Strategic Insights: Mastering Business Planning Essentials

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DOORS BLACK SEA

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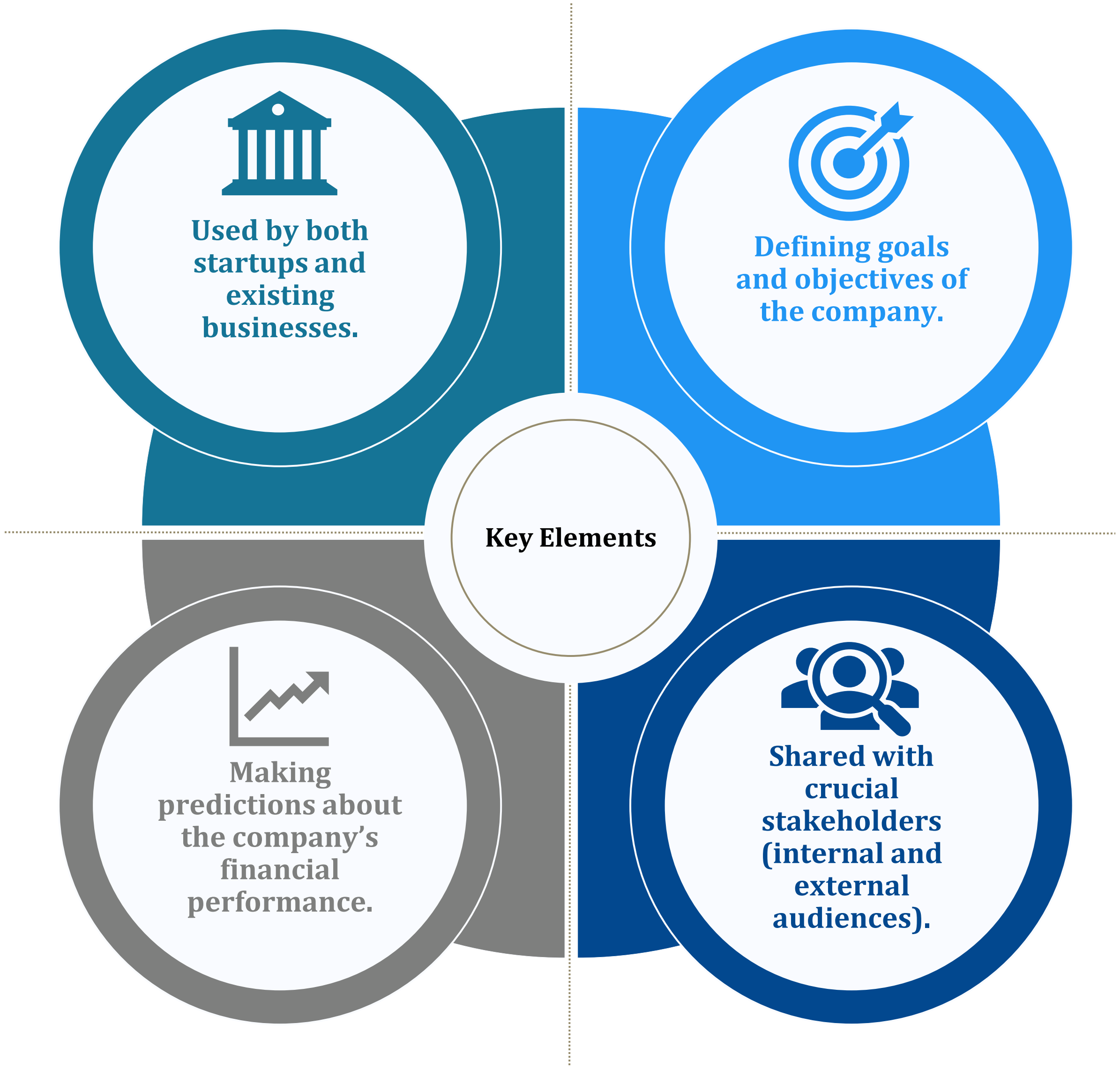
Section 1

Definition of a Business Plan

A **Business Plan** is a written document that aids entrepreneurs in communicating their vision, evaluating the viability of their concepts, and adapting to changes, attracting lenders or investors and guiding their operations as they start and grow their businesses.



