Business Plan

Politecnico di Milano

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Business Plan: what

A written document that describes in detail how a new business is going to achieve its goals.

A business plan will lay out a written plan from a marketing, financial and operational viewpoint.

The business plan is a tool to understand the present, make hypothesis about the future, plan the activities, coordinate people, and control costs and cash flows.

Business Plan: when

Established Company	Startup
Launching a new project, new product, opening a new market, a new branch	At launch
Re-Think	Think

Business plan is not just to plan new activities, but to control the ongoing business.

It is not done once for all, but must be kept updated, to verify how things have gone, and how far from forecast.

It is a difficult exercise, because it is both a program of future activities, and a forecast of the future itself, about variables that no one can control (the market, the customer' preferences, future technology developments, etc.)

Business Plan: how

There are more established tools to guide the activities of a company, and the business plan it this type of tools.

These are surely the best in very stable environments, with consolidated business, and stable conditions, with known clients, products, and processes.

For startups, new tools have been developed, which consider the startup as a temporary organization still in search of a viable and stable business model, and that don't have a clear idea of what are the products, the clients, and the processes for the future.

For them, Steven Blank and Eric Ries have conceived a method, known as Lean Startup or Lean LaunchPad, that has the mission to guide the decisions, the approach, and the activities of a startup during this first phase.

It is questionable, whether even established companies for new projects in unstable markets could gain an advantage in adopting LLP methodology.

Business Plan: tools to plan activities

Type of company \ Tools	Classic	New
Established company	BP	LLP?
Startup	BP?	LLP

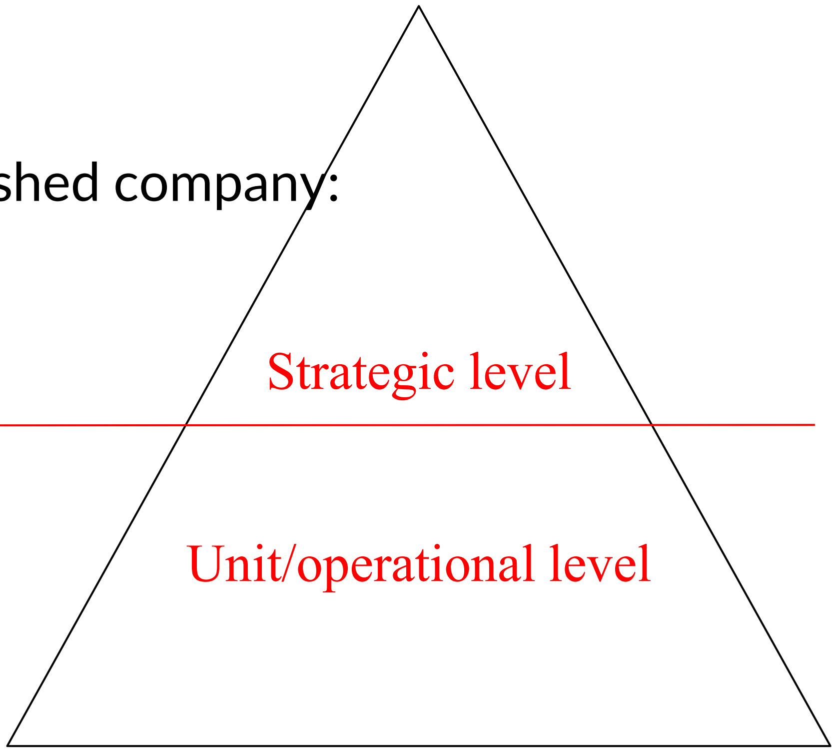
Business Plan: Who (targets)

Everyone who is responsible of an organization should know the structure, the function and how to create/evaluate a business plan.

Specifically:

• (most of) The Stakeholders of a new or established company:

- Shareholders (Investors, Founder)
- Executive Board



- Management team
- Workers?

•And …. yourself

Business Plan: why (objectives)

Planning

- Evaluate an investment opportunity
- Evaluate feasibility / profitability
- Find resources and funds
- Assess Risks and Opportunities
- Control

Communication

- Internal: executives, management team, workforce.
- External: shareholders and other stakeholders (e.g. government, institutions) etc.

12 Steps for a Successful Business Plan

1. Define your value proposition and the core business activity
2. Define the current status of the business
3. Identify your competitors, and define your market positioning
4. Define your objectives for the period of the plan
5. Develop a strategy to achieve the objectives
6. Identify risks and opportunities
7. Develop a strategy to reduce risks and exploit opportunities
8. Refine the strategies into working plans
9. Project costs and revenues and develop a financial plan
10. Document it concisely
11. Get it approved
12. Use it

Practical Tips

1. Tell a story!
2. Be concise (no more than 20-40 pages)
3. Document and support with references your affirmation
4. People (team) is as important as numbers!
5. Use a nice and ordered layout (nr. of pages, formatting, etc.)
6. Use a solid structure, e.g.: premises, body, conclusion
7. …add your own!

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Types and Sources of Data

When you add data, be sure to indicate what is the source of information. Basically, you have three types of data:

1. Your **historical** data → if you have historical data, that's the best!
2. **Market** data → cite the source
3. Your **assumptions** → if you don't have data, make and motivate your assumptions (don't be shy, it is reasonable)
4. Results of Lean Startup test (validated learning) → the business plan follows and leverages the lean startup approaches

If you are not sure, use journalistic ways of saying, like: "Commentators say that, …" ; "Industry sources indicates …", etc.

