

BUSINESS PLAN MANUAL

The start2grow
founders' contest



start2grow

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(free of charge from all German networks)



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The logo for start2grow, featuring the text "start2grow" in a lowercase, sans-serif font. The "2" is a smaller, lighter-colored number. To the right of the text is a circular graphic composed of several segments, resembling a gear or a stylized sun.

YOUR PARTNER START2GROW

The better your start up is prepared, the more effective you can be when the company really gets going. A proper professional plan is the crucial foundation for a calculated business start-up.

The Business Plan Manual supports entrepreneurs while structuring a business plan and guides them in developing written material. Check if your idea has what it takes to be a promising business idea with start2grow.

Since 2001, the start2grow founders' contest has been helping founders from throughout Germany to put their business ideas into practice. At start2grow more than 600 voluntary coaches are ready and waiting to help participants with their knowledge and contacts. 10,700 potential founders in around 4,755 teams have taken part in the contest since 2001.

A real success story: more than 1.080 companies have been successfully founded and have created more than 6,200 jobs. The founders' contest, the only one in Germany to have its quality management certified according to ISO 9001, is open to ideas for new companies in all sectors. There are some additional awards in the special "Technology" discipline. "start2grow is an initiative by the dortmund-project, a business division of the City of Dortmund Economic Development Agency.

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NECESSITY AND STRUCTURE OF THE BUSINESS PLAN

The Business Plan is a professional presentation of your idea for founding a company. Your plan is a detailed description of your overall entrepreneurial concept. It describes the economic environment, the aims you have set and how you will achieve them. It also serves as an accessory for acquiring capital. If it is put together and applied in the right way the Business Plan can become a key document for assessing and controlling your business activities: a well written Business Plan is your professional ticket to the world of business.

Your Business Plan shows that you have thoroughly investigated the many aspects of setting up and subsequently running your company. Having a complete Business Plan shows that you have worked out your business idea systematically, that you have made decisions and are ready to put your idea into practice.

You need your Business Plan:

- as an implementation plan for founding your company
- as a document for investors
- as a regular check on your own company aims
- to present your company to the world of business.

In spite of the fact that founders' ideas are very individual, Business Plans usually have a certain structure dividing it into chapters and sub-chapters. These include an Executive Summary, the description of the business idea with a presentation of the product and/or service, a sector and market analysis, information about marketing and sales, facts about management and personnel planning as well as opportunities and threats. A detailed financial and implementation plan is also part of a complete Business Plan.

The appendix to your Business Plan provides further space for additional information e.g. organization charts, calculations, patents or founders' CVs. Make sure that the Business Plan and appendix are always well-structured and of a manageable size.

RECOMMENDATIONS FOR CREATING YOUR BUSINESS PLAN

→ A clear Business Plan makes a good impression.

A clear Business Plan makes a good impression.

Your Business Plan should provide suitable answers to all the questions the different readers might ask. It should be convincing by prioritizing the different statements it contains and by concentrating on the essential facts. All relevant topics should be treated briefly but thoroughly.

In the appendix to your Business Plan you have space for additional information. Clear, non-ambiguous language is important. Regularly ask trustworthy test-readers to check your plan, e.g. coaches in the start2grow network.

→ will make your Business Plan convincing.

Even if you get a bit carried away by your great idea it makes sense to write in an objective and factual manner. Don't let over-enthusiasm get in the way. Neither is it a good idea to be too critical or refer to possible mistakes you have made in the past. Everything in the Business Plan should be factually correct and be included according to the best of your knowledge. Any weak points you mention should always be described together with planned or already initiated corrective procedures.

→ Technical non-experts should also be able to understand your Business Plan.

If you want to inspire readers from other disciplines with your technical creation you won't be able to convince them by using specialist vocabulary. On the contrary: it is important to explain the idea understandably in as simple a way as possible. It is often useful to describe a customer's problem and then to present your solution for that customer. This makes a competent impression on the reader. Technical details about the project or manufacturing process can be added in the appendix.

→ Your Business Plan should have a consistent style.

Teams often create their Business Plans with one member working on each different chapter. This leads to different styles, language and levels of detail in the plan. Once this work is finished it is definitely a good idea for one person to take care of the whole thing and ensure a uniform look and feel in a final version. Getting someone outside the group to proofread it also makes sense.

→ Your Business Plan is also a visual advertisement for your idea

Your Business Plan should also make a good visual impression. This can mean linking structures and content to different fonts which are easy to read, and including useful graphs and tables with suitable captions and descriptions. Perhaps you should include a header and footer with page numbers, your name – and if it already exists – your company logo. Add the date every time you update your Business Plan.

→ Your Business Plan must “live”!

Your Business Plan will slowly develop and mature with your business idea. You can start by working on just a few topics but more will join them as time goes by. Some aspects will have to be changed and updated as you learn more. The more foresight you deploy at the beginning, the less you will have to change later on. But you will still have to check the overall coherence of your Business Plan regularly.

→ Work to a plan

Writing a Business Plan is a complex task. Many individual aspects have to be taken into account and analysed systematically in an order that makes sense. So you should make a detailed plan of how to go about this. It all starts directly after writing down the initial ideas. You can use this manual to help create a professional Business Plan. Familiarize yourself with the contents of each chapter and allocate the facts from your first sketches and notes to the different titles. Then work through the details in each chapter one by one.

→ Results-oriented

While working on your Business Plan it is always easy to get bogged down in detail. This means it is a good idea to sit back now and then and check whether the information you have entered is already sufficient and what added value further analyses might provide. It is vital for the success of your Business Plan that it is comprehensible and coherent. Your complete Business Plan should not be more than 35 pages long, with an additional appendix if required.