Business Plan Overview

A strong business plan should have an executive summary, sections regarding the industry of which the business will be a part, a description of the company and its services, financial projections as well as a marketing plan. The parts of the business plan are presented below:

1. Executive Summary
2. Corporate Profile
3. Business Environment Analysis
4. Strategic Planning
5. Financial Results
6. Sensitivity Analysis
7. Marketing Plan

Section 2

Elements Shaping the Executive Summary

- A high-level overview of the Business Plan;
- Adapted according to the sector of each business;
- Includes the reasons for drafting the Plan;
- A quick view on the financial results;
- A high-level display of the contents of the document;
- Be robust and do not use many words or details.

Section 3

Corporate History, Mission and Vision

This section provides the basic information and background of a company, depicts in high-level the history and the goals.

1. Basic information

Share the official name, logo, locations, services and/or products that the company provides, company's culture and values, and if possible certifications or awards.

2. Company's History

Include the original idea and vision, when and how the company started, how the business has evolved over time as well as the significant accomplishments over the years.

3. Mission and Vision of the company

Make a mission statement outlining the company's activities, goals, and strategies, as well as describe your vision for the business.

Tips

- ✓ Keep it short (no more than one page) and clear.
- ✓ Keep it formal, understandable, straightforward and use up-to-date details.
- ✓ Only include numbers that are reported in your financial statements.
- ✓ All businesses should have a mission and a vision statement regardless of size.

Section 3

1. Introduction to the Business Plan
2. Executive Summary
3. **Corporate Profile**
   i. Corporate History, Mission and Vision
   ii. Governance Structure
4. Business Environment Analysis
5. Strategic Planning
6. Financial Results
7. Sensitivity Analysis
8. Marketing plan (optional)

Including details about the governance structure enhances credibility and trust, focusing on elements crucial for decision-making.

Provide an explanation of the legal structure: The legal elements that make up your company are summarized in this section.

Describe the shareholder structure: Name the shareholders and their share.

Tips

- ✓ Keep it brief and concise.
- ✓ Do not include business units, departments, staff members or advisory board and their role.
- ✓ Use charts and graphs
- ✓ Use percentages and avoid long text.
- ✓ If the company has multiple shareholders with minor amount of shares (<5%), do not include them. Just name them “other minor shareholders” and add the cumulative share.

Section 4

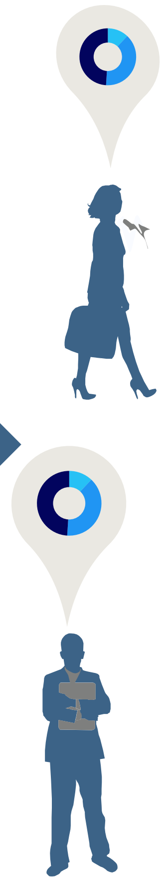
Market analysis reveals insights into the industry, describing its nature, size, growth trends, and future outlook.

Describe the industry first, in a larger geographic region (such as Europe), and then concentrate on a few key areas/countries:

- ✓ Present industry size statistic
- ✓ Indicate current market size and past growth rates
- ✓ Check imports-exports
- ✓ Mention seasonality

Designate a customer analysis:

- ✓ Examine the number of potential customers/ clients and their characteristics
- ✓ Recognize buying habits and lifestyle
- ✓ If possible, record the target group's typical income range



