From Business Models to Business Plans

From an idea to a plan – how it was done in the past

Business idea

Check for …
- Volume
- Margin
- Scalability
- Ramp-up cost

Business plan

Detail financial plan to understand the financial implications of the model

Financing

Equity and debt capital was collected in order to start the idea

Implementation

The company was founded and the go-to-market activities started

Technische Hochschule Rosenheim

Business idea

Check for …

- Volume
- Margin
- Scalability
- Ramp-up cost

Business model

Detail plan of the key elements that are required to put the idea into practice

Business plan

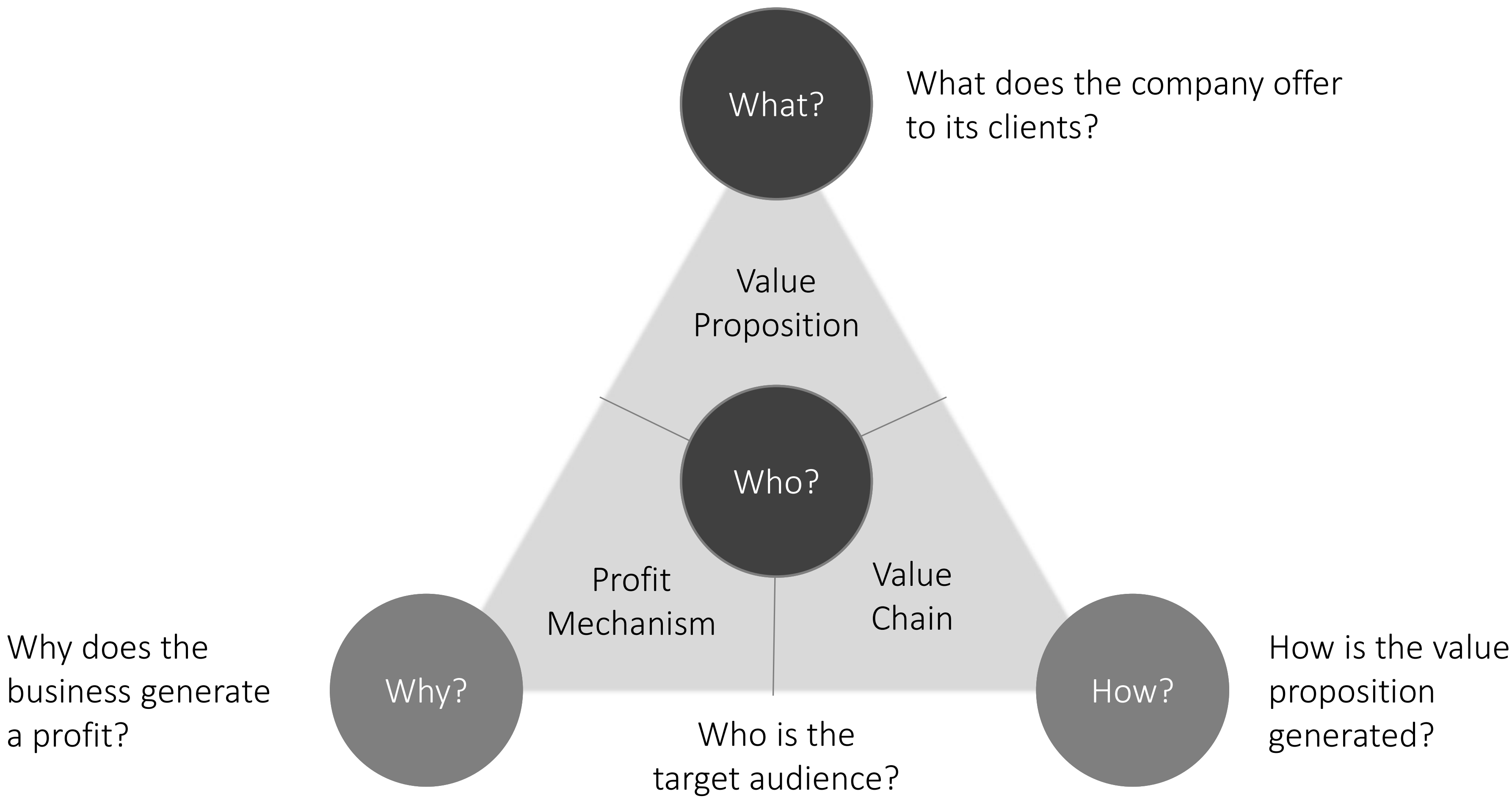
Detail financial plan to understand the financial implications of the model

Minimum Viable Product (MVP) / Prototype

Simplified version of the later product / service offering that can be used to test the central assumptions behind the business model.

