

BUSINESS PLAN: THINGS TO KNOW



2010 Edition

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GUIDELINES

This guide has been written to make easier the realization of a business plan but it doesn't aim to be exhaustive with its guidelines.

This document can be updated at anytime by *Comitato Organizzatore*, the Committee in charge of Prize Start Cup Milano Lombardia.

Following the guidelines of this document does not imply directly that your business plan is complete and correct or that it is necessarily better than other business plans written following other guides.

A business plan consists of some fundamental sections; if they are missing, the business plan evaluation could be compromised because the committee members could not be able to deeply understand how good your project is and its real potential. The level of detail of each section depends on your discretion and your abilities.

Executive Summary

Making a short but exhaustive description of your project aims to underline its main points and this is the first step to promote your idea. It has to be no more than four pages long.

General description of the company

The General description of the company provides some important elements about the market positioning of the company, the organization of its main and secondary process and on the management team that is delivering the business idea.

Project description

This section is dedicated to your business idea. How your product works or how you provide your services, which is your market and how it is, which are the advantages for your costumers and so on. In this section you are asked to answer questions such as "What is your idea?" "How does it work?" "How did it all start out?" "Which are the potential factors in order to achieve success, which are the commercial outlets, which are the channel for the sales, which the economical rebounds?"

Strategic Plan

The first step is that of defining company's vision/mission, underlining the strategic aspects that will guide your project.

The purpose of the inner analysis is defining the strengths and the weakness within the company so that you are able to understand which one will be the competitive differentials (pros and cons). It is essential to define since the beginning the environment your company will operate in: which actors are involved now and the potential ones in the long distance, that means the ones that already have shares of the defined market or the ones that will be in the condition to be competitors.

The external analysis is set on 2 levels.

- The analysis of the business area (Porter's model)
- The analysis of external influences

It is important to define the competitive strategy taking into account that in order to place your company halfway through it won't give you good results; so it is not convenient to adopt mixed solution of the following ones:

- *Cost Leadership Strategy*
- *Differentiation Strategy*
- *Focus Strategy*

Marketing Plan

One of the first steps in order to understand if the company will have any chance to succeed is the market analysis. The market analysis has the purpose of collecting, classifying and analyzing all the information concerning the environment the company will work in. This has the aim to evaluate the market dimension and its actors and to have also some reliable forecast about its future development. The purpose of the analysis is understanding the situation in which companies of the same field are operating: their organization, their strengths and weaknesses, their development. To make the evaluation of the potential market easier, we divided it into different variables concerning time, geographic space, sociological issues... trying to define in this way a more defined and specific subarea.

Request Evaluation

It is always necessary to estimate the request expected in the market. It could be useful to include some market researches but they are usually not free. Internet could be a good way to do researches and find out numbers that can help you in the evaluation more or less correct, of the market dimensions you would like to operate in and its requests. Clearly, since we are referring to uncertain values and estimations, the final result of the financial and economical projection based on these hypothesis cannot be considered like a deterministic model (risk analysis and what-if analysis). Therefore it is better to identify different scenarios (worse case vs. best case) to prove that also in the worst conditions the business idea is economically sustainable in the short and long period.

Action plan

This chapter shows the use of the value chain model. You need to explain in details which are the main activities that the company aims to pursue:

- the realization of the product you described before
- the supply of the part of the market you identified before
- the accomplishment of the strategy described before

The action plan should contain also a time plan. This means that you have to take into account the time during the realization of the value chain (Gantt and Pert diagrams). Everything has to be done keeping in mind what has already been defined by the strategic plan. The competitive differentials that you want to reach have to be coherent and related to the purpose.

Human Resources and Organization

You have to define the Human Resources that are *critical, necessary and available* (like the management team, the subordinate people, the active investors and people in charge of the company's image...) *the variables of the organization* (individual role and position, delegation system or outsource degree), *the system of Human Resources management* (career management, recruitment, spur and training) and the

staff (for the future, qualitative needs of the staff). The management of hr should be dynamic and evolutionary; it is necessary to forecast new roles inside the company and to increase the personnel number so that the achievement of the project described during the strategic analysis can be pursued.

Financial structure

The financial structure analysis consists of three main points. Considerations beneath the juridical profile are crucial for the matter of funding: knowing if the company is owned by people (individual unlimited responsibility) or by capitals (limited responsibility) is relevant for business angels, venture capitalists or banks to make risk evaluations.

To launch a start-up it is necessary to estimate the capital requirement to support the investment. The fixed capital is only a part of the financial requirement. The other one is to finance the net current capital, which is the sum of current assets minus current liabilities. You can estimate the financial requirement through the source-employments budget or the cash-flow analysis. The cash-flow analysis is a tool that allows, starting from the balance sheet data (profit and loss account and the balance sheet budget), to determinate the detailed financial requirement time to time.

The entrepreneur who wants to launch his own company is unlikely going to get loans from the bank, unless banks receive guarantees. The first subsidies come from:

1. founders
2. family
3. friends

When the company will provide necessary guarantees to external investors, it will then be able receive funds in exchange of company shares and the participation in the profit distribution.