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2. Business Plan Sections

Main sections of a business plan

1. Executive Summary
2. Product / Service
3. Strategic Plan
4. Marketing Plan
5. Operating Plan
6. Economic and Financial Plan
7. Risk Analysis

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All the sections are connected!

All the sections are linked together and the choices done in one have consequences in the others.

Every section has an impact on other sections. A choice in strategy impact production, organization, etc.

E.g.: if you establish that your strategy to enter a new market is to offer a niche product, this choice impacts production, positioning, communication, distribution, pricing, etc.

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Business objectives and local goals

The business objectives are introduced and explained in the strategy section (i.e. Strategic Plan). They form the red line keeping together the whole plan.

On the other hand, every section has a local objective/goals, consistent with the overall ones, while answering to specific questions or choices, regarding, for examples decisions about manufacturing, organization, communication, funding, etc.

The process is not linear: iteration!

Business Planning is an iterative process rather than linear: every section can impact the following ones and the previous ones.

E.g.: while building the financial plan, you realize that your business can’t be sustainable. Thus, you might have to reconsider the product itself, the strategic plan, or marketing plan, manufacturing and operational plan, etc.

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A comprehensive vision

Creating a business plan is complex activity, as it has the objective to offer a comprehensive vision of an entire business, project, or even an entire company.

The business planner has understand peculiarities and problems at different levels of a business: from strategy to operation, from marketing to organization, from financial projections to risk analysis.

Business planner should be also able to engage/attract the audience.

A wide set of managerial tools

Every section has its own characteristics and also a set of managerial tools that may support the business planner.

These tools are basically frameworks to organize data and information and to clarify - first to our self then for the reader - the plan in each section.

The relations among sections

1. Executive Summary: Synopsis of the whole plan;
2. Products & Services (Value Proposition): presentation of main features and characteristics;
3. Strategic Plan: set strategic objectives; design of the competitive environment;
4. Marketing Plan: translate strategic Objectives into Marketing Objectives and Plan;
5. Operating Plan: translate strategic objectives into a series of actions and activities;
6. Financial Plan: measure sales, costs, cash flow related with the activities performed;
7. Risk Analysis: assess the risk of the venture.

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Iterative Process!

Cover

Before analyzing the sections, consider to add some basic information on the cover, to add reference and to keep track of your copies. Here below an example.

Name of the company →

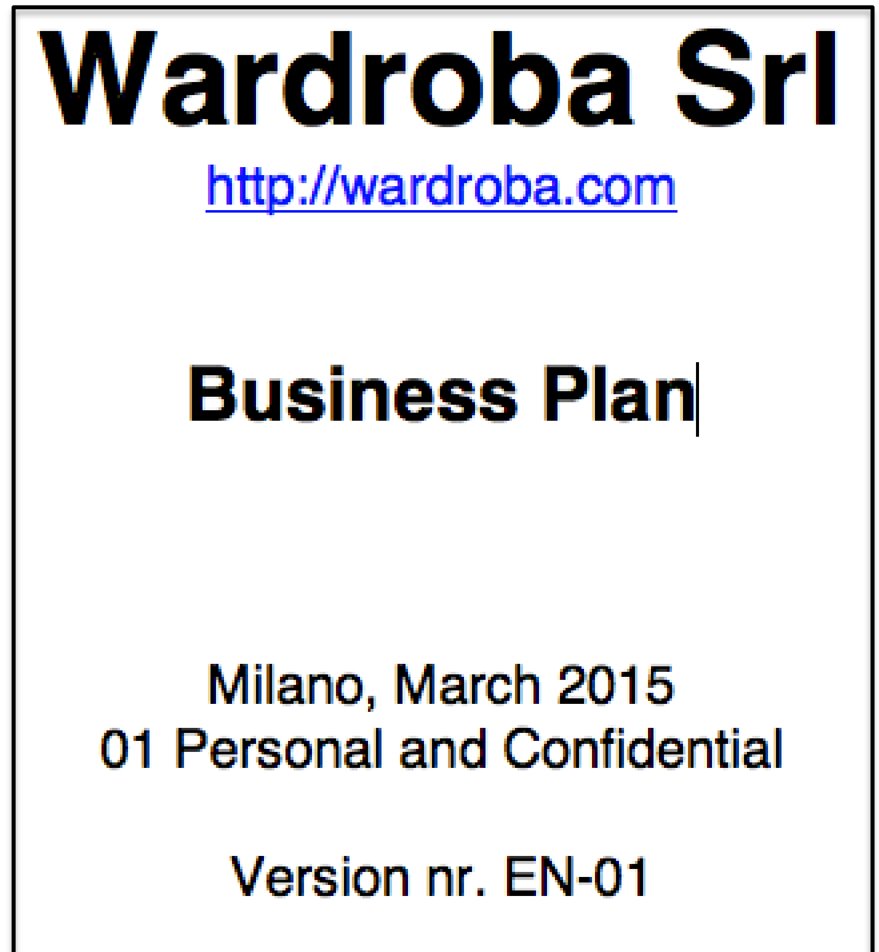
Website (if relevant) →

Title: business plan →

Date & Place →

Confidential →

Nr. version & nr. of copy →



Wardroba Srl

http://wardroba.com

Business Plan

Milano, March 2015

01 Personal and Confidential

Version nr. EN-01

Business Plan - Sections

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2. Business Plan Sections

Chapter 1: Executive Summary

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Executive Summary

The Executive Summary is a synopsis of the whole business plan: it contains fundamental information discussed deeper in each section.
It's a way to give in few pages (2-3 maximum) an overview of the venture.
Interested readers will go deeper reading following sections.