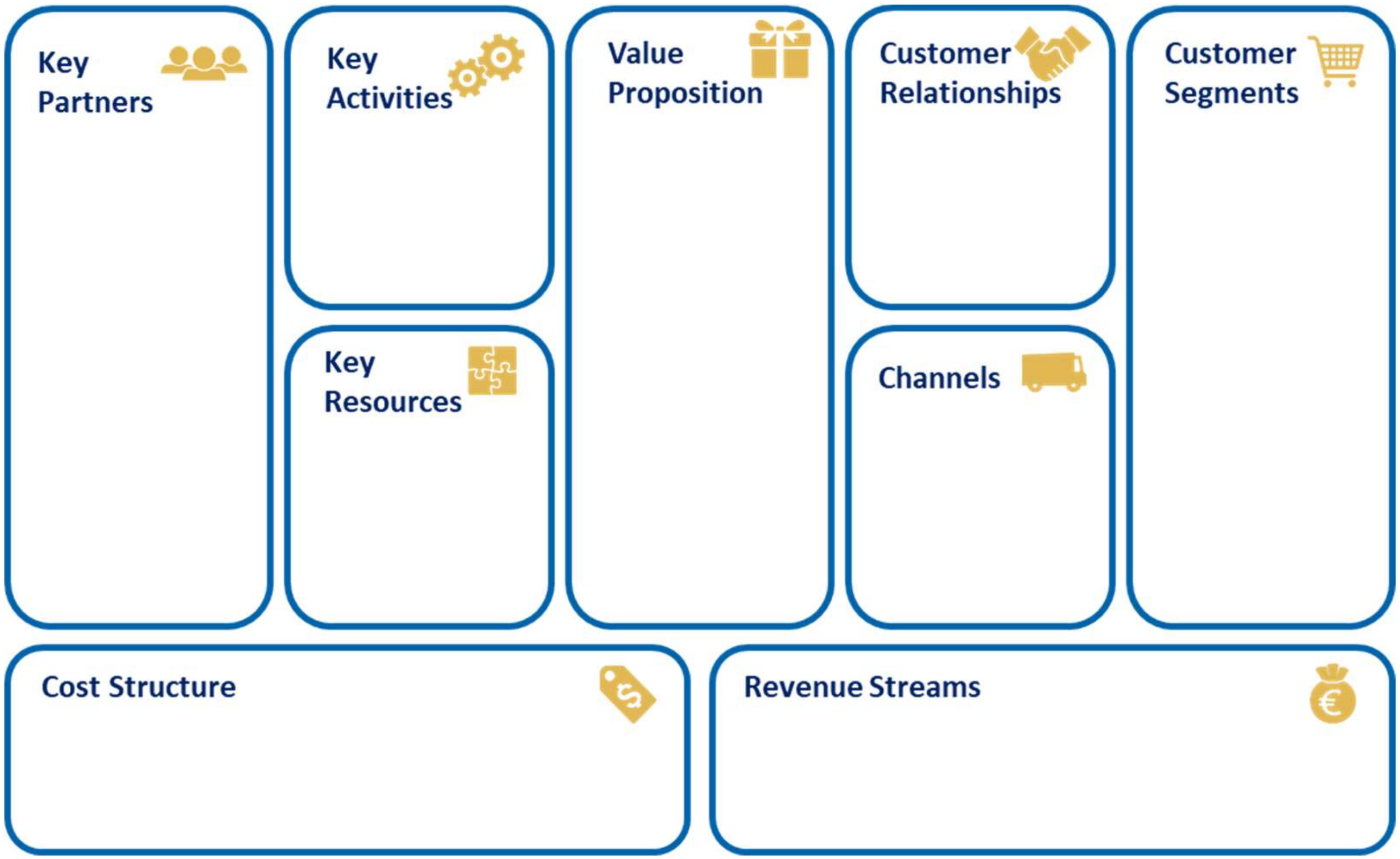
How to plan a business model

There are four dimensions to describe a business model. However, in order to plan a business model, some more detail is required.