Eco-financial forecast

This section of the Business Plan is the one that causes the main troubles. Therefore it is necessary to start this chapter with a section in which the basic theories about forecast are explained. (Requirements, Investments, Expenses, Commercial Credits/Debts). Before getting started with the productive activity it is necessary to get a number of data that will be essential to the development of a plan in which the production, commercial, managing and eco-financial requirements are balanced. These parameters of analytical and general accounting allow to prepare the three summarizing documents of management:

- Profit & Loss
- Balance sheet
- Cash flow

The information that has always to be included regards:

- *Budgets* (profit and loss account and the balance sheet budget) 3 to 5 years
- *Cash-flow scheme*, 3 to 5 years in order to reach the financial requirement
- *Indexes system*, returns and profitability
- *Capital budgeting directories* (NPV, PBT) summarizing the financial situation
- *Break even analysis* which allows the calculation of the break even point, that is when the volume of selling allows to pay the expenses (EBIT = 0)

EXECUTIVE SUMMARY

Making a short but exhaustive description of your project aims to underline its main points and this is the first step to promote your idea. Notice that there are many people presenting a business plan to potential investors; people in charge of evaluating projects often have to analyze lots of similar projects, but they have not much time to read the business plan so a short description could be the only occasion to persuade them to continue reading your proposal and to analyze in detail your project. Four pages are enough to collect all the most important information, sometimes even in a detailed way (economic forecast) that is written in the other chapters. Because of this, the executive summary is the last part you should write.

The following elements are essential:

- The consumers' needs that a company can satisfy with its products/services.
- Preliminary remarks (history) and level of development of the idea and in detail of the products/services (possible proof of acceptance by the customers or positive feedback from experts).
- The market/segments to which it aims and its goals.
- Competitors and competitive positioning in the market (advantages).
- The entrepreneurial/managing team and the background experience.
- The operative and organizing key aspects (technical, productive, financial and related to the marketing).
- The risks and the protections (legal/managerial...)
- The main goals you want to achieve time to time and the bounds (managing, financial resources)
- The synthesis of the economic results and of the financial status and the balance sheet (basic case, possibly more favourable and less favourable).

GENERAL DESCRIPTION OF THE COMPANY

The general description of the company provides some important elements about the competitive positioning of the company, about its organization and about the management team that is delivering the business idea.

COMPETITIVE PLACEMENT

Thanks to the Abell model we can define the business of a company following 3 axes:

1. Products/services
2. Needs
3. Customers

Figure 1 shows a graphic representing this analysis and some variables.

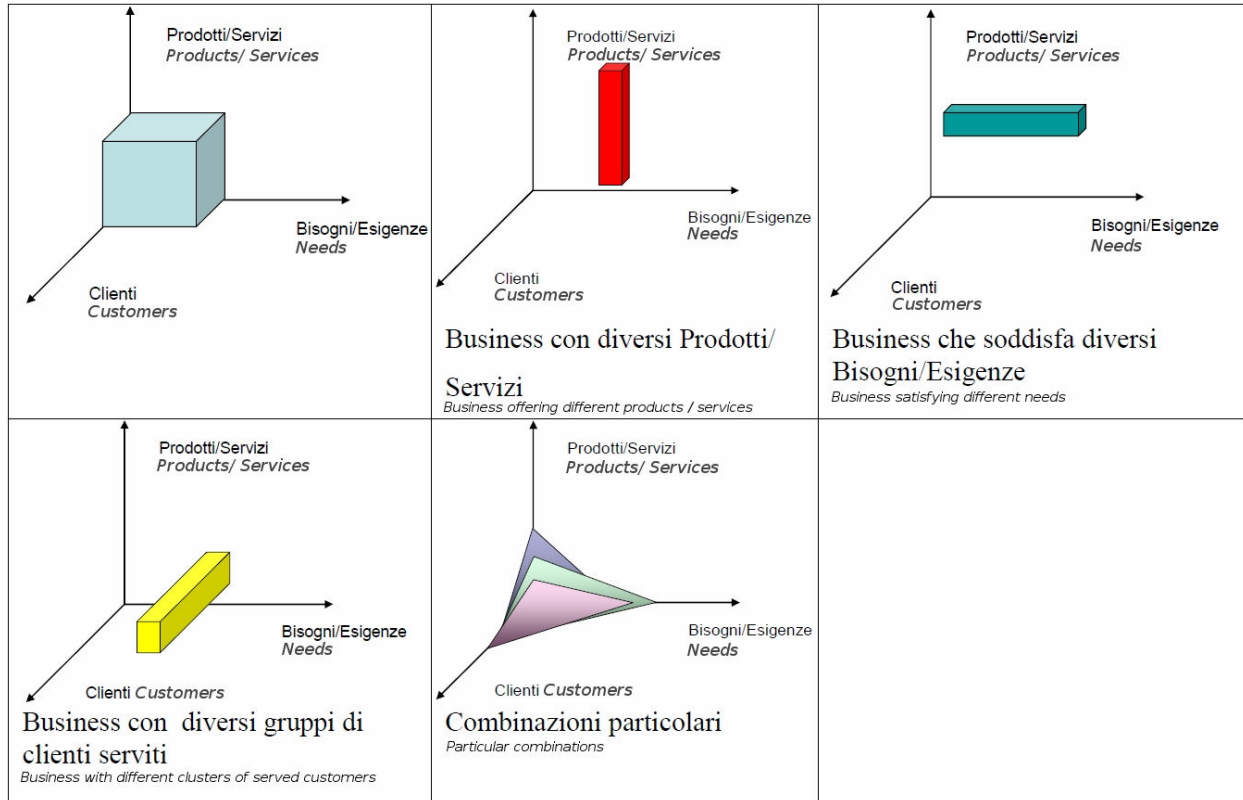


Figure 1 – Abell model

IN/OUT PROCESSES

Thanks to the analysis of the value chain, made by Porter, it is possible to define a series of activities as:

1. support activities
2. primary activities

represented in Figure 2.