→ Get help early

Founding a company in a team is often more promising than doing it all on your own. In teams with complementary technical and business knowledge the tasks can be shared out among the team members according to their skills. This also makes it easier to work on the different chapters. It is also important to get help from outside while you are working on your Business Plan. People from outside your team can often contribute by identifying weak points and they might even give new input and impetus to your work on the Business Plan.

During the start2grow contest make full use of the expertise of the coaches in our network. Use this to build up your own network and to help get your company founded.

COMMENT:

THE BUSINESS PLAN: A FINANCIAL INSTITUTION'S POINT OF VIEW

"A WELL-THOUGHT OUT BUSINESS PLAN WILL HELP YOU TYPICAL STUMBLING BLOCKS"

With around 150 credit-financed start-ups per year, the Sparkasse Dortmund is the significant contact partner for would-be company founders in the Dortmund region. "We don't exclude any particular sectors in our bank", emphasises Claudia Märtin, Head of the Startup Centre at the bank. "Anything is possible if everything fits." But a well thought-out Business Plan is a must.

This must include, in addition to the business concept, a capital requirements plan and an appropriate Financial Plan. Claudia Märtin explains: "This should all be according to that old motto of "as little as possible, but as much as necessary." The key to getting approval for financing is always the founding person. "Their professional aptitude is particularly significant." But business experience is also necessary. "Some founders under-estimate, for example, the competition within their sector." It is not important for this public sector financial services provider whether the applicant is currently an employee or unemployed at this point.

The Business Plan enables the staff at the Startup Centre to quickly identify any possible stumbling blocks which might hinder the success of the venture. "These include incorrect assessments of liquidity or time to market", Claudia Märtin explains. But there is no general set of guidelines for the "right plan" at the Sparkasse Dortmund. "Opening a kiosk is completely different to starting up a company in the Technologiezentrum", Claudia Martin tells us. Although the assessment criteria are comparable: "If we are convinced by the business idea and the would-be entrepreneur, then there is nothing to stop us providing credit finance."

Claudia Märtin also advises that, in addition to having the right Business Plan, you also need a lot of enthusiasm and a certain readiness to take risks. But a sense of responsibility and ability to work under pressure are just as important. Above all, in the start-up phase it is also essential to have the full support of your family. "You will often end up working a 60 hour week."

Claudia Märtin, Sparkasse Dortmund

HOW TO USE THIS MANUAL

The structure of the Business Plan which is relevant for the assessment process in the start2grow founders' contest is set out in the table below. It also shows the recommended number of pages. Just how in-depth each particular chapter is depends on its significance for your individual project. The recommended number of pages are based on experience gained from assessing the Business Plans handed in so far.

When you submit your business plan for the founders' contest it will be followed by an evaluation procedure. Experts from the start2grow network will determine the strength of the idea and its support framework. The business plans will be evaluated according to uniform criteria which generally characterize the success and potential of promising business concepts.

The reports include technical assessments and suggestions for improvement, which are very important for implementation of the business idea. Therefore you will receive written feedback on their business plan.

Each chapter includes some key questions to help you create your Business Plan. You don't need to answer all of these key questions - they are just there to help you as a guide. You must decide for yourself which questions are relevant for you. You might also answer some questions which are not listed. The key questions are meant as food for thought, they are only examples and do not claim to be exhaustive.

You will find full details about how the founders' contest works at www.start2grow.de.

Recommended number of pages: approx. 30 - 35

1. Executive Summary

- Summary of the business plan to approx. 1,5 pages

2. Your Business Idea

- Description of your Product or Service
- Customer Benefits
- Pricing

3. Sector and Market

- Sector Analysis
- Market Analysis
- Competition Analysis
- Location Analysis

4. Marketing and Sales

- Marketing Concept
- Sales and Distribution Concept

5. Management

- Key Positions
- Legal Form

6. Opportunities and Threats

- External influencing factors

7. Financial Plan

- Planning Your Staff Costs
- Investment and Depreciation Plan
- Profitability Plan
- Cash Flow Forecast

8. Financing Your Idea

- including the numbers from the financial spreadsheet (look at Download: www.start2grow.de)

9. Putting your Idea into Practice

- milestone planning

IN CHAPTERS 1-6 YOU ARE ASKED TO DESCRIBE YOUR BUSINESS IDEA AS WELL AS MAKE STATEMENTS TO THE INDUSTRY AND THE MARKET. YOU WILL ALSO BE ASKED TO GROOM YOUR MARKETING APPROACH IN ADDITION TO HANDLE SALES AND MANAGEMENT CONCEPTS. LASTLY YOU ARE RESPONSIBLE FOR ANALYSING INHERENT OPPORTUNITIES AND RISKS.

1. EXECUTIVE SUMMARY

The Executive Summary, which is a summary of your Business Plan, contains a short outline of all the important aspects of the Business Plan. It should make the reader curious to find out more about your plans, more about you and more about your business idea.

A financial investor or backer – never mind whether this is a credit institute or a venture capitalist – always reads this summary first. By presenting a clear, factual and coherent description of your intentions to found a company you can show that you understand your business well. So you have to be particularly careful here. This decides whether anyone goes on to read your complete Business Plan or not!

It should be possible to read and understand the Executive Sum-

mary in five to ten minutes.

Test it – ask people to read it who have no previous knowledge about your business idea and its technical or scientific background.

You can only formulate your ideas and aims in such a brief and precise way in the Executive Summary after you have gone through the process of writing all the chapters in your Business Plan.

The Executive Summary should

- be written in clear and simple language
- also provide non-expert readers with an immediate understanding of what the core of your intended start-up is about
- contain the most significant information from your Business Plan.