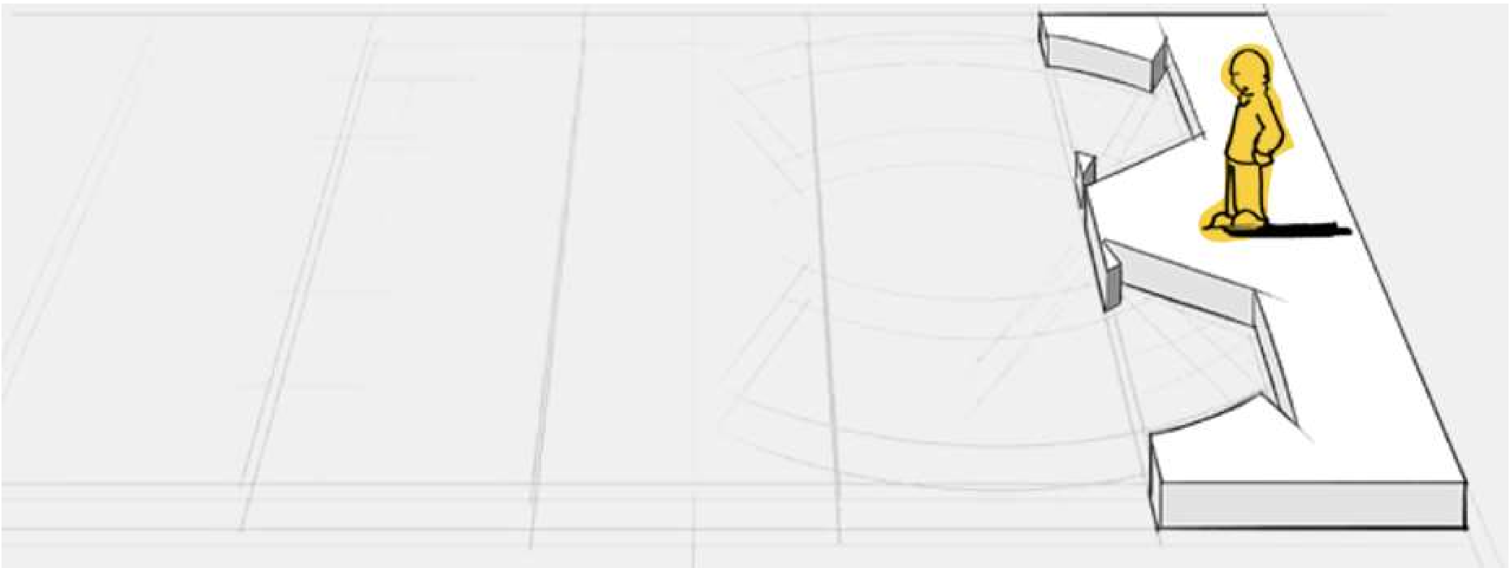


There are four dimensions to describe a business model. However, in order to plan a business model, some more detail is required.

The Business Model Canvas (BMC) is a methodology that helps you structure a new business idea and derive the underlying business model along all dimensions that will be critical for the success of the model. The BMC will also be an important input into the subsequent business planning.