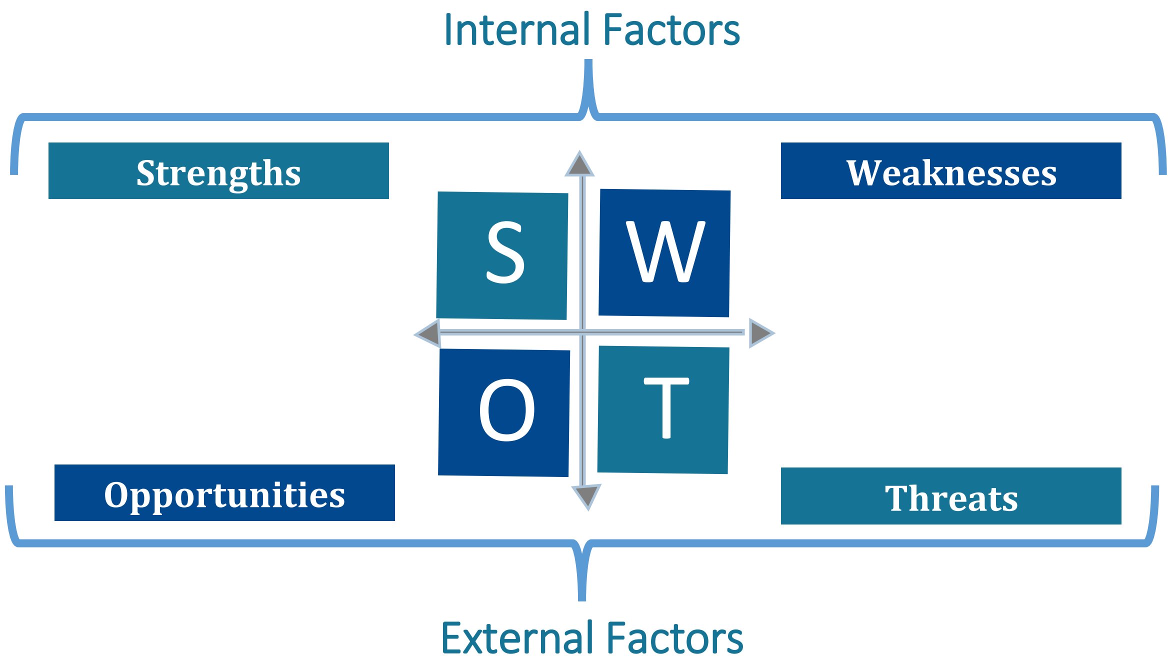
Tips

- ✓ Be precise and provide statistics about the industry's size.
- ✓ Choose carefully the market that should be analysed.
- ✓ Choose reliable sources like the OECD, World Bank, and Eurostat.
- ✓ Use charts and graphs
- ✓ When conducting your analysis, keep in mind the years with unique characteristics.
- ✓ Use up-to-date market data, observe the progress and make predictions for the future.
- ✓ Mention seasonality if this is a factor that applies in your sector.

Section 4

Competition Analysis

Businesses may evaluate their strategic positions in light of the business environment and a wide variety of internal and external factors by using a SWOT analysis



✓ **Conduct a Competitive Market Analysis:** Report the major participants in the industry. Examine the company's place in the market and how your competitors' products and services are seen. If possible, investigate the pricing strategy.

✓ **Reduce your Market Risk, by undertaking a SWOT Analysis:** Being the first to recognize a new opportunity or trend is frequently the key to stay ahead in business.

Tips

- ✓ Keep everything in the context of your firm. Choose the competitors you analyse wisely (only the major ones).
- ✓ Adding charts and graphs are strongly recommended.
- ✓ Be brief, clear and up-to-date.
- ✓ Use the Internet: you can find out more about your competitors by performing a number of searches online.

Section 5

Description of the Idea/product

The Description of the Idea/product outlines the unique qualities that distinguish your products/services and articulates the reasons an investor might find compelling to fund your venture.

A brief description of your products/services as they stand at the moment

- ✓ Create a short, readable, well-written product/service description that will be able to draw in investors and grow your company.
- ✓ Evaluate your product/service against competing goods/services.
- ✓ Describe your future ambitions and the innovations you aim to introduce to the industry.
- ✓ Provide pricing information, explain how your products and services will be priced.

Outline the measures you should take to attain the company's aims.

- ✓ Describe any specialized technology or materials.
- ✓ Mention any certificates, trademarks, copyrights, or patents.

Tips

- ✓ Give a short, but clear, and understandable explanation, avoid details.
- ✓ Focus on the main idea and the unique qualities of the products or services that distinguish them from those of the competitors.
- ✓ Your description should demonstrate how your product enhances life or solves a problem, demonstrating why the customer needs your product or service.