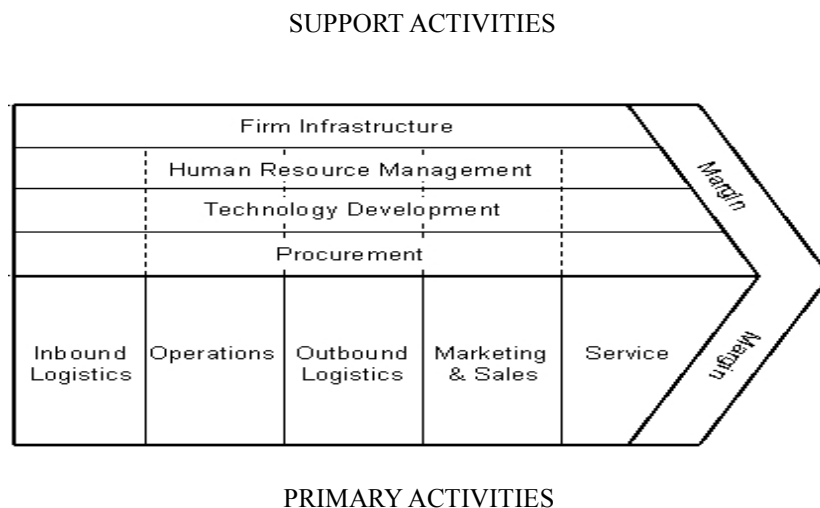


Figure 2 – Porter's Value chain

Notice that not all companies have the above mentioned activities, for example a company which provides services might not have inbound or outbound logistics.

Furthermore the company should decide to explain if it wants to manage its activities inside the company or with the support of others following the “make or buy” policy and the vertical integration, trying to increase its market power on competitors and suppliers.

PROFESSIONAL PROFILE

The professional profile of proposers provides information about their experience and abilities. It briefly provides personal qualities of each participant that might be critical to the project evaluation. People in charge of evaluating proposers will use this profile to analyze the skills of each proposer in relation to the business plan he/she is delivering.

The minimal required data are the name, the age, professional background, and the most significant job experiences describing the involvement in this job.

GENERAL DESCRIPTION OF THE PROPOSER

PROPOSER DESCRIPTION

SURNAME.....
NAME.....
ADDRESS.....
TEL.....
FAX.....
EMAIL.....
EDUCATION.....
CURRENT JOB.....
PREVIOUS JOB EXPERIENCES.....

PROJECT DESCRIPTION

This section is dedicated to the description of your business idea. It will provide information about how the product works or what kind of service is given, the market positioning and its features, the advantages that the company offers to its customers etc.

In this section you are asked to answer questions like “What is your idea?” “How does it work?” How did it all start out? Which are the strengths to achieve success, which are the commercial outlets, which are the sales channels, which the economical rebounds?

This section represents the introduction of a detailed analysis of your business plan.

PRODUCT OR SERVICE

This section provides a physical / functional description of the product or services for the market. This product could be a variance of an already existing product or a brand new product.

It is very important to underline all the aspects that differ from other competitors' products; to explain which the needs this product can satisfy are and the possible solutions it can offers to consumers in order to solve their problems.

Another important issue is to underline the strengths of the product, in particular if the benefits it provides are economically affordable in the long period. This chapter contains also a description of the work progress of the project. Notice that customers are interested in buying not your product but the benefits that product gives.

DESCRIPTION OF THE PRODUCT/SERVICE

• TYPE:

- Product
- Process
- Service

TECHNICAL DESCRIPTION.....

.....
.....

LIST of the available technical documents

.....
.....

• INSTRUCTIONS:

.....
.....
.....

• STRENGTHS:

.....
.....
.....

• LEVEL OF DEVELOPMENT:

- Embryonic
- Paper project (enclose the documents)
- Prototype

• GIVEN REQUESTS

- None
- National patent
- European patent
- International patent (PCT)

• CERTIFICATIONS:

- Brand or logo
- Collective brand
- ISO certifications

STRATEGIC PLAN

VISION/MISSION

This paragraph underlines which strategic plans are used to realize the project and to fill in the documents that should underline the action plans, the activities and the resources which have to be coherent with the long period mission.

Vision: it is an economic dimension we define to verify the progress of the project-company (basically the turnover or the profits analyzed and divided into different parts through the profitability and the cash indicators).

Mission: it represents the purpose of the project, in general, and its motivations.

INTERNAL ANALYSIS

The goal of the internal analysis is to define internal strengths and weaknesses of a company with the aim of understanding which are its competitive differentials (pros and cons).

Identifying the negative elements is useful to think about which solutions could be adopted to get rid of them.

The value chain is the tool used to define the competitive differentials of a company. You have to define which are the *main activities* (inbound and outbound logistics...) and the *Support activities* (the purchase of equipment, human resources management...).

A start-up can only analyse competences and critical resources to obtain an internal analysis which allows identifying the differentials about the know-how assets and the skills of the entrepreneurial team.

EXTERNAL ANALYSIS

It is very important to find since the beginning which environment your company will operate in: which the actors involved now and the potential ones in the future, that means those that already have shares of the defined market or those that might decide one day to become your company's competitors. Don't forget that many productive activities or services which appear to be different from yours might be as well indirect competitors on the market.

Even if their product differs from yours, consumers might think that product is a good alternative to yours, because it was made to solve the same problem as yours. This kind of competition, defined as indirect competition, often causes more problems than the direct competition because it is not so easy detect and to supervise.

The external analysis is composed of two levels.

The analysis of the attractiveness of the business area

A business area can be defined as the whole of competitors.

The tool used to make this analysis and to collect data about the attractiveness of the business area is the Porter's model or the Five Competitive Forces showed in picture 3.