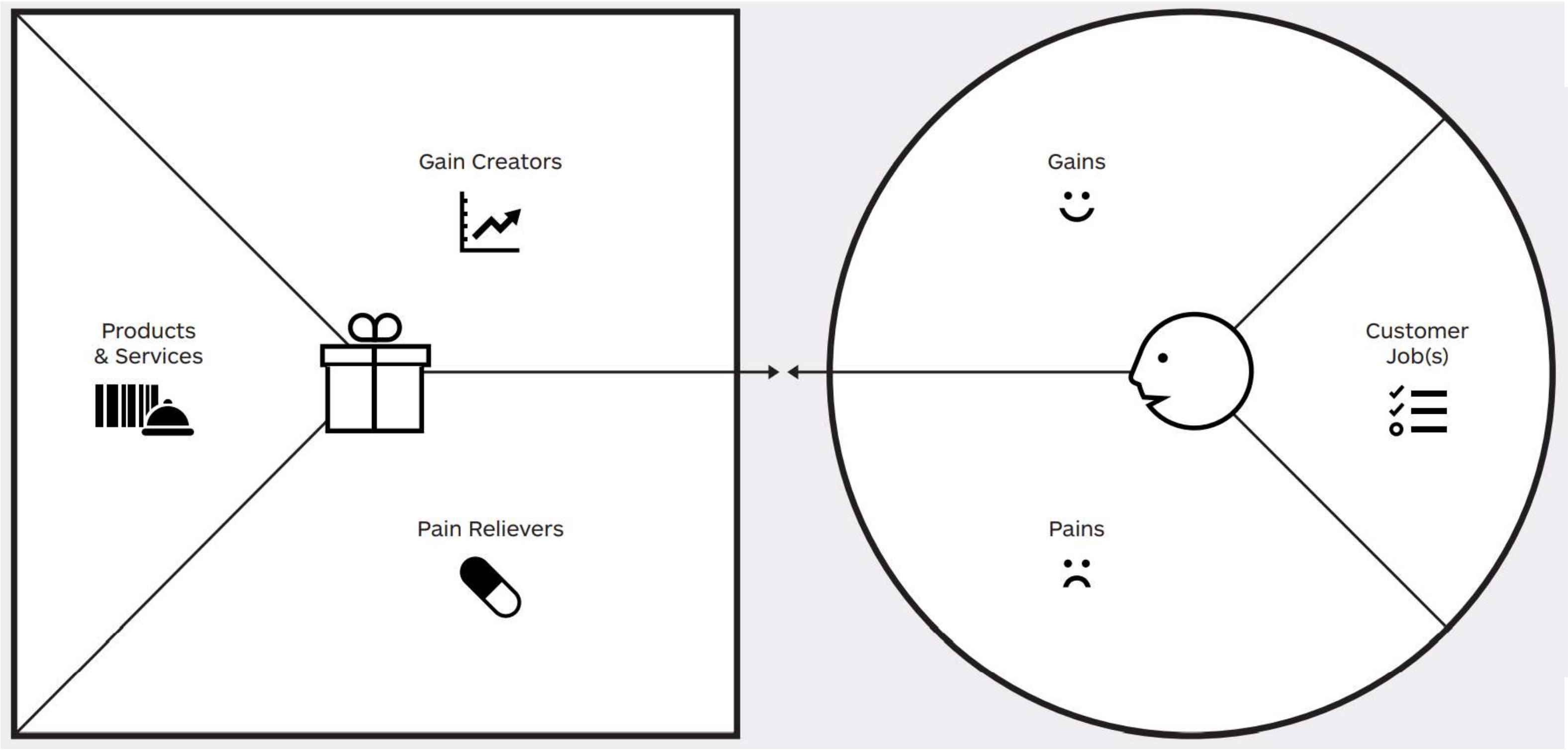


Target groups of the company. In order to target the customers more efficiently it is advisable to structure into customer segments along dimensions like expectations, purchasing behaviour, solvency, price sensitivity, technology etc.



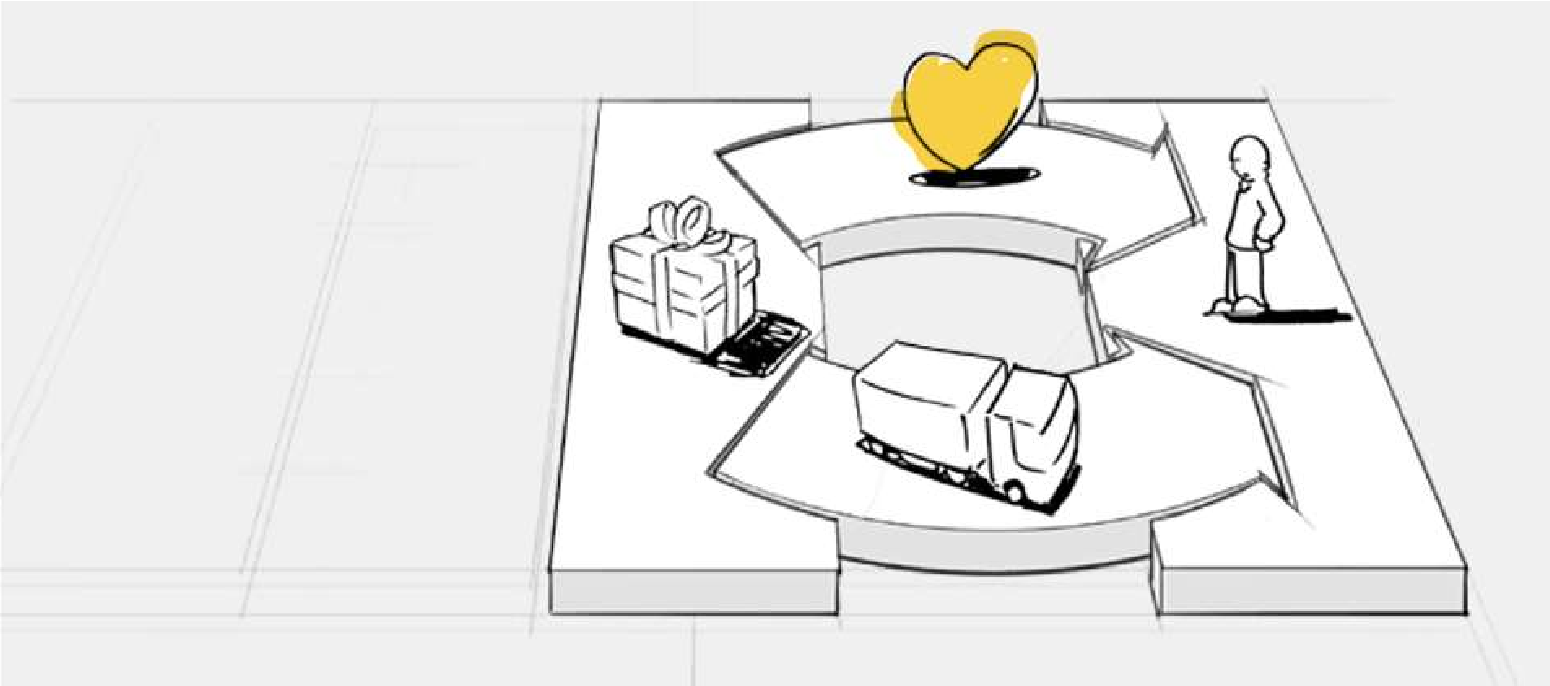
A company needs to decide which segments to target and which others to ignore. The target group should then be analyzed comprehensively, to understand expectations, decision criteria, paintpoints etc.
Imortant: Expectations change from generation to generation, so that this dimension is dynamic!

