Social Innovation Brokers

WE FOR YOU

GUIDEBOOK FOR TRAINERS & TRAINEES: MODULE 4.2.5

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Tool 20: Design, writing and implementation of a Business Plan

What is a Business Plan?

A business plan is a document that must convince a critical, unbiased person of our vision of developing a business. It should contain two main parts: descriptive and analytical or financial.

For who is it?

A business plan is not a uniform document, and it serves many institutions or individuals to assess the situation in your company. It is a window in the analyst's room - the neater and more realistic the image, the greater the chance of success.

Potential readers:

- Banks and lending institutions
- funds and private investors
- grants and EU funds
- social financing

What is important in a business plan?

- Own contribution

It is important to indicate that what we bring to the company is valuable so that others will want to get involved or invest.

- Proof of success

It is essential to demonstrate a high probability o success and that the risks are being addressed and minimalized.

- Point of view

It is important to understand the position of the investor or bank. The business plan should be written from the point of view of the institution lending capital.

Elements of a good business plan

A good business plan should contain:

1. **Introduction and presentation**
- brief description of your venture
- detailed company data
- history of the company
- potential of the company
- personnel and their experience
- our experience

2. **Company objectives**
- long-term goals
- medium-term goals
- short-term goals
- motivation, in other words, why we want to grow
- what drivers made us want to expand

3. **Company development strategy**
- our plan for development
- schedule/timeline
- why the chosen strategy will work
- alternative paths
- potential customer sectors
- risk management
- critical model

4. **Market research**
- statistical data on our industry
- statistical data on the market of potential customers
- statistical data on our competitors
- statistical data on market prices
- data on the future of the market

5. **Market analysis**
- conclusions that we drew from the collected data
- the method we used for drawing such conclusions
- the logic behind drawing the conclusions

6. **Competitor analysis**
- number of direct competition
- number of indirect competitors
- map analysis
- competitor price analysis
- analysis of opinions about competitors vs. the best in the industry

7. **Product/service description**
- detailed description of the product/service
- similarities and differences compared to the competition
- market differentiators
- our distinctive characteristics

8. SWOT analysis

9. Financial plan

- Cash flow

Cash flow is a concept that refers to the flow of money between a company and its environment over a certain time. Cash flow is a very important financial indicator, as it allows one to determine how much money the company generates from its activities, how much it consumes and how much remains in its account.

Cash flow is different from net profit, which is a measure of a company's profits and losses of the company. Revenues and expenses do not always affect cash flow. Cash flow also includes financial operations such as loan payments or investments in fixed assets.

- Profitability

This indicator allows to estimate the company's profits in relation to revenues. In the business plan, it is important to determine the profitability, as it helps us to assess the investment.

- *The net profit margin = Net profit / Sales revenue*

It is the ratio of net profit to sales revenue. This ratio measures how much percentage of revenue is left after deducting costs, taxes and other expenses

- *Gross profit margin = Gross profit / sales revenue*

The gross profit margin is the ratio of gross profit to sales revenue. Gross profit is the difference between sales revenue and direct costs related to them (e.g. cost of raw materials, fuel, energy). The profitability ratio Gross measures how much percentage of sales revenue remains after subtracting direct costs.

- Liquidity ratio

This indicator allows us to assess whether the company can pay its financial obligations in a short time. Liquidity is important in a business plan, as it helps to determine the financial risk.

- *Current ratio = Current assets / Current liabilities*

The current ratio is the ratio of current assets to current liabilities. This ratio allows us to determine how current assets cover short-term financial liabilities.

- *Quick ratio = (Current assets - Inventory) / Short-term Liabilities*

The quick ratio is the ratio of current assets minus inventories to current short-term liabilities. This ratio measures how many times current assets minus inventories cover short-term financial liabilities and financial liabilities.

- Gross margin

This indicator provides an estimate of a company's profits after deducting production costs or selling costs. Gross margin is important in a business plan, as it allows you to determine how big the margin should be on a product or service to make the project profitable.

Gross margin = (Sales revenue - Production related costs) / Sales revenue

- <u>Debt to equity ratio</u>

This indicator allows you to assess how large the financial liabilities of the company are in relation to its value. It is important in a business plan because it allows you to estimate the company's ability to pay its debts.

Debt-to-equity ratio = Net debt/equity

- <u>Net present value</u>

To calculate the net present value, we need a range of data, including primarily:
- Future cash flow values (CFt) - what financial benefits the project will bring in future periods.
- Cost of capital (r) - the required rate of return that the project must achieve to be profitable.

$$NPV = CF0 + CF1/(1+r)^1 + CF2/(1+r)^2 + ... + CFn/(1+r)^n$$

CF0 - initial cost of the project (e.g., investment in equipment, machinery, training, etc.)
CF1...n - cash flows associated with the project in subsequent periods of time
r - discount rate (cost of capital)

- Internal Rate of Return

The financial IRR (Internal Rate of Return) is a method of evaluating the profitability of investment projects, which allows to determine the percentage rate of return on investment.

$$\sum CF_t / (1 + IRR)^t = 0$$

CF_t is the cash flow over a given time period
t is the number of time periods
IRR is the internal rate of return we want to calculate

The values of CF_t and t should be predetermined and derived from the analysis of the project.

- EBIT (Earnings Before Interest and Taxes)

EBIT = revenue - operating expenses

Revenue is the overall income from the sale of products or services. Operating expenses are the costs associated with operating activities of the company, such as the cost of employment, materials, leases, advertising, etc.

It is worth noting that EBIT does not include financial expenses such as interest on loans or credits, or taxes. EBIT is often used to measure a company's operating efficiency because it reflects its ability to generate profits from core operations.

- EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)

EBITDA = revenues - operating expenses + depreciation + amortization + asset impairments

Revenue is the overall income from the sale of products or services, while operating expenses are the costs associated with running operating activities of the company, such as employment costs, materials, leases, advertising, etc.

Depreciation and amortization are the costs that a company incurs as a result of wear and tear of fixed assets such as buildings, machinery or tools. Asset impairments are costs resulting from the loss of value of assets, which can be caused, for example, by obsolete technologies, market changes or financial problems.

10. Summary

- concise conclusions of the entire business plan
- the most important arguments
- two sentences from yourself