The basic thesis of the Porter's model is that the attractiveness of a business area is in inverse proportion to the degree of extended competition, which is the whole of the Five Competitive Forces:

- The bargaining power of suppliers

- The bargaining power of customers
- The threat for new competitors to enter the market
- The threat of substitute products
- The intensity of competitive rivalry

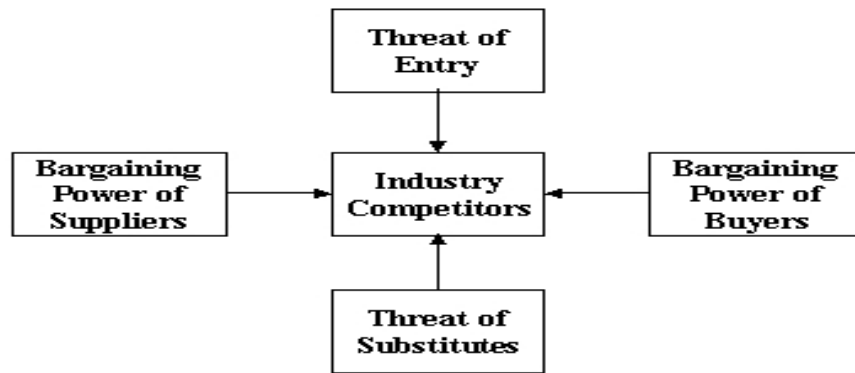


Figure 3 – Porter's 5 forces

In order to analyze *competitors* it is necessary to identify their strengths and weaknesses. Comparing your product and the ones of your competitors (benchmarking) is fundamental to recognize who will be your competitor and how to define your competitive strategies. The easiest method to achieve this is through the tables of competitive positioning, which are used to evaluate both your company and those of the competitors. Quality and price are two factors often used in this kind of analysis.

Analysis of other external influences

Among the factors related to your company's success you have to consider also that there are other external forces, which are very important for the public opinion or for companies and organizations interested in your project.

- The trend of the Country, and the specific geographic area
- The trend of the field
- The effect of the project regarding employment
- Technological trends of the field
- Creation of standard products and/or processes
- Laws (Laws about pollution ...)
- Incentives and tax relieves for specific sectors or projects

COMPETITIVE BUSINESS STRATEGY

It is important to define the competitive strategy taking into account that to place your company halfway through it won't give you good results; it is not convenient, indeed, to adopt mixed solution of the following ones:

- The *Cost Leadership* strategy is based on the cost differentials because the competition of the new product will be based on a price differential based on a cost differential up stream in the production process. Economies of scale.

1. Learning economies
2. Instructions on the production capability (seasonal nature, stocks, supplying)
3. Relationships (internal and vertical relationships)
4. Synergies (with the same informative channel for 2 S.B.U...)
5. level of vertical integration
6. Time (to be the first)
7. Location
8. Discretionary policies (product, mix, the level of the service, policies about the employees...)
9. Institutional elements (laws, incentives rates...)

These are examples of production processes which improve the product efficiency of the production which means a better use and the exploitation of raw materials...

- The *Differentiation* strategy act on the attractiveness differentials to make the product unique to the customer using all the attractiveness differentials:
 - Company policy's choices:
 1. Features and performances of the product
 2. Provided services
 3. Intensity of an activity
 4. Content of an activity
 5. Input qualities
 6. Ability and the level of experience of the employees and their background
 - Relationship
 1. Internal
 2. Vertical
 - Time (to be the first)
 - Location (geographical coverage)
 - Interrelations (economic goals (the purpose) – joint sale of financial and insurance services) Learning
 - Factors of scale
 - *The Focus* strategy acts on a target of well identified and detailed customers
 1. Focus on the costs (broad-spectrum competitors have higher costs).
 2. Focus on the differentiation (competitors offer products below the needs of the market segment).

STRATEGIC PLAN

- **GOALS AND BOUNDS** (the mission of the project and the defined goals, availability of financial resources through the time....)

.....
.....
.....
.....

- **INTERNAL ANALYSIS** (division of the main activities of a company, analysis of the competitive differentials of each activity)

- Division of the main activities of a company
- Identifying the distinguishing activities , which differentiate in a unique way the company from the competitors , they are not reproducible or replaceable, because of their key features of the distributed product/service.
- Analysis of the competitive differentials

.....
.....
.....
.....

- **EXTERNAL ANALYSIS** (external scenario of medium/long term) :

COMPETITIVENESS ANALYSIS

Strategic segmentation:

- relevant identification variables.....

.....
.....

- classification of the existent companies and identification of the clusters

.....
.....

ACTRACTIVENESS ANALYSIS OF THE BUSINESS AREA (the level of detail: business subarea) :

- internal competition on the business subarea (homogeneous products/services provided).....

.....
.....

- substitutes.....
-
- threat of new entrants.....
-
- the bargaining power of suppliers.....
-
- the bargaining power of customers.....
-

ANALYSIS OF THE EXTERNAL INFLUENCES (political, technological, socio-cultural variables, which have a relevant influence on competition).

- identification of relevant variables.....
-
- definition of scenarios concerning the identified variables in actual and evolutionary terms
-
-

•STRATEGY CHOSEN:

- Cost Leadership
- Differentiation (high qualitative/ technological standard of the product/service)
- Focus (product/service aimed to a defined category of costumers)

Notes:

.....

.....

.....

MARKETING PLAN

MARKET

The market analysis is one of the first steps in order to understand if the company will have some possibilities of success. The market analysis has the aim of collecting, classifying, analyzing all the information concerning the environment where the company will operate in.

The purpose is to evaluate the market dimension and its actors and also get some reliable forecast about its future development. So the aim of the analysis is that of understanding the situation in which companies of the same field are operating: their organization, their strengths and weaknesses, how they implement.

In order to make the evaluation of the potential market easier we divided it into different variable concerning time, geographic space, sociological issue...trying to underline one subarea much more defined and precise.