Main topics are:

- **Company Introduction**: present the company, date of foundation, state of art, stage in the history of the company, seats, plants, type of ownership, governance, etc.

- **Business idea**: shortly, describe the value proposition, how you intend to deliver this value, why and to whom.

- **Market Opportunity**: describe what are the opportunities and the characteristics of the market in term of attractiveness

Executive Summary

- **Expected Results**: describe what are the main objectives / results and relative timing.

- **Resources, competences**: describe main resources, competences, skills the company can rely on.

- **Main activities**: describe the core activities to reach the objectives.

- **Economics**: introduce main economic and financial data

- **Objective of the business plan**: introduce the following sections of the business plan, clarifying what is the objective of the whole document

Executive Summary

- **Goals**

Introducing the reader to the business, offering first elements to assess whether the venture is interesting or not.

- **Premises**

All the other sections of the business plan. This is the last section developed (but the first read by the target)

- **Following**

None (it is the opening section in the business plan)

- **Tools**

None (it is just a synopsis of all the other sections)

Executive Summary

The Executive Summary is a plan in miniature, it is not an introduction. It should capture in no more than one or two pages most important points of the whole plan.

You have to encourage your audience to go ahead and read the whole document. At the same time, it has to present honestly the business.

Information to include

- Start with the objective
- Management Team (key people to make the business to succeed)
- Products or services (why are they special?)
- Market (what's your niche? What are your unique factors?)
- Assets, strengths, advantages, and competences
- Strategy to succeed
- Key Financial Data
- Funding required and its use

Executive Summary: some tips

State clearly and concisely (pieces of a business model)

- Your Value Proposition
- What's the Business Opportunity and the KSF of the Market
- What's your solution and why it's different from others
- What's your target and your positioning
- What's your price
- What are your revenue streams
- Key Activities
- Key Partners
- Channels
- Customer Relationships
- Structure of costs

Topics to Include

- Company stage of life, past results, and perspectives
- Value Proposition
- Customer Problem
- The solution
- Business Model
- Target Market
- Competition and competitive advantage
- Strategy
- Marketing activities
- Management Team and Organization
- Economics

Business Model Canvas

Very relevant if your business model is not immediate.

What’s a business model?

“A business model describes the rationale of how an organization creates, delivers, and captures value”

Alex Osterwalder, Yves Pigneur “Business Model Generation”

2. Business Plan Sections

Chapter 2: Products & Services

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Products & Services: description

In this section, the reader is introduced to the products and/or services offered by the company. The description not only from a physical or technical point of view, but in term of the value for the client.

- Physical / Technical Description (Features, Values for clients)
- Types of usage
- Product Positioning Map
  - Cost
  - Quality
  - Features
  - Values
  - Service
  - Image
- Product lifecycle stage

Products & Services

- **Goals**

Presenting products/services main features, characteristics, physical and technical description, advantages for users, plus, etc.

- **Premises**

Market & Product Fit; market opportunity, business opportunity, disruptive technology, untapped need, etc.

- **Following**

Go-to-market strategy; operating marketing; operation (production, localization, channels, delivery, etc.)