Section 5

The Organizational Structure demonstrates that your company has engaged competent professionals and is well-organized.

Provide a brief overview of the management team in the introduction of the section: Give a succinct description of the business, its size and synthesis, so that the investors can get a sense of how the business is organized.

Identify the corporate structure of the company, with a chart: Establish the management hierarchy with details on owners, board members, and professional partners, including their roles and positions, indicate how they will contribute to its success.

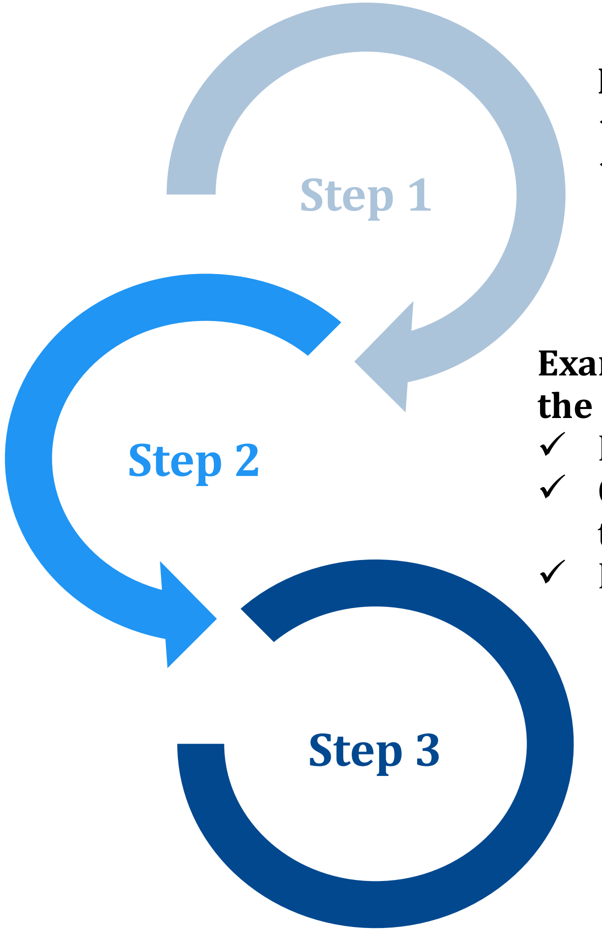
Tips

- ✓ Use a chart to describe the organizational structure, instead of text.
- ✓ The structure must be clear, different hierarchies and levels should be clearly distinct.
- ✓ Do not share the personal details of every staff member.

Section 5

Staffing Plan

An effective staffing plan assists in determining the number and roles of employees necessary for your organization to achieve its goals.



Description of the current situation:

- ✓ Determine current staffing levels.
- ✓ Give a brief description of the objectives of the company to support the staffing strategy that will be used.

Examine the staffing needs that will be required to meet the corporate's goals:

- ✓ Make some predictions about your future staffing needs.
- ✓ Consider the number and types of employees (including their skills and experience).
- ✓ Plan for a better, more productive workflow.

Put together a staffing plan:

- ✓ Depending on the product or service, create a plan by region, product line, or function (sales, marketing, etc.).
- ✓ Present the staff categories and the reasoning behind them.

Tips

- ✓ The staffing plan should be clear and accurate for each year.
- ✓ The staffing strategy should be detailed and contain as many job titles (managers, team staffing etc.) as feasible, but do not be too analytical.
- ✓ It is recommended to identify the needs of the business and proceed accordingly.
- ✓ Determine your goals and then make the staffing plan.

Section 6

General Assumptions

For the preparation of the financial plan, the following specific business assumptions must be taken into account.