Location

The location of the new business is very important considering the strategic and productive point of view; it depends on many factors such as what kind of product or service should be placed on the market, the chosen ways of distribution, the infrastructures and technologies available and so on. Sometimes being close to the potential market can be crucial, other times, on the contrary, it is possible to have the company in the other part of the world or even at home. Basically the location is functional for the activity purposes and it is also important considering possible environmental restrictions or some advantages such as that of having already a proper office.

MARKETING STRATEGY

It consists on planning and designing the marketing mix defining the value of the following four variables:

- Price

1. base level
2. differentiation

- Product (product's features)

1. quality (intrinsic and perceived)
2. prestige
3. reliability
4. safety
5. innovation and technology level
6. appearance
7. range of products offered

- Promotion

1. institutional (company promotion)
2. of the product

- Place

1. commerce and distribution

REQUEST EVALUATION

It is always necessary to estimate the request expected in the market. It could be useful to include some market researches but they are usually not free. Internet could be a good way to do researches and find out numbers that can help you in the evaluation more or less correct, of the market dimensions you would like to operate in and its requests. Using an easy formula we can define the product expected requirement as the share of the takeover multiplied by the selected market evaluation (in terms of product unit). Clearly, since we are referring to uncertain values and estimations, the final result of the financial and economical projection based on these hypothesis cannot be considered like a deterministic model (risk analysis and what-if analysis). Therefore it is better to identify different scenarios (worse case vs. best case) to prove that also in the worst conditions the business idea is economically sustainable in the short and long period.

MARKETING PLAN

•DEFINITION OF THE POTENTIAL MARKET

•COSTUMERS/TARGET SEGMENTS

Business to business

•Public or private sector.....

•Business area.....

•Company's dimension.....

• Geographic area.....

•Type of purchase (frequency, purchase dimension, standard procedure of purchase)

.....

•Reasons of the purchase (product features, price, quality, reliability and service)

.....

.....

Business to consumers

•Demographic and socio-economic profile

•Age range.....

•Employment.....

•Education.....

•Income/social class.....

•Geographic area.....

•Needs to satisfy/reason of the purchase.....

Other considerable elements of the target segment

.....

•DEVELOPMENT LEVEL OF THE PRODUCT/SERVICE

- Completely innovative (need, product, technology)
 - It creates a new need
 - It doesn't need substitute products
 - It is based on new technologies

•DEVELOPMENT LEVEL OF THE TARGET MARKET

- Inexistent
- Developing
- Maturity
- Decline

•DIMENSION of the TARGET MARKET

- Number of sold pieces (or Number of the service's users)
- Number of companies
- Market developing trend.....

•MARKET SHARE FORECAST

- Percentage rating of the target market.....
- Approximation level adopted.....
- What if analysis.....
- Range sensitivity analysis.....

COMPETITORS

- Main direct competitors (products made to satisfy the same needs).....
.....
- Main indirect competitors (same target market).....
.....
- Proportional market shares.....
- Years of activity.....
- Notes.....
 - PRICE POLICY (positioning on the market)
 - HIGH (niche market)
 - MEDIUM (alignment with main competitors)
 - LOW (aggressive policy)

MOTIVATIONS and PERSPECTIVES

Competitors' prices (direct or potential).....

Expenses full company expenses).....

Request flexibility and target market.....

Expected profitability.....

• HELP SERVICE, MAINTENANCE (associated to product/service)

- Direct assistance
- Commissioned to qualified companies already on the market

• PROMOTION

- ADVERTISMENT
 - Promotion activity in a strict sense
 - Catalogues and other means of communication
 - People in charge of the company's image
- PUBLIC RELATIONS
- OTHERS.....

• DISTRIBUTION/COMMERCIAL CHANNELS

• SELLING STRENGTH

- Owned company
- Licensed
- Agents

• COMMERCIAL CHANNELS

- Department stores
- Single brand stores
- Franchising
- Others.....

• MARKETING BUDGET (expenses per year)

EXPENSES	YEAR 1	YEAR 2	YEAR 3

•SELLING PLAN

	POTENTIAL MARKET	REACHED MARKET	EXPECTED SALES	ADVERTISEMENT AND PROMOTIONAL EXPENSES
YEAR 1				
YEAR 2				
YEAR 3				

ACTION PLAN

This chapter shows the use of the value chain model. You need to explain in details which are the main activities that the company aims to pursue:

- the realization of the product you described before
- the supply of the part of the market you identified before
- the accomplishment of the strategy described before

The action plan should contain also a time plan. This means that you have to take into account the time during the realization of the value chain (Gantt and Pert diagrams). Everything has to be done keeping in mind what has already been defined by the strategic plan. The competitive differentials that you want to reach have to be coherent and related to the purpose.

PRODUCTION

How and when will the product be realized? What process will be used to realize it? Which machineries and technologies will be used? With which volume and with which investments? For production process it is meant each process or procedure that will use initial resources to realize a product ; the industrial production is an example of production much more complex then the distribution of a service.

The process depends on the technologies used, the location, capital assets and functioning costs.

Technologies

Choosing what kind of technologies have to be used, which represents the investment and also a list of which machineries and the set up are necessary to the process, could be complex and very relevant from the economical and financial point of view. The evaluation of the technology you want to use is very important. In general there are many options in the market. Usually machineries which are easier to use are cheaper but they may have higher variable unit costs. The more technological machineries are the more expensive they are and they have higher fixed costs but lower variable costs.

Investments

Choosing what kind of technologies you want to use , as we mentioned before, means choosing an investment level which can be paid off over a period equal to the machineries expected functioning time. For this reason, while choosing a machinery it will be useful to evaluate the contribution it will bring to the production process in relation to our company's profit levels and its financial liabilities.