KEY QUESTIONS 1

- What is your business idea? How unique is your business idea?
- What benefits do your customers gain from your business idea?
- What is your target group?
- Which sectors and markets are relevant for your company?
- Which people make up the management? What experience and expertise do they have?
- Which long term goals do you want to achieve with your company?
- What opportunities and threats do you see?
- Which market entry strategy are you planning?
- How much capital do you need and what is it needed for? In Phase 1 a rough estimate is sufficient here.
- What are the most important milestones you need to reach on your way to achieving your goals?
- How large will the investment needs for your company be over the next five years?
- How much turnover and profit have you planned to achieve over the next five years?

COMMENT:

THE EXECUTIVE SUMMARY: THE INVESTOR'S POINT OF VIEW

“THE CALLING CARD FOR EVERY START-UP”

The Executive Summary is the calling card for every start-up. So it should be a short, concise and plausible description of what makes the company and the business idea special – it is comparable to an elevator pitch. Venture capitalists (VC) mainly want to understand which innovative technology lies behind a company name. If this is made clear quickly and it really is all about a technology-based innovation with a lot of potential, then they will get interested.

The short description should cover the following basic elements:

- What is the business idea / the product? What is so unique about it? Which customer benefits does this innovation provide and how clear is the competitive advantage? (approx. ¼ page).
- What is the market situation? What characterizes this sector and how dynamic is it? What about the market entry strategy? Which goals are to be achieved in the short and medium term? Where does the company stand right now as far as technology, products and market access are concerned? At this stage you might already describe the marketing measures and tools you are going to use, although this can also be done in more detail at a later stage of the business plan. (approx. 1 page)
- How is the team set up and what makes it outstanding? What experience does the team have and where might more be required? (approx. ¼ page).
- And last but not least: what about the financing which is planned, the capital requirements and the financial development of the company based on the most important key figures for the coming 3 to 4 years? (approx. ½ page)

The VC does not want to have to read more than two A4 pages to get a first overview. The summary should really only contain the most important facts and not include any epic, judgemental or sensational content. It should be written informatively and interestingly. It is important that the Executive Summary is convincing. The VC will then want to read the full Business Plan, get to know the team which is behind it and find out more about the idea.

2. YOUR BUSINESS IDEA

Explain your business idea in detail. Describe the vision which drives you, e.g. the long term creation of a medium-sized company, achieving market leadership or the development of a product innovation. These statements serve as the basis for your overall Business Plan and interconnect the different chapters. Explain in detail which products will be developed or sold or which services will be provided. Explain how your product stands out from the rest and which development possibilities it can offer. Always keep in mind that non-experts must also be able to understand your idea.

2.1 DESCRIPTION OF YOUR PRODUCT OR SERVICE

Explain the characteristics and / or functions of the product or the individual components of your service. Particularly in the case of technical products or services it is important to include a few sentences about the areas of application, i.e. where the product or service will be deployed. This also includes statements about the technical development status and the patent and licence situation. You should also describe what protection any patents or model registration provides against copying or emulation.

Present what is innovative about it and what sort of lead you have over the competition. Explain how your offering stands out from already existing ones and which opportunities there could be for developments. If there are still any problems or questions with regard to development, then state how these difficulties will be dealt with. If any legal requirements have to be fulfilled by your product or services then describe which permissions have already been granted, have been applied for or have not yet been applied for (e.g. at the TÜV or Federal Health Department). Explain the manufacturing process and what capacities and investments are needed to achieve the targeted sales volumes.

KEY QUESTIONS 2.1

- What are the characteristics, services or functions which your product or service fulfils or provides? In what way is your idea innovative?
- What about the current status of the technology? At what stage of development is your product or service now?
- Which legal formalities still need to be fulfilled (e.g. permits, licences)?
- Which competitive products already exist or are being developed?
- Compare the strengths and weaknesses of your product /service with those of your competition (SWOT analysis).
- Do you or your competitors own rights to patents or licences?
- How much do you want to produce or what is the scope/quantity of the services you want to provide?

2.2 CUSTOMER BENEFITS

Your customers are the key to the success of your business idea. Demand can only be generated if you can satisfy your customers' needs with your product or services. Today many comparable products are offered on the market which customers find it hard to differentiate between. So it only makes sense to found a company on the basis of a new product or service idea if your new offering is superior to ones which already exist. Explain precisely which function your product or service or your team fulfils and what benefits your customers can gain from it. If comparable products and services from the competition are on the market you must explain convincingly which additional benefit customers will have from your product or service.

Assess the products and services of your competitors according to the same criteria. If you provide several innovative products or services, structure your ideas in appropriate business fields e.g. according to products or target groups. Differentiate between the different business fields.

2.3 PRICING

One important aspect of developing the product, and derived from that, how to work out the marketing concept, also includes realistic pricing.

You can work out your pricing by looking at it from different perspectives:

- Customer- or demand-oriented pricing:
What is the customer prepared to pay?
- Competition-oriented pricing:
Which market prices are there in the competition and how can your price be competitive when considering the performance characteristics of your product or service?
- Cost-oriented pricing: which real costs and profit margin, which both have to be covered by the price, will be achieved, or will you have to achieve, in order to continue putting your idea into practice?

When setting your prices you can therefore use the prices of comparable or currently used products or services as a guide. Get some quotes or look at background information about your sector.

KEY QUESTIONS 2.2

- What needs, wishes or problems do your customers have and to what extent does your product or service satisfy or solve these?
- How have the customers' needs or problems been satisfied or solved until now?
- What benefits do your customers gain from your product/service?
- What added value is created by your product/service?
- Why will your target group buy from you in future?

You can also substantiate and verify your assumptions in discussions with potential customers. In discussions, explain where the added value of your product or service will be and find out how much more the customers would be prepared to pay in order to gain this added value – then you will roughly know how much you might invoice the customers for in future.

The most important basis for calculating your prices, however, is your costs (including your management salary or personal withdrawals). You will find the appropriate calculation sheet as a download on the Federal Ministry for Economic Affairs and Technology at www.existenzgruender.de in the “Checklists and Overviews” section under “Price Calculation /Accounting”.