Step 1: Define the duration of the Business Plan

Step 2: Be aware of metrics/rates that can affect the business

Determine the necessary workforce level

Step 4: Address if the revenues will be invoiced and collected annually

Step 5: Mention any interest rate that may affect the business's cost of borrowing

Step 6: Identify the asset depreciation rates and methods

Step 7: Indicate the Initial Working Capital to start operations

Tips

- ✓ All the aforementioned details are general assumptions and should only presented very briefly.
- ✓ An excessively long Business Plan might be considered as uncertain.
- ✓ Pick a moderate inflation rate based on its course over time as a benchmark or apply country-specific projections.
- ✓ Tax and VAT rates should remain constant.
- ✓ Assumptions for balance sheet presentations should be conservative and based on reasonable expectations.

Section 6

Revenues Assumptions

Revenue assumptions are based on a company's income streams and forecast its prospective profits.

Revenues

- Outline the business's projected revenues, their evolution and the way that are distributed depending on the course of the previous years and the investment strategy.
- Display your earnings depending on the anticipated number of sales points, the estimated number of consumers and the price that customers are actually willing to pay.
- Knowing the pattern of cash inflows can help you understand the earnings stream, which will assist you spot odd movement or changes.
- Define the pricing policy.

Tips

- ✓ Choose the pricing policy wisely, be aware of consumer demand and market trends.
- ✓ Include all revenue streams but be conservative with your revenue projections.
- ✓ Due to the quick growth in production that is foreseen, there is typically a steady increase in revenues.
- ✓ Seasonality should be addressed as well, if applicable.
- ✓ Do not take large increases for granted.

Section 6

Investment Plan/CAPEX Assumptions

Investment Plan/CAPEX Assumptions enable businesses to obtain or enhance their tangible assets to support future growth.

Analyse Capital Expenditures (CapEx):

- ✓ The plan must display the company's assets on an annual basis and consider make it realistic.
- ✓ A list of all one-time expenses made during the initial stages of an investment may be found in the investment plan.

Calculate Capital expenditures (CapEx):

- ✓ CapEx are funds used by a company to purchase, maintain, and upgrade physical/financial assets such as buildings.
- ✓ It is a cost that a business reports on its balance sheet as an investment rather than an expense on its income statement.

Tips

- ✓ Do not include VAT.
- ✓ Choose the timing of investments wisely.
- ✓ Leased cars or equipment are considered operating expenses, hence they are not included in the investment plan.
- ✓ The CapEx review occurs mostly during the creation of the financial model (not the potential cost of the financial advisors neither expenditures incurred prior to the Business Plan's start date).
- ✓ Operating Expenditures (OpEx) and Capital Expenditures (CapEx) should not be confused.

Section 6

Cost Assumptions

Cost assumptions are forward-looking estimates of operating expenses that aid in setting realistic goals, efficient resource allocation, and identifying risks and opportunities.

Make assumptions-based cost forecasts and provide commentary on the breakdown of costs.

Operating expenses (OpEx), are costs a firm incurs as part of its regular business operations.

Assumptions regarding financial expenditures (such as loan charges and guarantee fees) are important.

Consider creating a realistic plan for your costs that includes annual visualization, or half-monthly or quarterly.

Tips

- ✓ Distinguish operating from financial expenses.
- ✓ Keep in mind the inflation of costs.
- ✓ Social contributions must, of course, also be included into wages expenditures.
- ✓ Do not include VAT in the costs, as they will be hedged with revenues VAT.

Section 6

In this segment of the business plan, the incorporation of financial statements is planned to extract results.

Profit & Loss (P&L) statement

- ✓ The profit and loss statement summarizes the company's financial condition and indicates whether it is profitable or not.
- ✓ The statement includes all the sources of revenues as summarized above in the section of Revenues Assumptions as well as the cost of goods/services sold in order to calculate gross profit.

Balance Sheet

- ✓ The balance sheet includes and summarizes the assets (tangible and intangible property), liabilities (debt owed to creditors of the company) and equity (net worth) of the business at a certain moment in time.
- ✓ The formula used to express the connection between these components of financial data is: $Assets = Liabilities + Equity$
- ✓ Future projections should be included in the balance sheet together with the information about current assets and liabilities.

Cash Flow Statement

A cash flow statement displays the precise amount of cash that comes in and goes out of the company. Each of the flows is broken down into one of the three categories of:

- ✓ operating,
- ✓ investing, or
- ✓ financing activities.