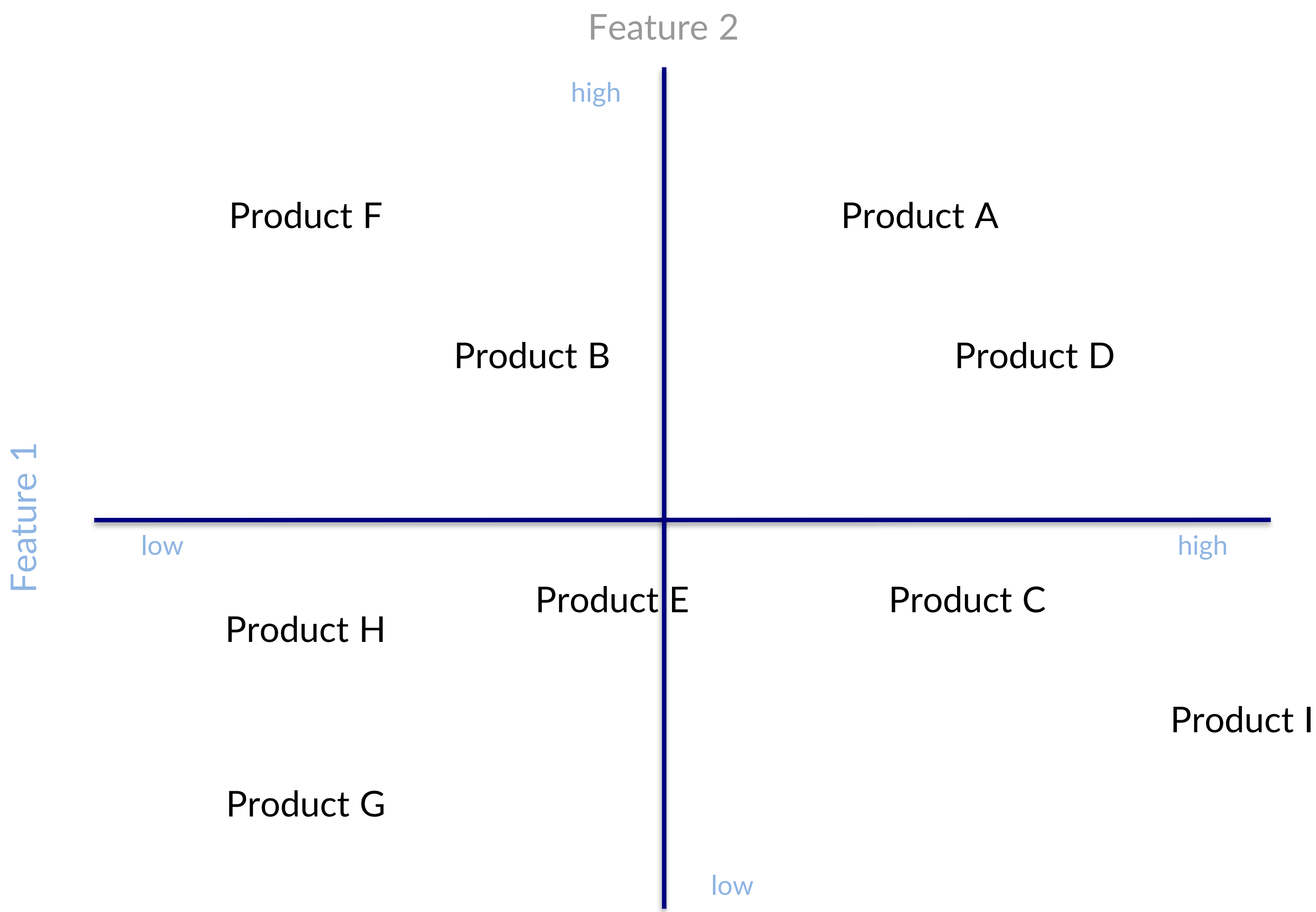
- **Tools**

Photos, drawings, models, technical description, product lifecycle and product positioning maps, etc.

Products & Services: practical tips

- Be very detailed if you are a startup or if your product is totally new, or it is a complex portfolio of products
- Start with one-paragraph summary, then repeat in more detail
- List all your products and services
- Highlight the importance of each of them
- Add pictures, sketches, diagrams, and any type of documents that can substitute the physical contact
- If it is something that people must use, describe how does it work (without getting too technical)

Product Positioning Map



Example: digital platform

- Describe the platform: its purpose and its main functionalities
- Describe the technological infrastructure (database, systems in use, style of the implementation, etc.)
- Define main components
- State clearly what you have already implemented and is online, what is going to be published, what you are developing, and what are future functionalities and improvements
- Include screenshot, sketches, etc.

2. Business Plan Sections

Chapter 3: Strategic Plan

Strategic Plan – the core of the plan

The strategic plan is the core of the whole business plan. It is the starting point to assess the competitive environment and to weight opportunities and risk. Through this analysis, a company define the value proposition and the unique positioning, with the objective to set a competitive advantage. In order to reach this competitive advantage, a strategy is defined, or the unique interconnection of choices and activities (what to do and what not to do) that make a company different from the other.
The strategy has a direct consequences on the activities and organization, and thus on the operating plan, and on the financial plan.

The strategy is not defined once for all. It is common that something in the operating or financial plans is considered as not feasible, and thus there is the need to refine and update the strategy, then operations, etc.

Strategic Plan – main sections

The strategic plan is divided into 3 main sections

- Values, Vision, Mission, Objectives
- Strategic Analysis (Internal vs External)
- Strategy

Values, Vision, Mission, Objectives

Values: in what you believe
Vision: where your target market or industry will evolve long term
Mission: how to reach the ideal stated in the vision
Objectives: results aligned with Values-Vision-Mission; S.M.A.R.T. objectives: Specific – Measurable – Attainable – Realistic – Time-related

This part of the business plan represent the culture and the belief of the company, where it sees itself in the future and how to arrive there; in order to measure progress, it defines corporate objectives.

Values, Vision, Mission, Objectives

• **Goals**
Presenting the culture and the long term goals of the company

• **Premises**
None

• **Following**
Strategy, Organization, Role of innovation & R&D, HRM, Recruiting Style, Markets, Products, etc.

• **Tools**
Corporate culture

10 Common Central Objectives

The business objectives are different for every company and they reflect the culture and the history of the founders, and the people working there.

Here below, a list of the most common categories of central objectives:

1. Maximizing shareholders value
2. Maximizing profitability
3. Maximizing dividends pay-out
4. Maximizing market share
5. Maximizing total assets
6. Minimizing risks
7. Positioning the company as a takeover target
8. Building an empire (nr. of employees, seats, markets, etc.)
9. Stability and growth
10. Maximizing some altruistic vision (CSR)

The objective of Strategic Analysis

As stated earlier, the strategy is the core of the whole plan, and the role in the business plan is to keep together all the pieces. Every activity should be a consequence of the strategy chosen, and the objectives set.

The following list contains a series of questions the strategic analysis should answer.

- Identify opportunities in the market and in the society
- Identify threats in the market and in the society
- Identify the type of competition in the industry
- Assess company’s competences, skills, resources
- Assess Key Success Factor (KSF) in the market
- Verify whether KSF matches company’s competences, skills, resources
- Identify the possible sources of competitive advantage

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Strategic Analysis

External Analysis	Internal Analysis
The Social and Economic Context	Values, Vision, Mission
The Industry	Competences and Resources
The Competition	Competitive Advantage

S.W.O.T. Analysis

The strategic analysis describes the environment and the characteristics of the company that can influence the establishment of a long lasting competitive advantages

Sources of competitive advantage

The strategic analysis must identify the sources of possible competitive advantages in the scope market, like (for a cost-based advantage):

- Economies of Scale → reduce average cost introducing a new unit of output
- Economies of Scope → reduce average cost introducing a new product
- Economies of Learning → becoming a true specialist
- Production Capacity Saturation
- Localization
- Distribution Channel Access
- Other Factors (regulations: depressed area incentives, etc.