Settlement Plan

The settlement plan concerns the time and the procedures which are necessary for the installation and the efficiency of the equipment. This plan depends on the location, the choice of the technology, the stream representing the production at the disposal of the lay-out of the equipment, from the provision of machineries to their assemblage and their functioning. The time and procedures differ in function of the contract furniture, the complexity of the technology and of the planning skill of the entrepreneur.

Tangible assets

The tangible assets consist of all the investments in production tools which have a physical form such as machinery, buildings, land, vehicles, computers and so on. These tangible assets will be monitored for

their historical cost and year by year reduced of the correspondent decrease of the value due to factors such as the use, the technological obsolescence level and their economic life.

Intangible assets

On the contrary, intangible assets are all those production factors which don't have the obvious physical value. For example softwares used by the company, patents and licenses possibly acquired by others, value paid to others to acquire a value intrinsic into the company.

In this last category there can also be values such as the evaluation of the brand of a company already founded possibly taken over, the evaluation of the customers shares or the market shares (start-up) and so on. The value of intangible assets will also be reduced year after year in proportion to their level of use and to their contribution to the production for each working period.

PROVISIONS

The function of the provisions concerning the production factors necessary to carry out the activity of the company is another critical function for any company. You have to make sure you have the necessary resources, in the required quantity, at the right time, with the right quality and the best quality/price relationship.

In order to have this situation you have to know very well all the aspects of the production cycle, its general aspects of the production and the critical ones and also the costs connected to the different work phase.

The production cycle

You have to define with precision the production cycle, describing carefully each phase of it indicating the time each phase requires, the inputs (human resources and raw materials), all the operative costs (eg: maintenance costs).

It will be fundamental to underline all the general and particular aspects, especially the aspects defined "critical" in order to have a regular productive activity. This allows to reduce to the minimum costs, dead times and wastes, so that you can optimize the use of the resources during the production cycle. In the description of the production cycle it is also important to define all the critical phases of this cycle. The critical phases are defined as all the operations that could have a crucial impact on the the production course. So, the critical aspects have to be conveniently identified and managed in order to minimize the total risk level of the production.

Costs analysis

It is necessary to analyze all costs concerning the production: direct labor costs, costs concerning raw materials and semi-finished goods, costs for joined services, general costs to divide on the basis of the percentage of the competence regarding the activity. The analytical accounting provides good advice to optimize and improve the processes.

ACTION PLAN

●FUNCTIONAL GOALS

- Which is the organization of the production (which is the process, machineries and technologies)

.....

- With which volume and investments

.....

SELLING TIME

EXPENSES	YEAR 1	YEAR 2	YEAR 3

DESCRIPTION OF INPUT AND FUNDAMENTAL RESOURCES

- Material immobilizations (buildings, equipment, machineries, vehicles, computers etc)

.....

- Immaterial immobilizations (licenses, patents, brands)

.....

- Single use goods (raw materials, services, leases, salaries....)

.....
.....

- CRITICAL SUPPLIERS and EXISTING AGREEMENTS

.....
.....

- TIMING

- List of the the basic activities of the productive process.....

.....
.....
.....

- Timing of the productive process (GANTT , PERT)

(Please include attachment here)

ORGANIZATION AND HUMAN RESOURCES

In this chapter you have to define the human resources that are *critical, necessary* and *available* (like the management team, employees, active investors, public relationships...), the *organization variables* (individual role and position system of human resources management or outsource degree), *the system of human resources management* (career management recruitment, incentive and training) and the staff (for the future qualitative needs of the staff)

The management of Human Resources should be dynamic and evolutionary; it is necessary to forecast new roles inside the company and to increase the personnel number so that the achievement of the project described during the strategy analysis can be pursued.

Company organization

The company organization is defined as the whole of working mechanisms of a structure.

Each company has its organization which depends on its goals, strategies and resources. The nature of the market, the level of dynamism, the managerial style of the entrepreneur, all these factors determine the organizational model of your company. Indeed this model defines roles and tasks of each person involved in it. As far as it matters it is important to mention the most recurring definition about the company which states: "a company is an amalgam of technical and financial human resources coordinated and interacting one another to seize the opportunities the market offers".

Organizational structure

The organizational structure of a company is represented by a kind of diagram called organization chart. The organization chart shows the relationships between different levels in an organization, between the different positions and the areas of expertise of each position. Small organizations don't need such detailed schemes to organize or show the proceeding of the company activities.

Roles description

It could be useful to describe in detail all the tasks and the responsibilities concerning the organization (job description). It could be also useful to specify in detail the personal and professional qualities (personal description) of each person who has a defined role inside the company.

This piece of information is fundamental to ensure the best organizational model of work and it also avoids problems about the definition of responsibilities, merits and lacks of work. It also helps making sure that the selected people are the most suitable to carry out the tasks previously defined.

ORGANIZATION

- **CRITICAL HUMAN RESOURCES**

- Professionals involved in the project (entrepreneurial team, members of staff, people in charge of the company's image...)

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- **INTERNAL ORGANIZATION (ORGANIZATION CHART)**

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- **TASKS DEFINITION**

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- **LATERAL CONNECTION DEFINITION**

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- **DECENTRALIZATION (Power System)**

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- **STAFF**

- Required skills for the project development (quantitatively and qualitatively)

- Current skills.....

- Future skills (perspective).....

.....

FINANCIAL STRUCTURE

The financial analysis consists of three main parts:

- The juridical position of the new company
- Financial needs of the company
- Financial resources

JURIDICAL POSITION

Considerations beneath the juridical profile are crucial for the matter of founding: knowing if the company is owned by people (individual unlimited responsibility) or by capitals (limited responsibility) is relevant for business angels, venture capitalists or banks in order to make risk evaluations.

The fact a joint stock company can give out liabilities and have shares in the stock market offers many more possibilities in order to access risky stocks. The juridical side gives directions on the minimum amount of stocks (120.000 Euro for JSC, 10.000 for LLC companies) and therefore affects on funding credibility.