The money to support the company's venture is included in the list of financing activities. The cash flow projection shows how much money is expected to be made or spent over a selected time period in the future and could be based on earlier cash flow statements.

Tips

- ✓ Make the calculations in a financial model first (excel template) and then incorporate the results into the business plan.
- ✓ The cash flow statement, income statement, and balance sheet must all be linked and need to be done at least annually
- ✓ After you completed the three financial statements, make a short analysis for each one, providing the highlights.
- ✓ Pay attention to the country's legislation regarding tax payments and tax prepayments.

Section 6

Appraisal of the Investment

It aids in recognizing potential risks and rewards linked to the proposed investment, contributing to the mitigation of potential losses.

Weighted Average Cost of Capital (WACC)

- ✓ WACC is commonly used as the minimum rate of return on an investment required by businesses and investors to assess the viability of a specific acquisition.
- ✓ WACC = (E/V × Re) + (D/V × Rd) × (1-T)
- ✓ Where: E is the market value of the firm's equity, D is the market value of the firm's debt, V=E+D, Re is the cost of equity, Rd is the cost of debt, T is the corporate tax rate.

Net Present Value (NPV)

- ✓ NPV is the total amount of discounted future cash flows (inflows and outflows) throughout the investment's lifespan.
- ✓ $NPV=[CashFlow_1/(1+r)^1]+[CashFlow_2/(1+r)^2]+[CashFlow_n/(1+r)^n]–Initial\ Investment$
- ✓ Where: cash flow is the net cash inflows-outflows on the investment during a time period, n is the number of periods of time, r is the discount rate.

Internal Rate of Return (IRR)

- ✓ The IRR, calculates the rate of return (i.e. the discount rate) for which NPV=0. The higher the IRR, the better the return on an investment.

Tips

- ✓ The most common and accurate investment appraisal methods are NPV and IRR and it is recommended to use one of them in your business plan.
- ✓ Present only the formulas and the results.
- ✓ Carefully calculate the WACC and its coefficients. The risk-free rate of return, which serves as the bare minimum return necessary on riskier investments and can be used to calculate WACC.

Section 7

The Sensitivity Analysis is performed on financial statements to analyse how modifications may affect the financial predictions and corporate appraisal.

Identify the critical parameters that might have an impact on your financial predictions.

Produce different future scenarios with assumptions about the critical parameters:
- ✓ Base case scenario
- ✓ Worst case scenario
- ✓ Best case scenario

Calculate the investment assessment metrics (such as NPV and IRR) for each of the scenarios.

Tips

- ✓ Make reasonable and sensible decisions while selecting crucial factors.
- ✓ Deviation of critical parameters from baseline have to modest (varying between -20% and +20%).
- ✓ Do not use a single parameter to develop your scenarios. Identify two to five critical uncertainties and their impact on profitability (e.g. changes in inflation, demand forecast, taxation rate).

Section 8

A marketing plan is a set of tactics used by firms to plan, implement, and monitor their marketing strategies (reaching targeted customers and promoting your service to them) over a specific time frame.

Communication Strategy

- ✓ Assess current situation
- ✓ Set goals
- ✓ Define Target Market
- ✓ Plan your communication Strategy

Target Market Strategy – Marketing Goals

- ✓ Define the target groups and explain the importance of addressing them

Marketing Promotional Tools

- ✓ Define the promotional tools
- ✓ Include goals and anticipated outcomes

Promotional Plan

- ✓ Organize the marketing activities into a timeplan
- ✓ Indicate which marketing tools you plan to employ
- ✓ Determine budget

Tips

- ✓ Marketing plans are frequently implemented on a quarterly or annual basis, focusing on the time of the year, the current state and the most effective tactics in that period.
- ✓ The marketing plan estimates the budget for the activities, while small adjustments could be made.
- ✓ There is no need to provide overly specific dates.

Kantor Management Consultants is a European strategic, innovative, hands-on consultancy, committed to providing top-notch and bespoke advisory services. We address complex client problems in major sectors of the economy. Kantor effectively transfers global knowledge and expertise, to address local needs.

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