The “Value Proposition” is the reason why a client would prefer the company’s product against competition. The value proposition either solves a problem or provides additional benefits.



A value proposition consists of a bundle of products or services that focuses on specific customer segments. In that sense the value proposition is the utility that the company promises to its clients.

How and where does the company get in contact with the clients in order to communicate the value proposition?



Channels are contact points to the customer. They play a decisive role for the "Customer Experience", i.e. in how the customer perceives the product offering of a company.

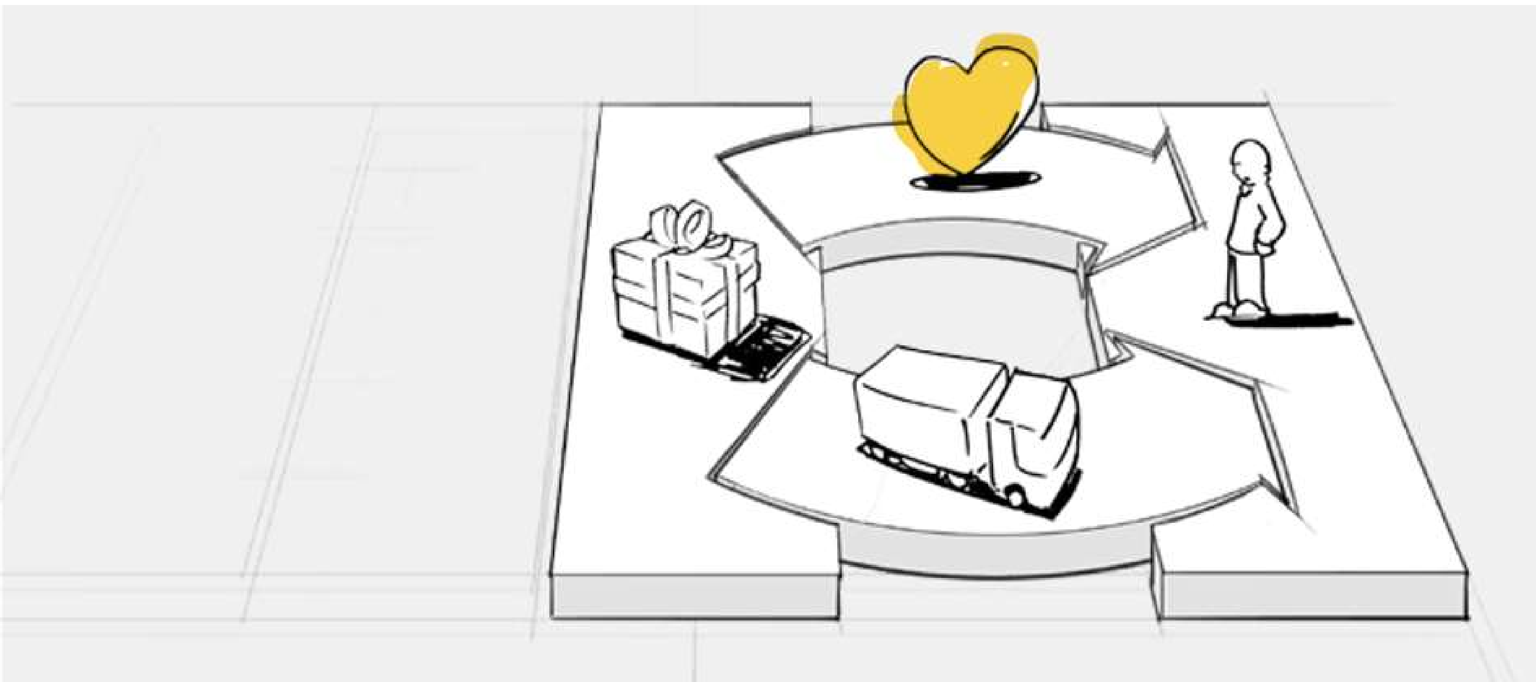
BMC - Channels

A business model should cover all phases of a customer contact:

<table>
<tr><th colspan="3">Channel Types</th><th colspan="5">Channel Phases</th></tr>
<tr><td rowspan="3">Own</td><td rowspan="2">Direct</td><td>Sales force</td><td rowspan="5">1. Awareness
How do we raise awareness about our company's products and services?</td><td rowspan="5">2. Evaluation
How do we help customers evaluate our organization's Value Proposition?</td><td rowspan="5">3. Purchase
How do we allow customers to purchase specific products and services?</td><td rowspan="5">4. Delivery
How do we deliver a Value Proposition to customers?</td><td rowspan="5">5. After sales
How do we provide post-purchase customer support?</td></tr>
<tr><td>Web sales</td></tr>
<tr><td rowspan="3">Indirect</td><td>Own stores</td></tr>
<tr><td rowspan="2">Partner</td><td>Partner stores</td></tr>
<tr><td>Wholesaler</td></tr>
</table>