COMPANY FINANCIAL NEEDS

In order to launch a start-up it is necessary to estimate the capital requirement to support the investment. The fixed capital is only a part of the financial requirement. The other one is to finance the net current capital, which is the sum of current assets minus current liabilities. You can estimate the financial requirement through the source-employments budget or through the cash-flow analysis.

Starting from the the balance sheet data (profit & loss account and balance sheet budget) the cash-flow analysis is a tool that allows to determinate the detailed financial requirement time to time.

FINANCIAL RESOURCES

The entrepreneur who wants to launch his own company is unlikely going to get loans from the bank, unless banks receive guarantees. The first subsidies comes from:

1. founders
2. family
3. friends

When the company will provide necessary guarantees to external investors, it will then be able receive funds in exchange of company shares and the participation in the profit distribution.

FINANCIAL STRUCTURE

- THE JURIDICAL POSITON

- Type of company you want to launch:

- People (LP, LLC).....
- Capitals (LLC, JSC).....

- FINANCIAL NEEDS (required investment during the first year of activity)

ASSETS	TYPE	NUMBER	TOTAL COSTS
Buildings			
Machineries			
Equipment / Computers			
Vehicles			
Licenses/ Patents/ Brands			

SINGLE USE GOODS	TYPE	NUMBER	TOTAL COSTS
Raw materials			
Leases			
Salaries			
Others			

• FINANCIAL RESOURCES

Available funds at the present time (in total/percentage terms of the total invested assets)

- Personal participation.....
- Private investors (friends/relatives, business angel, venture capitalist).....
- Public investors (Provincial, Regional, National, European funding).....

Preferential resources of funding:

- Personal participation.....
- Private investors (friends/relatives- venture capitals).....
- Public investors (Provincial, Regional, National, European funding).....

ECO-FINANCIAL FORECAST

This section of the Business Plan is the one that causes the main troubles. Therefore it is necessary to start this chapter with a section in which the basic theories forecast are explained:

- *Requirement*: how to estimate it (case by case, by range, by scenarios)
- Summary breakdown of *Investments* (from the action plan and the financial structure)
- *Costs*: (from the action plan and/or Human Resources)
- *Commercial credits/debts*: hypothesis on the average of the payment time (from the strategic/action plan and the marketing plan).

ECO- FINANCIAL PLAN

Before getting started with the productive activity that will be essential to the development of a plan in which the production, commercial, managing and eco-financial requirements are balanced.

Essential data regard:

- market dimension
- growth rates and forecast about the volume of the sales and the turnover
- company and commercial costs
- production costs
- direct and indirect labour
- energy and maintenance costs
- general expenses
- investments
- depreciation rates
- price of money
- rates
- equipment expenses
- others

These parameters of analytical and general accounting allow to prepare three summarizing documents about the management of:

1. Profit & Loss
2. Balance sheet
3. Cash flow

It will also be possible to calculate the Break Even Point.

The information that has always to be included regards:

- *Budgets* (Profit & Loss account, and the balance sheet) 3 to 5 years.
- *Cash flow scheme*, 3 to 5 years in order to reach the financial requirement
- *Indexes system*, returns and profitability
- *Capital budgeting directories* (NPV, PBT) summarizing the financial situation
- *Break even analysis* (with the economical meaning) that allows to calculate the break even point, that is when the volume of selling allows to pay fixed costs (EBIT = 0).

PROSPECTIVE BALANCES

Profit & Loss account,

The Profit & Loss account includes all the revenues and expenses of the activity and it allows to define the loss and the profit of the activity. This document summarizes the cash flow of the activity in a certain period of time (accounting year)

The progressive Profit & Loss account (depending on the production cost) is divided into some parts that usually are:

PRODUCTION VALUE

- Turnover
- Storage changes PF and WIP
- Other proceeds

PRODUCTION COSTS

- Purchases of goods and outside services.
- Other profits (leases)
- Staff (salaries, allowances, severance pay, social and security contribution)
- Amortizations and depreciations
- Storage changes of raw materials
- Allowance of risk and obligation funds
- Different management obligations

OPERATE INCOME: $EBIT = VDP - CDP$

FINANCIAL OBLIGATIONS/ PROCEEDS

- Proceeds (from shareholding, obligations, financial credits...)

- Obligations (bond issues, financial debts)

VALUE ADJUSTMENT of the FINANCIAL ACTIVITY

- Revaluations/ depreciations of the financial activity

STATEMENT OF OPERATING RESULTS: = EBIT +/- FINANCIAL MANAGEMENT

EXTRA OBLIGATIONS AND PROCEEDS

- Capital gains and capital loss

ECONOMIC RESULT AFTER TAX = STATEMENT OF OPERATING RESULTS +/- EXTRA STATEMENT

TAXES

NET PROFIT OF THE ACTIVITY = ECONOMIC RESULT AFTER TAX

Balance sheet

The balance sheet is the summary of assets, liabilities and the ownership equity related to the managing of the company. It can be described as a snapshot of a company's financial condition (input and output) related to the company's assets and the rights others (shareholders) are claiming to these assets.

This snapshot has two opposed sections:

ACTIVE:

- Credits (payment not yet done by partners)
- Immobilizations:
 - Immaterial (widening costs, research and development, patents...)
 - Material (land, buildings, machineries, equipment...)
 - Finances (shareholdings, credits...)
- Cash flow:
 - Remnants (reserves MP, WIP, PF)
 - Credits (to customers, subsidiaries...)
 - Financial activities (which are not assets)
 - Cash (deposit accounts, cheques...)
- Accrual and deferral

PASSIVE:

- Net assets:
 - Share capital
 - Reserves (Legal, statute, revaluational, share premium...)