You can use this to consider the price at which you will have to offer your products. By dividing the total costs by the individual price you can work out how many products will have to be sold each year. Even if you do not know all your costs in detail, you should state which prices you want to achieve and the number of pieces you will have to sell to achieve that.

If you are providing services you can also work out your prices by dividing the overall costs by the number of billable hours available in order to work out your hourly rate. How many projects you can actually achieve with this is, in turn, dependent on how many hours you – with your personnel – need to provide the service.

Initially you should calculate the number of working days or hours in an average month. If you divide your overall costs by the number of working days you see your daily rate. This, divided by the number of hours per day, results in your hourly rate. You will also find the appropriate calculation sheets as a download on the Federal Ministry for Economic Affairs and Technology at www.existenzgruender.de in the “Checklists and Overviews” section under “Price Calculation /Accounting”.

KEY QUESTIONS 2.1

- What financial and operational resources do you need to provide your service or produce your product?
How high are the total costs?
- Do the prices per sold item cover the total costs?
- What parts or services do you buy in from third parties?
- How high/low are your prices in comparison with the competition?
- How can you adapt your prices if the market should change?

3. SECTOR AND MARKET

One of the key factors impacting on your success is the structure of the sector you are going to participate in, as well as the nature of the market where your target group is to be found. This is why you must carry out analyses of the sector and market in order to find out about the full potential for your company.

Financial backers need more than just to look at the figures. They will expect information about the factors which influence demand and your sales strategy so they can check the implementability of the company targets and can better assess the risks. So you should show clearly and transparently how you come to your results.

This chapter is to a large extent about research. You can lose yourself in data and facts. That is why you should limit the extent of your work by approaching all the analyses in a targeted manner. Work with hypotheses and list questions which you would like to answer. List which information you need and where you will be able to find it. The individual answers might not give you direct answers. As a rule it is therefore necessary to make certain assumptions about the development of the sector and market. Always give

reasons for these assumptions. Use an analysis of the competition to show which difficulties can be expected when exploiting the market potential.

3.1 SECTOR ANALYSIS

Provide an overview of the sectors to which your company will belong. Explain which main factors influence the sector. First of all describe the current situation and, building on that, the expected trends. Make it clear what influences the developments (e.g. new technologies, legal initiatives) and what relevance these factors have for your company.

Your information should include details about market size (sales and sales volume), typical profits in the sector, about the role of innovations and entry barriers, competitors and suppliers as well as target groups and distribution channels.

KEY QUESTIONS 3.1

- How large is the overall turnover and sales volume in your sector?
- What determines growth in your sector?
- Are any current trends apparent? What economic developments impact on your sector?
- What role do innovation and technological progress play?
- How does legislation impact on your sector?
- What market entry barriers are there and how can they be overcome?

3.2 MARKET ANALYSIS

After analysing your own sector follow on with a market analysis of your own customers and your planned market success (sales volume, turnover, market share and profit). You might be working within your own sector – but this isn't always the case. For example you could provide a personnel service (in this case your sector) in the production industry (target market) or provide a production method for plastics which is delivered to the sports articles segment. Or you set up an internet agency and offer your services especially to the healthcare sector. So your market analysis is all about analysing the sector and the market of your target group. Divide the market into segments for this. Market segmentation involves dividing up the overall market according to certain criteria into groups of purchasers (customers) which show homogeneous structures with regard to their purchasing behaviour. There are various possibilities available, including the following as examples:

→ **Geographical segmentation:**

In this case you limit your activities to a particular region, e.g. within a radius of 150 km of your headquarters or all the companies in a particular sector in your state.

→ **Socio-demographic segmentation:**

You act according to the classic criteria of age, sex, family status, company size.

→ **Socio-economic segmentation:**

In this case you divide them up according to profession, income, size of household etc.

→ **Behaviour-oriented segmentation:**

Criteria such as similar customer benefit or identical purchasing behaviour are often used here.

These segmentation criteria can be selected as you wish as long as they ensure that, firstly, the number of customers in each segment and their behaviour can be determined and, secondly, that they can be reached with the same sales strategy. Determine the potential turnover for each segment according to a timeframe which you should determine.

KEY QUESTIONS 3.2

- How have you segmented the market?
- Who are your target groups? Name examples of customers!
- What sales volumes are there in each segment now and in future?
- Which reference customers do you already have and which do you expect in future?
- How dependent are you on large customers?

3.3 COMPETITION ANALYSIS

If the market which you have chosen as your target market is profitable there will always be somebody who is already active there or who soon will be: your competitors! Document your competitors' strengths and weaknesses. Evaluate your potential competitors according to the same criteria e.g. sales volume and turnover, growth, market share, cost position, product lines, customer services, target groups and distribution channels. Don't go into too much detail so as to keep a clear overview. Include your own company in this evaluation and by means of comparisons show how sustainable your competitive advantage will be. Show the reader where the competitors' weaknesses are and how you will be able to entice customers away from them

3.4 LOCATION ANALYSIS

You have probably already decided which town you want to set up your company in – in a good position for your company's and your personal circumstances. It should provide the best conditions for the fastest possible success of your start-up. The actual site of your company is of fundamental significance and touches on all the important factors of any company concept: customer target group,

suppliers, competitors, personnel costs, traffic connections and infrastructure. From the beginning you should weigh up which requirements you have for your location and how much you are prepared to spend on the location.

How important is it to be accessible by public transport, from the motorways or to be in a city centre location? Should the location look prestigious for your customers or will no customers actually visit you? Do you need a quiet environment or should you find a site where it is acceptable to make a noise?