BMC – Customer Relations

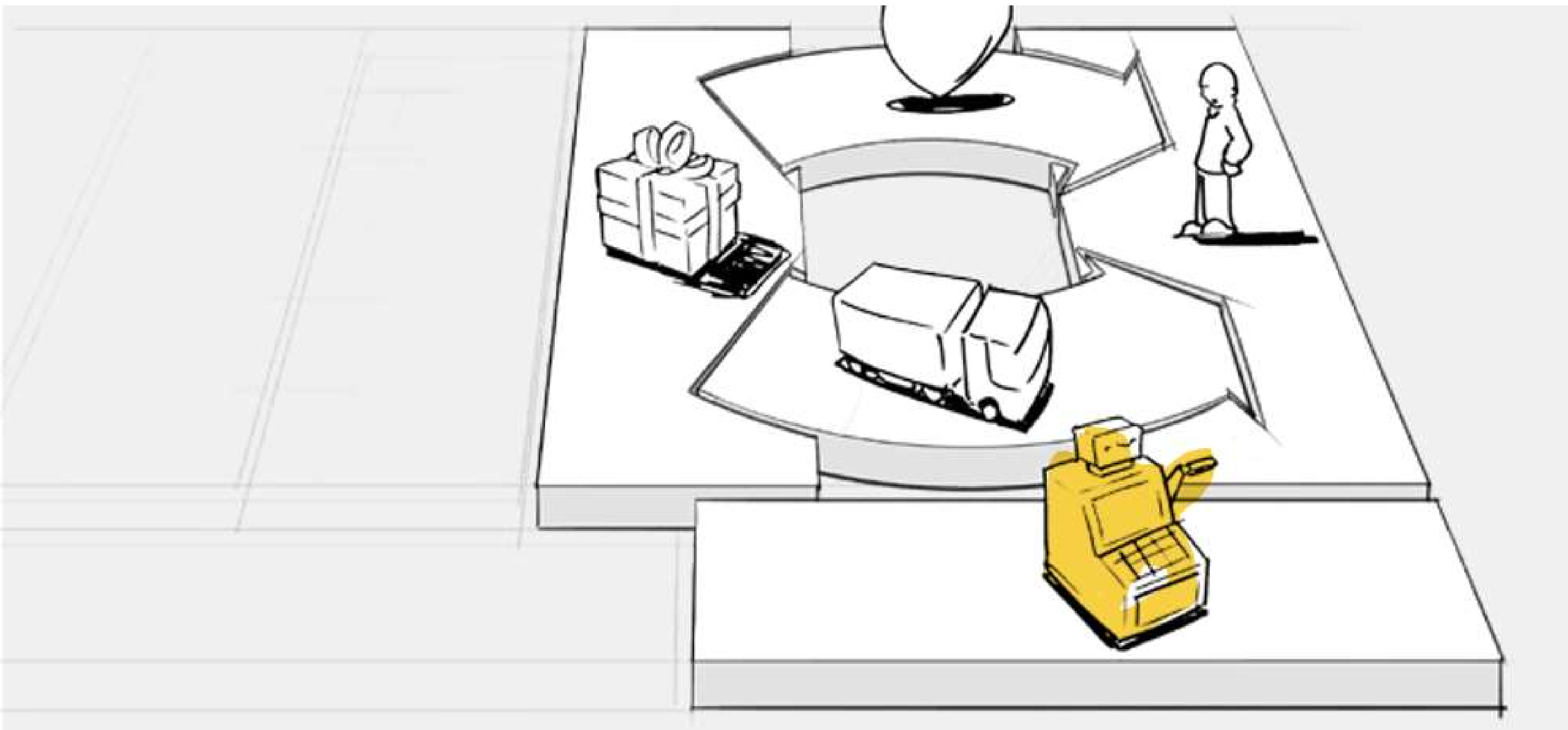
It is way harder to win a new client than to generate business with existing customers:
=> How can we bind profitable customers to our products?
=> How can we avoid customers from changing towards competitive products?