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12 Sources of Competitive Advantage

In your plan, it is fundamental to identify the real source of lasting and defendable competitive advantage, like the following 12:

1. Strong research and development capabilities
2. Access to intellectual property – trade names, trade secrets, patents,
3. Exclusive re-selling or distribution rights
4. Ownership of capital equipment
5. Superior product and or customer support
6. Low –cost production
7. Other economies of scale
8. Marketing skills related to specific customer types, market segments, channels, etc.
9. Access to working capital
10. Other excellence in management
11. Barriers to entry

Strategic Plan: Strategic Analysis

- **Goals**

Identify threats and opportunities in the market; identify Strengths and Weaknesses; define the structure of the industry and market in terms of intensity of rivalry and presence of extra profits; the type of competition; the Key Success Factor in the market; the core competences of the company; the sources of competitive advantage;

- **Premises**

Corporate Culture, Vision, Mission, etc.

- **Following**

Strategy

- **Tools**

P.E.S.T. Analysis; Porter 5 Forces; KSF; Porter's Value Chain, Competitive Analysis Maps, SWOT Analysis

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Strategic Analysis: examples of insights

Through strategic analysis you should be able to identify the main reasons why some industries show average ROE than others

Industry	ROE (average)	Main competitors
Pharma	21%	Pfizer, J&J, Merck
Oil&Gas	20%	ExxonMobil, Chevron,ConocoPhillips
Software	14%	Microsoft, Oracle
Entertainment	2,7%	Time Warner, Walt Disney, News Corps

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Strategic Analysis: examples of insights

Through strategic analysis you should be able to understand why some industries tend to be monopolies while some others tend to have perfect competition.

	Perfect Competition	Oligopoly	Duopoly	Monopoly
Concentration	Low	High – Very High		Extreme
Barriers	No barriers	Medium-High Barriers		Very high Barriers
Product Differentiation	Commodity	Products differentiation (option)		
Information Flow	No obstacle to information flow	Not perfect information flow		

Strategic Plan: Strategy

1. Strategy is the creation of a unique and valuable position, involving a different set of activities. Basically, it can derive from three sources:

    - serving few needs of many customers
    - serving broad needs of few customers
    - serving broad needs of many customers in a narrow market
    - creating new needs ?

2. Strategy requires you to make trade-offs in competing: to choose what not to do

3. Strategy involves creating fit among company's activities (the ways in which the activities interact)

(What is Strategy - Michael Porter, HBR 2000)

Strategic Plan: Strategy

- **Goals**

Identify the positioning and the unique succession and combination of activities to reach a sustainable and long-lasting competitive advantage

- **Premises**

Strategic Analysis

- **Following**

Operations

- **Tools**

Function by function strategy

Strategic Plan: Strategy

The strategy impacts every function and activity, so you must have strategic recommendations in every business unit or function (operational or functional level of strategy):

- Competitive Strategy
- Organization Strategy
- Production Strategy
- Financial and Economic Strategy
- Communication Strategy

As stated earlier, the strategy is the unique set of activities, and the unique ways in which they are related that make every company different from the other.

The goal of the strategy is to reach the strategic objectives and to guide the definition of the products/services' features, marketing positioning and activities, and finally activities in each function or business unit.

The strategy is reflected in the way companies source, produce, organize people, go to market, communicate, define prices, manage financial sources, and invest.

7 Criteria to Evaluate a Strategy

1. ROI – Return on investment
2. Risk of loosing the investment
3. Ownership and control
4. Potential for growth
5. Stability of employment and earnings
6. Prestige
7. Social Responsibility

The strategy can be valued from different points of view that depend on the business objectives and the market conditions.

Strategic Plan

- **Goals**

Identify positioning and sources of competitive advantage in the business environment; identify the strategy and the strategic objectives to guide marketing and operations

- **Premises**

Business Opportunity, Market Need, Innovation, Technology

- **Following**

Marketing Plan, Operating Plan

- **Tools**

P.E.S.T. Analysis; Porter 5 Forces; KSF; Porter's Value Chain, Competitive Analysis Maps, SWOT Analysis

2. Business Plan Sections

Chapter 4: Marketing Plan

Marketing Plan

The marketing plan has the objective to analyze in detail the market and the competition, and to define a unique positioning of the company or its products in each of targeted segments.

Once defined Positioning and Targets, the marketing plan has the role to enact this program and to define the tangible elements (products, price, channels, points of sale, people, communication, and all the other aspects related with the go to market and the relationship with clients, partners, and competitors).

Marketing Plan: 3 Steps

1. Product

- Physical / Technical Description (Features, Values for clients)
- Types of usage
- Product Positioning Map
  - Cost
  - Quality
  - Features
  - Values
  - Service
  - Image
- Product lifecycle stage

2. Price

How to determine your product's price

Definition of price (in a wider sense: not only monetary cost)

$$p = \frac{TotalCostforClient}{Benefits}$$

3. Place/Channels / Points of Sale

- Sales channels
- Distribution channels
- Commercial effort

4. Promotion

- Discounts, Sales, Special Offers
- Merchandising
- Events, …

In this part of the plan, there is the description of the choices and the activities to promote the products.