That means: you have to find the best location to support your concept and your company targets. You should therefore work out how significant the location is for the success of your company. Compare the factors according to objective criteria in order to come to the best decision. Every location comprises, firstly, the actual place of company operations and, secondly, the local environment. The place of operations includes the appropriate site, premises and rooms. The environment is the extended catchment area, e.g. the Ruhr Region, a state or a country.

KEY QUESTIONS 3.3

- Who are your most important competitors?
- How big are their market shares? Are these shares stable, changeable, at risk?
- How is your offering different to that of your competitors?
- Can you identify weaknesses in the competition? How can you make use of these?
- How will the competitors react to you entering the market? How will you respond to this?

KEY QUESTIONS 3.4

- Where will your location be?
- Why have you chosen this location? Name the advantages and disadvantages of this site.
- How will you counteract the disadvantages?

4. MARKETING AND SALES

In general, marketing comprises the description of the product with its unique selling points as well as the pricing (both of these have already been described in Chapter 2). In this chapter there follows a description of your marketing concept for your product's or service's as well as the detailed sales and marketing concept.

You will explain how you want to present the offering you have developed so that it stands out from the competition and so it will be well-accepted by the target group. The sales and all activities you wish to use to exploit your company's full market potential will be highlighted here. Consider these topics to be of great importance and do not under-estimate the amount of effort you need to put in here.

4.1 MARKETING CONCEPT

Als neues Unternehmen müssen Sie sich und Ihre Produkte oder Ihre Dienstleistungen am Markt bekannt machen. Erfahrungen zeigen, dass aufwändige Werbekampagnen dabei oft weniger erfolgversprechend sind als kleinere, gezielt ausgerichtete Einzelaktionen.

As a new company you have to make yourself and your products or services known on the market. Experience shows that extensive advertising campaigns often have less success than smaller more targeted individual campaigns.

As a basis for your strategy you should describe in detail which special added value you would like to communicate to your target group – with as little wastage as possible. Present how you want to make your target group aware of your product or service. At this point you decide if you will contact customers individually or set up some form of mass communication. Pay particular attention to the amount of time you have available. Think about sales promotion campaigns which you would like to implement, such as developing a logo, setting up a website, placing advertisements, press relations, and consider what sort of budget you plan to use.

Look for measures which fit in with your time contingent and your budget and those which promise the maximum success. From the beginning you should strive to achieve high recognition levels - ensure that your customers see you and your new company directly connected to the benefit which your product or service offers.

KEY QUESTIONS 4.1

- Which advertising measures are you going to take up to introduce your product /service?
- Which advertising media or material are you going to use?
- What about your schedule and important milestones?
- How much of your budget are you planning to use for this?

4.2 MARKETING AND SALES CONCEPT

Your sales concept describes in detail the complete sales process, names the distribution channels you have planned and takes into account the costs which will be incurred. Show how you see the structure of your sales developing. Explain the requirements for the number, qualifications and motivation of your sales staff. Who will take care of initial contacts? Who will work out and write offers or quotes? Who will carry out negotiations with customers and make decisions? Will you have to give contracts to external sales experts or will you and your team take care of these tasks yourself? If you look into the future and see that your planned company growth is achievable, you might have to take on more staff.

Parallel to direct sales think about whether you can sell mass products more cheaply via wholesalers. Investigate whether a partner can take your product or service into their portfolio and advertise it for you. Show the reader how your sales processes are planned and how many products or services you will sell.

How much turnover do you expect from your successful market entry? You already worked out your price in Chapter 2, and you have also established how you will communicate with customers and which people in your company will contact customers. Now describe how you can achieve the price you have decided on at the customer – think about price reductions, explain payment plans including discounts, explain the initial orders and the maintenance orders that might follow etc.

Then calculate how many pieces of the product or the number of services you are going to have to sell to be able to say it is a success. You can sketch out a best and a worst case for your sales so the readers get a better overview.

Your prices for products and services have already been described; now you should show which turnovers you are planning for – ideally you should present this in a table. Even if you don't have a Financial Plan yet, an outline of your sales plans is important for your work on the following chapters.

KEY QUESTIONS 4.2

- Describe the typical processes involved in selling your product or service.
- Which distribution channels are you going to use for the different target groups?
- Which sales volumes do you want to achieve? How are sales and profits spread out according to the individual distribution channels?
- What expectations do you have for your sales e.g. with regard to number, qualifications and equipping of sales staff?
- What terms of payment and how much discount will you offer?
- What is your service, advice and maintenance service like?

5. MANAGEMENT

The readers of your Business Plan want to find out who is the driving force behind the new company. They want to be able to assess whether the people in charge have the right characteristics for managing the new company. The reader would like, on the one hand, to assess which professional and entrepreneurial characteristics each member of the founding team has to offer and, on the other hand, what motivates each of them. The reader is also keen to see how the individual (entrepreneurial) personalities combine to form a team.

5.1 KEY POSITIONS

Introduce your complete team. Explain the professional successes of each individual which make them valuable for the new project. If you have already worked together successfully as a team, this is also well worth mentioning.

Based on the personal abilities and knowledge of each individual, work out who is best suited to which tasks and responsibilities in future. Any lack of skills should quickly be remedied.

For the reader the seriousness of a Business Plan is realistic if financial commitments have already been made to the company, such as in the form of a financial base created by the team members. Contractual agreements concerning tasks and responsibilities also indicate that you have made a realistic plan.

When assessing the company structure you have planned it is also interesting to know which agreements or contractual connections already exist with partners or with research institutes.

KEY QUESTIONS 5.1

- Which tasks and areas of responsibility will there be in your company (key positions)?
- What is the professional background of the management and key persons (previous positions, professional successes)?
- Do the management or key persons have person-related patents and can they use them?
- What sort of experience and skills do the team have in relation to the business you are planning? Which skills are missing? How and by whom will these be supplemented?
- Does the team have know-how in commercial fields?
- What special features does your personnel policy include (e.g. qualifications/training, staff involvement)?
- How will you structure your remuneration system?