Example: Lock-In-Effects, change costs

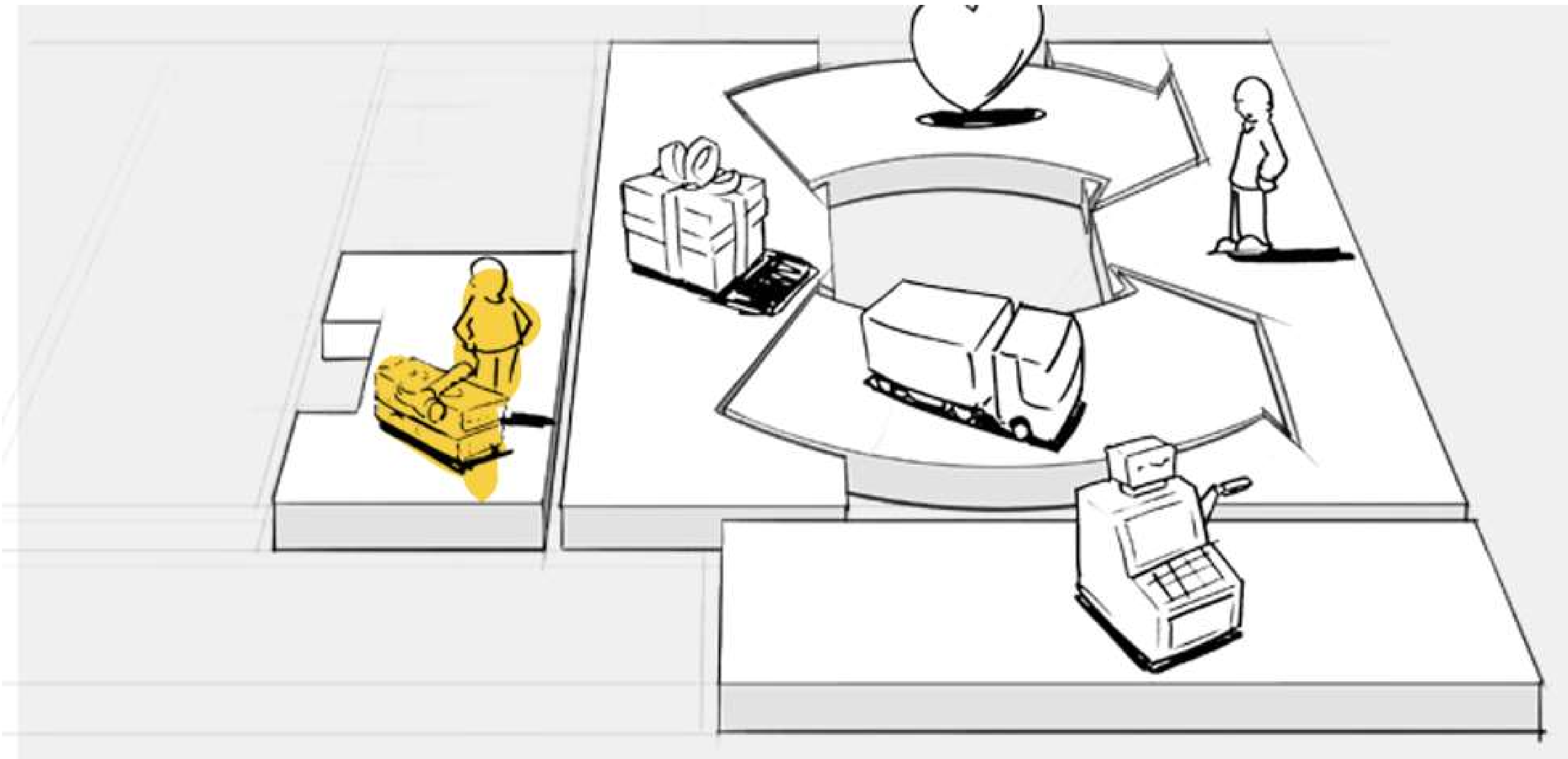
Technische Hochschule Rosenheim

Which pricing strategies are applied? Do we follow a direct or indirect revenue strategy?