5. Communication

- Outbound Marketing (Adv, Press Campaigns)
- Inbound Marketing (Social Media, Newsletters, Website, SEO, SEM, …)

Business Plan – Operating Plan

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2. Business Plan Sections

Chapter 5: Operating Plan

Operating Plan: where we come from

The operating plan introduces the second part of the document. Let’s remind what we have done so far.

- **Product**
- **Strategy**
- **Marketing**

Operating Plan: what we do now

The operating plan introduces the second part of the document.

Having a clear idea on what are:

- the main characteristics of the market
- the strategic objectives to create a competitive advantage
- the target
- the features of the products/services that create a value for the target
- the tangible elements of the offer (price, product, …) to generate value for final users and clients

Now, we have to organize things. We have to define the plan of the activities, in order to reach the strategic objectives set earlier.

The **operating plan** is the translation of the strategic plan into a set of activities.

Our operating plan has to consider the various elements of the organization.

Operating Plan

9 steps to create a winning operating plan

1. Break the project into the smallest possible components and activities
2. Identify linkages and critical paths (critical path is the longest path)
3. Order the activities with the critical and higher risk and schedule them as early as possible
4. Set measurable targets for each activity
5. Assign responsibilities
6. Set up a mechanism for tracking the reporting on each target
7. Establish a culture that encourages problem reporting
8. Execute the plan
9. Act immediately if a target is missed or a problem report is generated

Operating Plan: example

Supporting Activities: ICT, Legal, Fiscal, HRM

- Determine how and who will perform all the supporting activities
- Consider activities divided into main functions
- Define list of activities in each function
- Establish an owner of the function
- Divide and coordinate
- Establish procedures

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2. Business Plan Sections

Chapter 6: Financial Statements

Business Plan – Financial Statements

This is the quantitative section of the business plan.
It's the section in which figures are put on paper and you can discover whether the strategy is executable, and if the activities are correctly organized.

The fundamental goals of the financial statement sections are:

- forecast sales
- forecast and control costs
- forecast cash flows
- valuate the return of the investment

- Through sales and costs, you can tell whether the business is profitable
- Through cash flows you manage the cash generated or burnt during the activities. This is fundamental to assess the financial needs and to control that the business has cash to operate throughout the activities
- Through the valuation of the return of the investment, you can assess whether the investments make sense or not

This section is fundamental for a potential investor and for the chief of the venture.
Here you can discover that the plans defined earlier are not sustainable from an economic or financial point of view. You could also discover that the return of the investment is not enough to justify the effort.

About

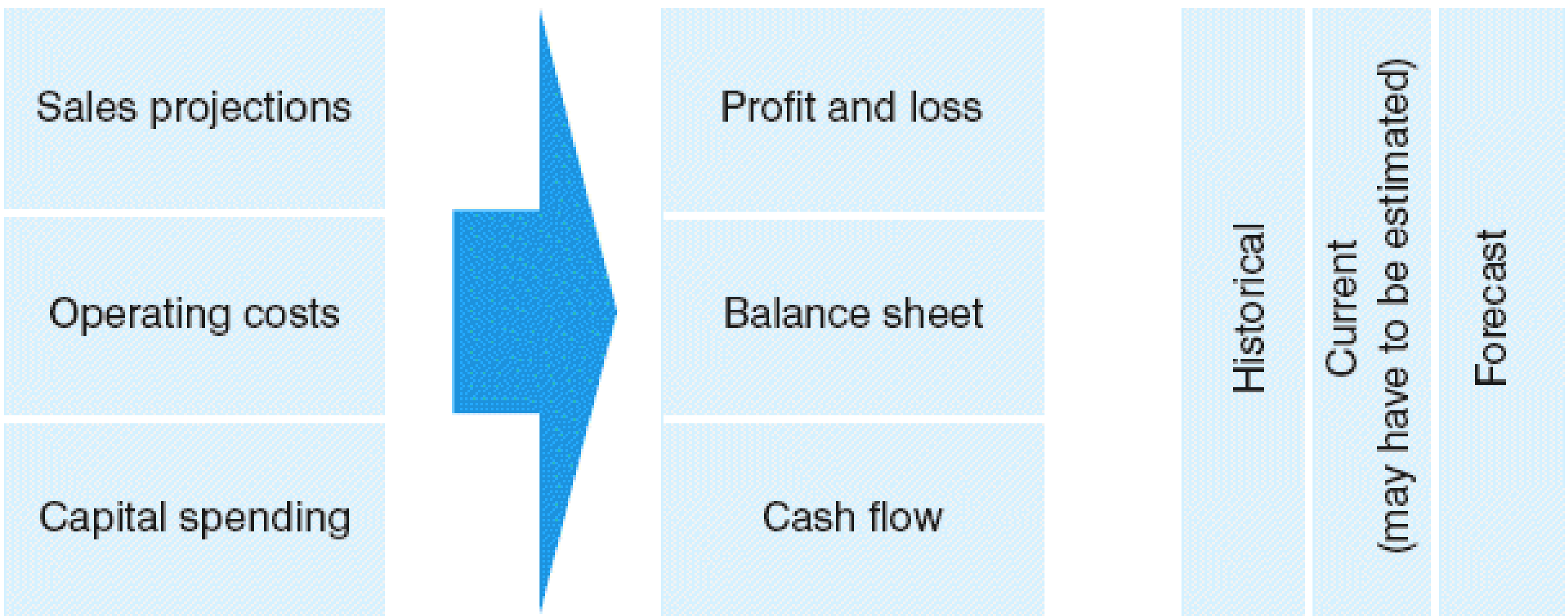
We can divide the type of information we deal with in this sections into 3 groups. Each group has 3 subspecies of information.