5.2 5.2 LEGAL FORM OF YOUR COMPANY

The legal form which you choose for your company defines the legal framework within which you will be working to begin with. Depending on the legal form you select, it states how the company is structured, on which legal basis it functions and who manages the company. The decision for or against any particular legal form has personal, financial, tax and legal consequences. For example you can choose between a sole proprietorship (for a one person start-up) and forms of private partnership and incorporated company (for start-ups by one person or several persons). In the table below you will see an overview of the most usual legal company forms in Germany with the most important criteria to help you decide. But we make no claim to this being an exhaustive list.

Once you have chosen a certain legal form you do not have to stay with it forever. In some cases as your company develops, such as if the company's circumstances change or if there is positive growth, it might be appropriate to change the legal form of the company.

Due to the numerous possible consequences of choosing a particular legal form, it is always advisable to consult a lawyer or tax accountant for professional advice.

	Sole proprietor	GbR	PartG	OHG	KG	GMbH & Co.KG	GmbH	UG (limited liability)	AG	eG
Minimum required capital	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Limited liability	No	No	Possible	No	partly	Yes	Yes	Yes	Yes	yes
Broad range of decision-making possible	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Fewer formalities	Yes	Yes	Yes	No	No	No	Yes (with model document)	Yes (with model document)	No	No
Entry in commercial register	Yes*	No	Partnership register	Yes	Yes	Yes	Yes	yes	yes	Associations register
	Prestigious, creditworthiness with personal liability	Yes	Yes	Yes	Yes	Yes	No	No	No	No

Source: Bundesministerium für Wirtschaft und Technologie, GründerZeiten Nr. 11, Status October 2012

* no for self employed and small traders

KEY QUESTIONS 5.2

- Will the company be founded by one person or by a team?
- What is the aim of the company?
- Which legal form will your company have and why?
- What plans are there for who represents the company and liability?
- How much capital is available?
- What formalities (including bookkeeping) must be considered?

6. OPPORTUNITIES AND THREATS

This chapter is all about making a realistic assessment of the opportunities and threats which you see right now or which you expect to arise in the future. The opportunities and threats mentioned here are related to external factors.

Describe what external events might lie ahead in the best and worst possible cases for your company. Ideally you should set out two scenarios – the best possible case and the worst possible case. Vary the different parameters such as price and sales volumes in order to show clearly how it would influence your plans. Evaluate the probability of the opportunities and threats actually occurring. Base your assumptions on well-researched and provable facts and figures, such as from chambers of commerce, banks and sector associations.

Keep an eye out for the opportunities you expect might occur. If a market is undergoing change, a young flexible company can often react more effectively than the large, more sluggish competitors.

Or a change in the law might expand your previously limited scope of activities.

Your company's development and scope of activities are very much dependent on your ability to recognize threats at an early stage and to counteract them effectively. Describe which threats you have identified and how you want to react to them in order to limit the extent of any possible damage.

Threats are waiting for you around every corner: your competitors might react to your market entry with a massive counteroffensive. Or other companies might suddenly appear with a similar and better product. How can you protect yourself against such events? Try to stay objective in your contingency plans and try not to gloss over anything. A well-thought out presentation shows the sector experts that you are prepared for everything.

KEY QUESTIONS 6

- In which areas of your company will you have to make decisions on the company's direction for which events in future?
- What opportunities can you identify and how will they be used?
- How can your opportunities have a positive impact on your sales?
- What threats do you foresee which might endanger your company?
- How can these threats be minimized or avoided in advance?
- How much can you limit such impacts (in the case of threats) or benefit from them (in the case of opportunities) by adapting your plans?
- How will the competition react to your opportunities and threats?

IN CHAPTERS 7-9 YOU WILL DRAFT YOUR FINANCIAL PLAN AND WORK OUT WHAT FINANCING YOUR NEW BUSINESS VENTURE REQUIRES, SINCE THIS WILL GIVE YOU A REALISTIC IMPRESSION OF WHAT CHANCES YOUR IDEA CAN REALLY BECOME A LUCRATIVE ENTERPRISE.

7. FINANCIAL PLAN

This chapter shows you how to check whether your business concept is financially affordable and profitable. The Financial Plan spreadsheet at www.start2grow.de will help you. Go through each sheet tab with care and fill in the individual fields.

To help get you started, take another look at what you expect to pay yourself (see Chapter 2.3) and then begin with your cost planning.

Think about the various costs of your enterprise: premises (rent, electricity, gas, telephone, cleaning etc.), staff, machines and / or vehicles, technical equipment etc. Work out which will be one-off costs and which will be recurring costs. You may need to get quotes from suppliers and service providers.

You probably expect a certain growth rate over the next few years. What effect will your planned rate of growth have on turnover, staff and space? All of these factors, along with their estimated cost, have to be compiled and put in the spreadsheet. On the basis of this information you will be able to work out the accounts for the next five years. If you have no previous experience of Financial Planning, it is worth approaching the coaches (e.g. tax consultancy or auditing) from the start2grow network for advice. Remember that many business ideas fail simply due to poor Financial Planning. The best thing to do is get someone on board who has experience in this field!

Important:

Whichever legal form of company you set up, you are obliged to carry out a profit and loss statement at the end of each financial year. The legal requirements for sole traders are listed in the Income Tax Act (excess of receipts over expenditure) and for limited companies and partnerships in the German Commercial Code (profit and loss statement).

As an entrepreneur, it is your duty to be aware at any given time whether your company is making a profit or a loss.

