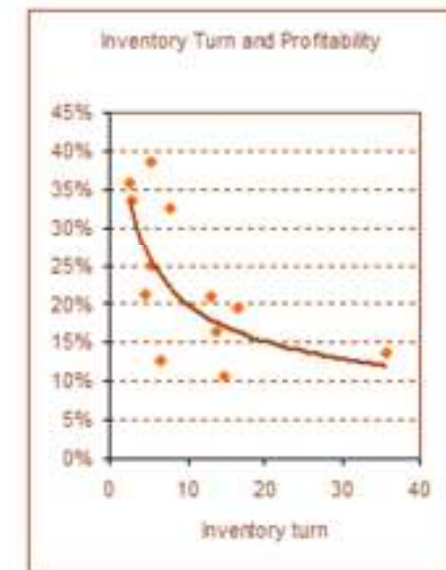
REALITY CHECKS

Type of Retailer	Number of Firms	Sales (in thousands)	Payroll as % of Sales	Number of Employees	Sales Per Employee
Supermarkets & other grocery (except convenience) stores	69,461	351,402,705	10.2%	2,489,721	\$141,141
Convenience stores	27,081	16,847,766	9.5%	153,887	\$109,481
Meat markets	7,214	4,347,021	12.5%	39,866	\$109,041
Fish & seafood markets	1,634	1,037,553	9.8%	7,120	\$145,724
Fruit & vegetable markets	3,179	2,106,828	11.2%	17,251	\$122,128
Baked goods stores	2,790	890,310	21.5%	14,810	\$ 60,115
Confectionery & nut stores	3,684	1,227,942	15.5%	21,578	\$ 56,907
All other specialty food stores	3,872	1,220,254	15.6%	18,206	\$ 67,025
Beer, wine, & liquor stores	29,613	22,684,120	7.5%	130,635	\$173,645



REALITY CHECKS

Partnerships & LLC's	Inventory Turnover Ratio	Days Sales in Ending Inventory	Cost of Goods Sold %	Gross Profit %
Motor Vehicles	6.7	62	87.2%	12.8%
Furniture & Home Furnishings	5.5	70	61.5%	38.5%
Electronics & Appliances	13.8	27	83.5%	16.5%
Building Materials	5.4	73	75.0%	25.0%
Food & Beverage Stores	13.1	29	78.9%	21.1%
Health & Personal Care Stores	7.9	54	67.5%	32.5%
Gasoline Stations	35.5	11	86.3%	13.7%
Sporting Goods & Books	2.8	140	64.2%	35.8%
General Merchandise	3.0	123	66.4%	33.6%
Miscellaneous Retailers	3.0	142	66.6%	33.4%
Non-Store Retailers	16.6	24	80.5%	19.5%
Wholesale - Durable	4.8	80	78.7%	21.3%
Wholesale - Non-Durable	14.9	26	89.2%	10.8%





REALITY CHECKS

S-Corporations with Net Income (as % of Revenue)	Publishing industries	Motion Picture & sound recording	Broadcasting & telecom	Management companies	Administrative & support services	Waste management & remediation services
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Expenses	87.2%	88.3%	89.2%	74.3%	93.3%	88.9%
Net Income	12.8%	11.7%	10.8%	25.7%	6.7%	11.1%
Detail of Expenses:						
Direct Costs	33.6%	36.3%	34.4%	3.9%	45.7%	33.8%
Officers Compensation	5.6%	13.4%	4.5%	5.6%	5.2%	4.2%
Salaries & wages	16.6%	7.0%	17.2%	10.1%	21.4%	11.8%
Repairs	0.4%	0.6%	0.8%	0.9%	0.6%	2.0%
Bad debts	0.4%	0.2%	0.8%	1.7%	0.1%	0.2%
Rent	1.7%	2.5%	2.3%	1.0%	1.8%	2.8%
Taxes	2.3%	1.9%	2.8%	2.3%	3.5%	3.2%
Interest	0.9%	0.7%	2.2%	32.6%	0.5%	1.5%
Amortization	0.6%	1.6%	1.0%	0.2%	0.1%	0.4%
Depreciation	1.7%	3.3%	3.4%	2.1%	1.0%	5.1%
Advertising	1.8%	0.7%	1.7%	0.7%	0.8%	0.5%
Retirement Plans	1.4%	0.7%	0.5%	0.6%	0.3%	0.5%
Employee benefits	1.3%	0.3%	0.6%	1.3%	1.0%	1.4%
Other expenses	18.9%	19.1%	16.9%	11.2%	11.2%	21.6%
Total Expenses	87.2%	88.3%	89.2%	74.3%	93.3%	88.9%



SELLING THE PLAN

- YES, you must sell it, no one will just buy it !
- you wrote it for the audience of your choice
- convince your audience
- be forceful, knowledgeable, competent, and brief
- believe in it, impress them
- be patient and persistent
- follow up
- selling is rewarding but tough business



SELECTED READINGS

there are many books on business planning but most of them take a financial management approach which is not very useful in planning a business especially a new business. most are very skimpy on sales forecasting which is the heart of the matter. but, here is a good book on financial management:

Eugene Bringham and Michael C. Ehrhardt

„Financial Management: Theory and Practice,”

Harcourt Publishers, 2001, 2002, 2003, 2004



THE END

CHAPTER 5