3 Types of Voices
Sales forecast
Operational Costs = costs to be sustained to perform activities
Capital Spending or the investment to set up the activities

3 Financial Statements
Profit and Loss – economic perspective → is your business profitable?
Balance Sheet – asset perspective → to whom do you own money?
Cash Flow – financial perspective → is the business financially sustainable?

3 Time Periods
Historical: what's done in the past; previous years performances
Current: what is the current state of the business (now and next few months)
Forecast the future: what we expect from the future

Financial Plan



Step 1: Sales Forecast

1. Describe the logic underlying the forecast
2. Show historical proofs of your method
3. Introduce the assumptions made
4. Develop your forecast
5. Explain how you changed it taking into account trends
6. Show sales forecast
7. Show costs forecast and thus the gross profit
8. Include a summary
9. Explain the key risks and possible alternative scenarios
10. Keep it simple

Step 2: Costs and Investments

1. Define your **capital investment** (spending on assets with a life of more than 1 year)

2. Define **current consumption** (current spending divided into functional areas, like R&D, marketing, sales, etc.).

3. Put everything in the **Profit & Loss** Account

Step 2: Costs

Cost classification

1. Variable vs. Fixed Costs
2. Committed Costs (fixed) vs. Discretionary Costs (fixed)
3. Semi-variable Costs
4. Mixed Costs

Step 2: Cost of Goods Sold

Once found sales, it’s time to measure the cost of goods sold.

- The first cost to measure is the Cost of Goods Sold
- Subtracting COGS from Sales, you obtain Gross Profit
- Gross Profit measure how efficient the production is

Sales – COGS = Gross Profit

Step 2: Different Types of Cost of Sales

The direct cost of what you sell in an accounting period

1. For a *re-seller*: the price paid to acquire the goods to be re-sold

1. For a *manufacturer*: the cost of raw materials and other supplies to produce the goods, plus wages of workers directly employed in building up the product, and the factory overheads, such as factory light and energy, etc.

1. For a *software company*: one-hundredth of the original R&D cost for each unit sold

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Step 2: Operating Costs and Depreciation

1. Draw up a list of capital spending
2. Determine the period and the method of depreciation
3. Draw up a depreciation method
4. Develop a detailed capital spending forecast
5. Divide current spending into functional areas
6. Divide functional areas into employees and other costs
7. Divide employees and other costs into expenditure headings
8. Work through expenditure headings forecasting
9. Bring depreciation into appropriate expenditure headings
10. Combine figures to arrive to net profit

Step 2: Depreciation, Amortization, Depletion

- Depreciation: physical assets
- Amortization: intangible assets
- Depletion: natural resources

Example

Machinery → acquisition cost € 100,000
Useful life → 10 years
Yearly depreciation cost → € 10,000

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Step 3: Profit and Loss

1. Put revenues, costs, and investments in the **Profit & Loss** Account
2. Do it and compare past, current, and future P&L
3. Check whether the business is profitable

In particular, ask yourself whether you make profit and are good in:

- Producing the output through Gross Margin
- Managing current activities through EBITDA
- Exploiting investment in fixed assets through EBIT
- Financing the venture through EBT
- Manage taxation through Net Profit

Every business has specific characteristics. To compare performances in different industries, the most widely used indicator is EBITDA, which is not affected by decision regarding investments and fixed assets, funding and tax decisions.

Profit & Loss Statement

Revenues
- Cost of Goods Sold (direct labor and raw material)

= Gross Margin

- Operative Costs
  - Marketing costs
  - Sales
  - Administration / Legal / etc
- Cost of indirect labor