7.1 PLANNING YOUR STAFF COSTS

Think about how many and what type of staff you would like to employ. Note that you will have to employ more people as your company becomes successful and grows. Put together a detailed human resources plan for the first five business years. Include how many staff you want to employ in which posts and how much they will earn. Remember to take into account the employer's contributions for National Insurance (wages and ancillary costs).

As your company grows, so will your human resource requirements. Make sure that you plan them in proportion to each other. As a new company, you should base your calculations on cautious estimates. If everything goes to plan, you will be able to increase your employees' salaries over the years, as well as budget for additional staff, take on trainees or replace part-time contracts with full-time contracts

KEY QUESTIONS 7.1

- What staff do you think you will need in the various parts of your company over the next five business years?
- Will salaries rise at the same rate as the company's turnover and growth?
- When will you employ additional staff?

7.2 INVESTMENT AND DEPRECIATION PLAN

Your Investment and Depreciation Plan lists all investments with their corresponding depreciation. Depreciation is the planned or unplanned decrease in value of items of property. The rate of depreciation depends on the estimated useful life of the item. Low-value assets up to a value of 410 euros can be written off in the year of purchase. You may wish to refer to the AfA tables (depreciation for wear-and-tear) issued by the Federal Ministry of Finance. Whilst these are not binding legal standards, they list depreciation rates which are widely recognised not only in courts of law but also by authorities and industry since they reflect established methods applied in practice.

The depreciation tables are available at the Federal Ministry of Finance's website (www.bundesfinanzministerium.de), just type "AfA-Tabelle" in the search box.

Here are some examples:

Capital goods	Depreciation period
Laboratory facilities	14 years
Assets in shop fittings	8 years
Sales counters	10 years
Neon sign	9 years
Office furniture	13 years
Telephones	5 years
PCs, notebooks	3 years
Peripheral devices (e.g. screen, printer, scanner)	3 years
Car	6 years
Van	9 years
Trailer	11 years

The Investment and Depreciation Plan is usually presented as a spreadsheet, and lists the year of purchase, the depreciation amount and book value throughout the duration of the useful life of the item. This calculation is always based on the net price, since any VAT paid will have been allowed for in the year of purchase.

Investments must be included in your Cash Flow Forecast, whilst the total annual depreciation should be recorded in your Profitability Calculation.

The spreadsheet available from start2grow will help you to plan your investments in conjunction with turnover and growth figures for the first five years.

KEY QUESTIONS 7.2

- How does your investment plan look in the short term and for the first five years?
- Which major investments have to be made when, and how large will they be?
- How high will the resulting annual depreciation be?

7.3 PROFITABILITY PLAN

A profitability calculation (sales forecast and budgeting) will help you to establish whether your venture is really worthwhile, in other words, whether it will be profitable.

A five-year plan compares your expected sales with your expected costs. The more your sales exceed costs, the greater the earnings or profitability of your company. This calculation is a major component of the financial forecasts which you will use to convince your financial backers of the economic viability of your venture. You have already worked out your private living costs (in the form of an entrepreneur's salary) in Chapter 2.3. You should keep this amount in mind throughout your plans, since it represents the minimum profit you must make. To find out whether your profitability can be considered good or bad you should compare it with the average figures of comparable companies. You should also get quotes from future suppliers, as well as researching how much your potential customers are prepared to pay for your products or services. Enquire with the relevant trade or professional associations, chambers of commerce and your bank for information on typical sales and profit margins in this particular sector.

These figures should be entered into the profitability plan without taking VAT into account.

The third year is particularly critical if you are making use of low-interest loans from publicly funded schemes, since this is usually when you have to begin repayment, meaning that your financial burden will jump dramatically.

Take the time to carry out your research thoroughly. The more realistic and precise your calculations, the more secure your start-up phase will be. Specify the depreciation of assets calculated in the Investment and Depreciation Plan. Expenditure itself, i.e. the purchase price of capital goods, is not included in the profitability calculation because this payment does not lead to a difference in the net assets of your company.

Under the heading "Material Costs" you should list all your expected costs for raw materials, process materials and working materials, as well as for goods and services purchased; the heading "Staff Expenditure" covers the wages and salaries calculated in your Human Resources Plan, including National Insurance contributions and taxes. If you are planning to set up a limited company, this is where you should specify your salary as managing director.

KEY QUESTIONS 7.3

- How many customers do you expect to have? Check your sales plans.
- Do your sales figures cover all your private and operating costs?
- Have you calculated your prices accurately or do you need to recalculate?
- How do you expect your sales figures, income and expenditure to develop over the next five years?
- In which year will you start making a profit?
- How much profit will you make in the short, medium and long term?

7.4 CASH FLOW FORECAST

The Cash Flow Forecast requires a detailed plan of sales and costs (Profitability Plan). An accurate Cash Flow Forecast will indicate the solvency of your company for a given period. The Cash Flow Forecast compares your expected cash inflows with all cash outflows.

Bear in mind that, just because an invoice has been written or received, this does not mean that you have the money in your cash box, or that you have paid your bill. The only transactions which are relevant to the Cash Flow Forecast are those which have actually been settled to date. The Cash Flow Forecast therefore includes only those transactions which directly lead to a change in the cash and cash equivalents; depreciation, accruals and company-produced additions to plant and equipment are not included. Record the amount and date of all cash inflows and outflows, including VAT!

Your company will only remain solvent if the sum of inflows is higher than the sum of outflows in every period. During periods when your plan indicates a deficit, you must provide for additional capital. The sum of all these individual amounts will be your total capital requirement for the duration of the planning period.

The further you look into the future, the more difficult it is to plan accurately.

The Cash Flow Forecast should therefore be restricted to monthly forecasts for the first and second year, and to every three to six months thereafter.