- Profits carried forwards
- Profits of the activity
- Risks and obligations funds
- Severance pay
- Debts (bounds to banks, suppliers, tax debts, ...)
- Accrual and deferral

Cash flow

The Cash flow analysis has the purpose to check the company's available cash. This is to avoid to run out of the necessary financial resources to support its activity. This is an ever present danger, more frequent during the growth phases of the production activity. To calculate the cash flow you have to consider all the financial activities done during the production activity.

Capital budgeting

- **NPV (Net Present Value)**: it is defined as the total present value of a time series of cash flows, discounted back to its present value.

$$NPV = - I_0 + \sum_{t=1}^T \frac{CF(t)}{(1+r)^t} + \frac{PV(T)}{(1+r)^T}$$

CF(t) = the time of the cash-Flow

r = discount rate with the meaning of "opportunity cost"

I₀ = Initial investment

PV = present value

T = time of the cash flow

- **PBT (Pay Back Time)**: it is a tool to calculate the period of time required for the return on an investment to "repay" the sum of the original investment.

$$\sum_{t=1}^{PBT} CF(t) - I_0 = 0$$

- **Break even Point (BeP)**: is the point at which cost or expenses and revenue are equal (EBIT = 0). This means that there is no net loss or gain, and one has "broken even". It helps to provide a dynamic view of the relationships between sales, costs and profits.

$$BeP = \frac{CostiFissi}{(PrezzoUnitario - CostiVariabiliUnitari)}$$

Costi Fissi = Total Fixed Costs

Prezzo Unitario = Unit Sales Price

Costi Variabili Unitari = Unit variable Costs

ECO-FINANCIAL FORECAST ABOUT THE BALANCE SHEET

• EXPECTED BALANCE SHEET

ASSETS	Entries	YEAR 1	YEAR 2	YEAR 3
Immobilizations	Immaterial Imm.:			
	-Founding costs			
	-Brands, Patents, Licenses			
	-.....			
	-.....			
	Tangible Imm.:			
	-Buildings			
	-Machineries			
	-Equipment			
	-Vehicles			
	-Computers			
	-.....			
-.....				
	Financial imm.			
	-shareholdings			
	-security deposits			
	Total immobilizations			
Current assets	Unsold stock			
	Credits to customers			
	Credits to others			
	Deposit accounts			
	Cash and assets available			
	Total current assets			

Accrual and deferral				
	Total Assets			

IN DEFICIT	Entries	Year 1	Year 2	Year 3
Net Assets	Capital			
	Legal reserve			
	Statute reserve			
	Other reserves			
	Loss carried forwards			
	Total net Assets			
Risks and Obligations Funds	Retirement Package			
	Taxes			
	Others			
	Total Risks and Obligations Funds			
Severance pay for dependent employment				
Debts	Bounds			
	Bounds to banks			
	Bounds to other investors: -..... -.....			
	Bounds to suppliers			
	Tax debts			
	Bounds to Welfare institutes			
	Other debts			
	Total debts			
Accrual and deferral				
	Total IN DEFICIT			

• EXPECTED PROFIT AND LOSS ACCOUNT

	Entries	Year1	Year 2	Year 3
Production value	Revenues and Services - <i>Ricavi delle Vendite e Servizi</i>			
	Unsold stock changes - <i>Variazione delle Rimanenze</i> (semi-finished goods and finished goods - <i>semilavorati, prodotti finiti</i>)			
	Other revenues and proceeds - <i>Altri ricavi e proventi</i>			
	Income statement contributions - <i>Contributi in c/esercizio</i>			
	Total			
Production costs	Purchase of row materials secondary materials, consumable materials			
	Services costs			
	Rents and leasing costs			
	Employees expenses, severance pay included			
	Amortizations - <i>Ammortamenti</i>			
	Credit depreciations - <i>Svalutazione crediti</i>			
	Unsold stock changes of row materials, secondary materials, consumable materials and goods			
	Risk allowances - <i>Accantonamenti per rischi</i>			
	Other managing obligations			
	Total			
Operate income				
Financial proceeds and obligations	Interests charge and other financial proceeds - <i>Interessi attivi e altri Proventi finanziari</i>			
	Total			
Extra proceeds and obligations	Extra proceeds			
	Extra obligations			
Results pre-tax				
Income tax				
RESULTS FROM THE ACTIVITY				

• CASH FLOW ANALYSIS

	Year 1	Year 2	Year 3
+ Operate Income - <i>Risultato Operativo</i>			
+ Amortizations - <i>Ammortamenti</i>			
- Income tax - <i>Imposte d'esercizio</i>			
(A) Gross self-financing of the statement of operating - Autofinanziamento lordo da gestione caratteristica			
+ Current activities changes (f-i) - <i>Variazione Attività Correnti</i>			
- Current in deficit activities changes (f-i) - <i>Variazione Passività Correnti</i>			
+ Storage changes - <i>Variazione Magazzino</i>			
(B) Net present values - <i>Variazione del Capitale Circolante Netto</i>			
(A – B) Net self financing of the statement of operating			
-/+ Investments / disinvestments operative obligations- <i>Investimenti/Disinvestimenti immobilizzazioni operative</i>			
-/+ Investments / disinvestments financial activities- <i>Investimenti/Disinvestimenti attività finanziarie</i>			
-/+ Fundings/ refunds - <i>Finanziamenti/Rimborsi</i>			
- Dividends - <i>Dividendi</i>			
- Financial obligations - <i>Oneri Finanziari</i>			
+ Financial proceeds - <i>Proventi Finanziari</i>			
+/- extra components and other statements - <i>Componenti straordinarie e altre gestioni</i>			
CASH FLOW expected			
	CF (1)	CF (2)	CF (3)