= EBITDA
- Yearly depreciation

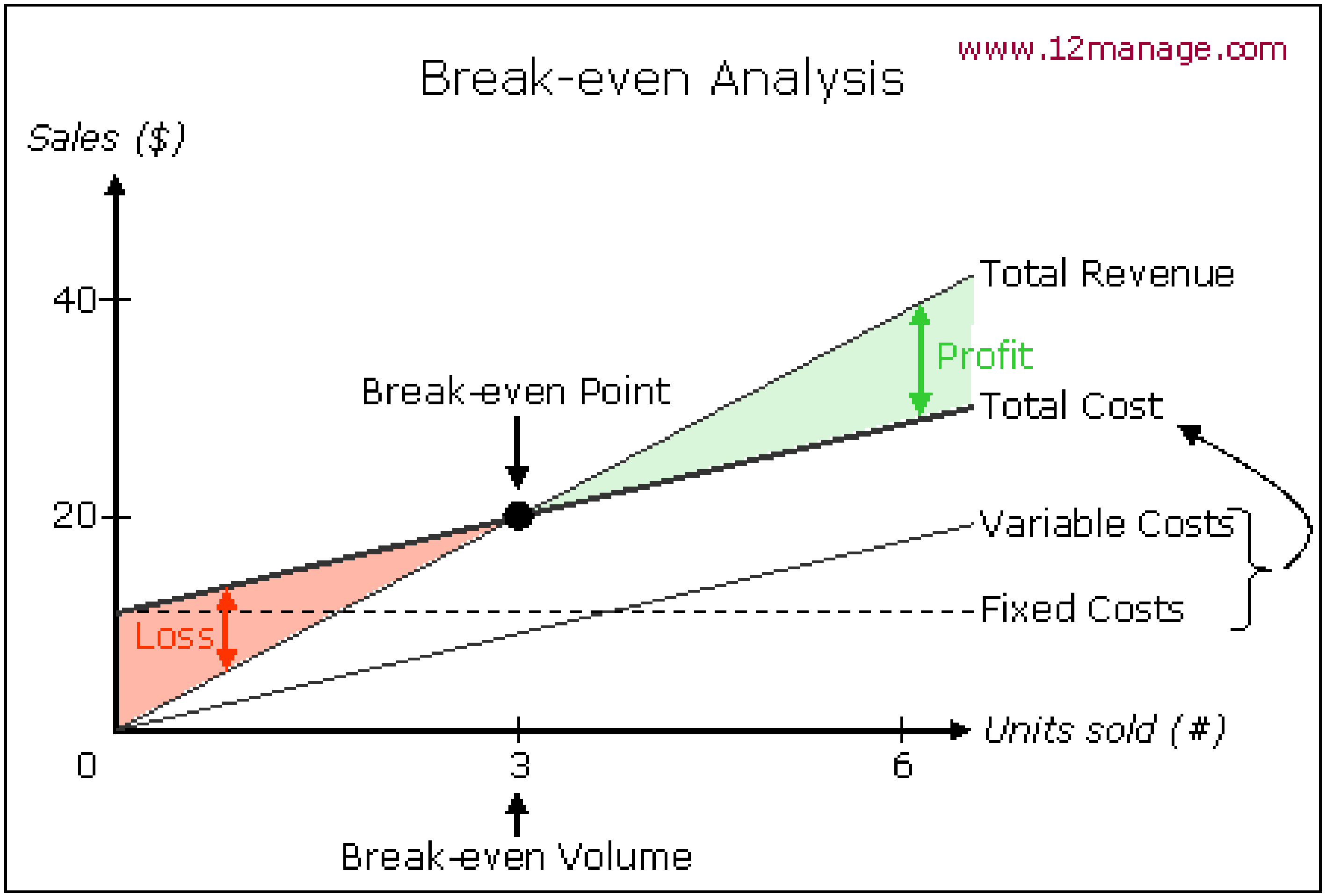
= EBIT

- Interests

- Taxes

= Net Profit

Break-even Analysis



Balance Sheet

The balance sheet can tell an analyst a lot of things regarding the company. It is especially important to assess what are the assets owned by the company and to whom the company owes money.
Through a series of indexes, you can answer many other questions, including the risk, the type of capital structure, the exploitation of the assets, etc.

Current assets Cash Inventory/stock Accounts receivable Other (prepaid expenses, deposits paid …)	**Current liabilities** Short-term loans Maturing long-term loans Accounts payable Other (accrued expenses, taxes due …) **Non-current liabilities** Long-term loans and other borrowing Pension fund
Non-current assets Investments Fixed assets (plant, machinery …) Natural resources Intangible assets (patents, goodwill …)	**Owners' equity** Paid-in share capital Retained earnings

POLITECNICO DI MILANO

Cash Flow Statement

Cash Flow is fundamental, as it shows the flows (in and out) of cash

A company goes to bankruptcy when finishes its cash, not when the profit is negative

You can create your cash flow statement from EBIT

EBIT
- CAPEX (Capital Investments)
- Taxes
- Investment Outlays
+ Depreciation/Amortization costs
- Δ Working Capital*
= FCFF (Free Cash Flow to Firm)

* Working Capital = Accounts Receivable + Inventory – Accounts Payable

POLITECNICO DI MILANO

Cash Flow Statement

Cash flow, first six months

Dollars

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Net profit	–42 217	–60 627	–57 622	–37 430	–49 518	–36 768
Adjustments for changes in:						
Cash at bank	–1 000	0	0	0	0	0
Accounts receivable	0	–20 000	20 000	–40 000	40 000	–50 000
Deposits paid	–2 000	0	0	0	0	0
Prepayments (rents)	–11 000	1 000	1 000	1 000	1 000	1 000
Inventory	0	–15 000	–25 000	22 500	–25 000	30 000
Fixed assets	–36 500	–1 500	–750	–1 000	0	0
Depreciation	0	1 389	1 431	1 443	1 471	1 471
Accounts payable - hardware	0	10 000	–10 000	22 500	–22 500	30 000
Accounts payable - software	0	3 591	0	4 683	0	3 979
Accrued pensions	417	417	417	417	417	417
Equity	1 000	0	0	0	0	0
Cash flow	**–91 300**	**–80 731**	**–70 525**	**–25 887**	**–54 130**	**–19 902**
Cumulative cash flow	–91 300	–172 031	–242 556	–268 443	–322 573	–342 475

POLITECNICO DI MILANO

Cash Flow Statement

Cash flow, first six months

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2. Business Plan Sections

Chapter 7: Risk Analysis

Methodologies

- Financial Ratios (Liquidity, Debt Burden, etc.)
- Break-even analysis
- What-if analysis
- Worst-case analysis
- NPV
- Distribution of observations (mean, standard deviation, skewness)

Financial Statement Analysis: Financial Ratios

Different types of ratios, offering different perspectives and interpretations of financial statements.

1. Liquidity Measurements Ratios
2. Profitability Indicator Ratios
3. Debt Ratios
4. Operating Performances Ratios
5. Cash Flow Indicator Ratios
6. Investment Valuation Ratios