KEY QUESTIONS 7.2

- What financial resources of your own will you be investing?
- How high will the monthly cash inflows and outflows be?
- How high are the monthly loan redemption and interest payments?
- How much cash do you have in reserve each month?
- What additional funds will you need at which times?
- Do you have an agreed credit limit with your bank?
- How do you expect your cash flow to develop in the short and medium term?

8. FINANCING YOUR IDEA

In the previous chapter you compiled your Financial Plan. You have entered your budget figures in the start2grow spreadsheets. From your Cash Flow Forecast you can see what capital you will need and when.

Now it is time to consider where you will obtain the capital you need.

Begin by assessing what you can provide yourself in the form of cash from personal savings or non-cash capital. If these funds and resources are not enough, you will have to borrow capital from other sources. First of all, find out about national or regional public funding schemes.

These credit schemes often have more favourable conditions than standard bank loans e.g. a grace period in which loan repayments are suspended.

Other funding opportunities may include business angels, venture capitalists, investment companies or private individuals.

Compare the terms and conditions of various financing options, as well as repayment schedules. Remember that you may have to cede some control of your company with certain investors. Discuss the alternatives with your team and how these may affect your company goals.

KEY QUESTIONS 8

- According to your Cash Flow Forecast how much money do you need to borrow over the next five years?
- How much of your own capital will you be able to provide?
- What funding sources are available to you?
- What can you offer as security against a loan?
- What alternatives do you have to the financing concept you have drawn up?

COMMENT:

HOW DO INVESTORS EVALUATE BUSINESS PLANS?

When you are compiling your Business Plan it is important to know what investors are looking for. This applies equally to the classic bank loan and public funding, but also to what is often dubbed "intelligent capital", in other words money lent by venture capitalists and business angels:

Venture Capitalists (VC)

These lenders are investment funds specializing in fast-growth industries that give risk capital to young, hi-tech companies and provide coaching for the first few years. Venture capitalists help companies not only by investing their money, but also by sharing their business wisdom in the form of valuable networking opportunities or providing advice in tricky situations. This is why venture capital is often referred to as "intelligent capital". In return for their financial support, venture capitalists buy a stake in the company, which is expected to grow rapidly in the medium term. The advantage for young companies is that liable equity is provided at an early stage when other investors would be unwilling to commit such large sums due to a lack of security and uncertain future prospects. Venture capitalists will normally sell their shares after five to seven years to other shareholders or even to other companies. They expect a high return on their investment.

Business Angels

These private investors are usually affluent, successful individuals, who adopt a sort of mentoring role with business start-ups. They support young companies by investing their capital and their business savvy, at the same time opening up their own networks – a great boon to start-ups. Since business angels are usually entrepreneurs themselves, they tend to prefer investing their money in sectors where they can apply their own experience.

These considerations show what venture capitalists, private investors, but also the loan officers at banks look for in a Business Plan:

- The business idea must have a clearly discernible use for the customer, which is most clearly seen in lower costs for known uses or in new uses for the consumer.
- The company they are investing in should serve a large and growing market in the medium term – and it will usually aim to serve an international market.
- The product or service should be innovative. An entirely new technology or a superior manufacturing procedure is more likely to succeed because competitors will find it harder to enter the market.
- The business concept to penetrate the market must be coherent and accurate. Projections and estimates should be precise. In other words, they should be based on convincing assumptions and facts. A highly accurate Business Plan is a prerequisite for the success of your business and will go a long way toward preventing insolvency.
- All investors will take a good look at your management. At the end of the day, whether a venture succeeds or fails depends entirely on the ability of its management to put the business concept into practice. It is particularly important for innovative companies to consider the combination of skills needed, which prospective entrepreneurs can rarely achieve single-handedly. This is why it makes sense to have experts from a variety of disciplines on your management team.

9. PUTTING YOUR IDEA INTO PRACTICE

If your business idea is starting to take shape, you have carefully considered every aspect and are convinced that your enterprise will pay for itself, you can start planning the actual start-up.

Begin by defining milestones to map your progress. The purpose of milestone planning is to identify the path you should take and to specify conditions that should be fulfilled by a certain date. If milestones are not achieved, alternatives should be found quickly. An Implementation Plan will help you to see which activities affect each other and to analyse the outcome of individual milestones.

Try to plan each milestone realistically, as this will increase your company's chances of success, as well as showing you the best time to actually enter the market. These four simple rules will help you:

→ Split tasks into packages

Since there are many small details involved in setting up a business, there is a risk of losing track. Categorize the individual activities in packages. For every package name a specific goal.

→ Set priorities

Every plan consists of a series of events and assumptions which may take place at the same time or are connected to each other. Certain activities may, if delayed, jeopardise the entire project, like an assembly line that has to stop if certain components are missing. These activities make up the "critical path", which you should keep a close eye on.

→ Call in the experts

Take the advice of professionals to underpin any major planning steps. Feel free to approach any of the experts in the start2grow coaching network. Our coaches offer extensive knowledge in a wide range of fields and will be happy to advise you on any aspect of your Business Plan.

→ Minimize risks and threats

You will have pinpointed a number of risks in the course of your planning. Take appropriate countermeasures to deal with these risks from the very beginning. An "I'll cross that bridge when I come to it" approach may lead to inconvenient delays or even jeopardize the whole venture.

KEY QUESTIONS 9

- What are the milestones in the development of your company and when do they have to be achieved?
- Which tasks and milestones have a direct impact on each other?
- What is your "critical path"?
- What tasks will you be faced with as your company grows and how can you best arrange them in activity packages?
- Which partnerships are necessary?
- What resources (time and money) are you planning for follow-up developments?
- Do you have the available capacity to cope with an increase in demand?
Can you adapt your capacity at short notice?
- Plot your activities in a timeline diagram!

GOOD LUCK WITH YOUR BUSINESS PLAN!

If you have any questions, the start2grow team
will be pleased to help you.



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