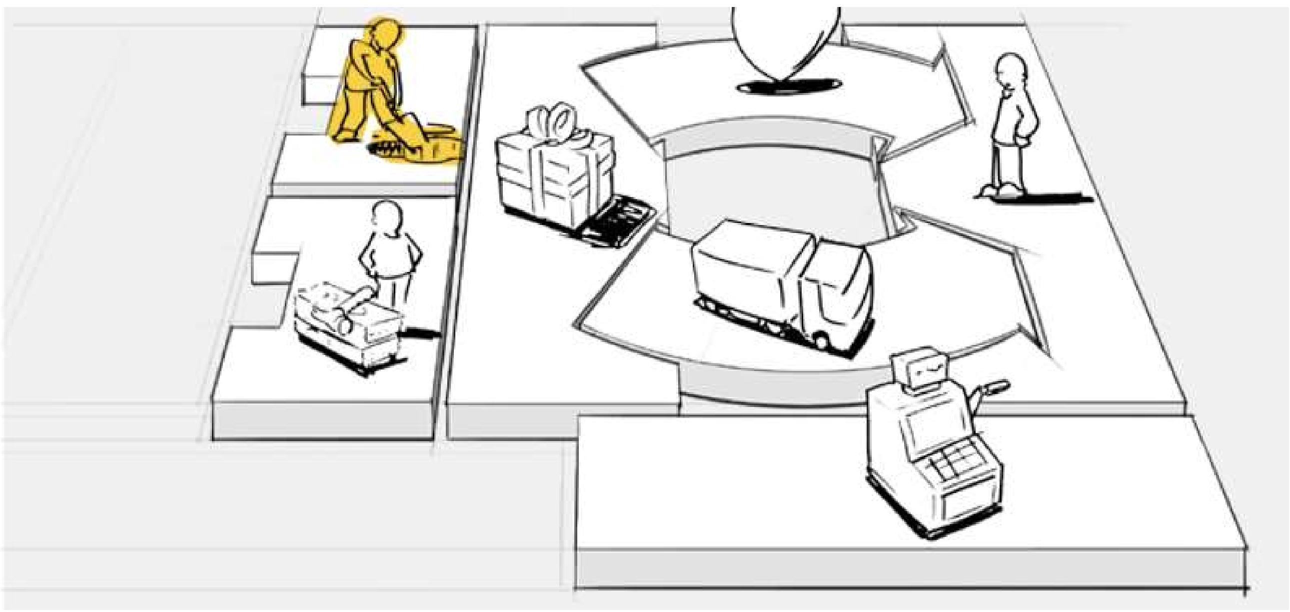
BMC – Key Resources

Which resources are needed to provide the value proposition to the different customer segments?
Different business models require very different key resources.



Key resources can be physical, financial or intellectual.
Note: Also data are resources!!!

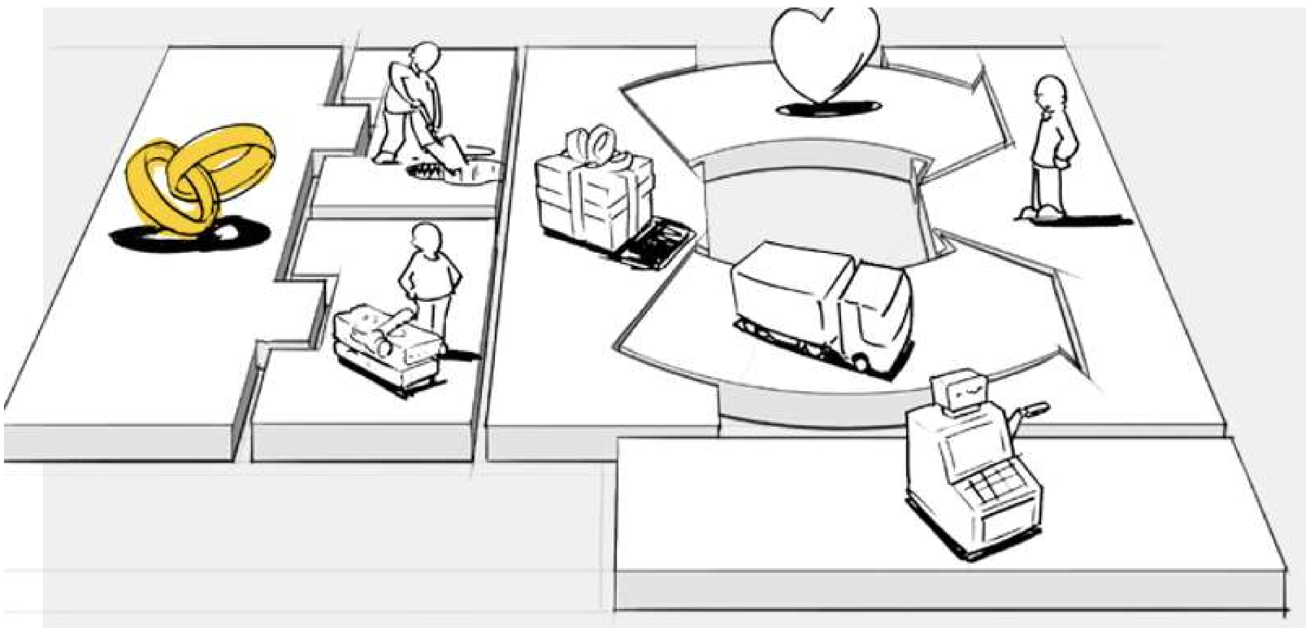
Which key activities does our long term strategy depend on?



Key activities can relate to the generation of the value proposition as well as to specific channel activities, customer relationship tasks etc.

BMW – Key Partnerships

Often it is not possible to realize a business model totally on your own. A partner network can be helpful to avoid risks, reduce time-to-market, secure resources etc.

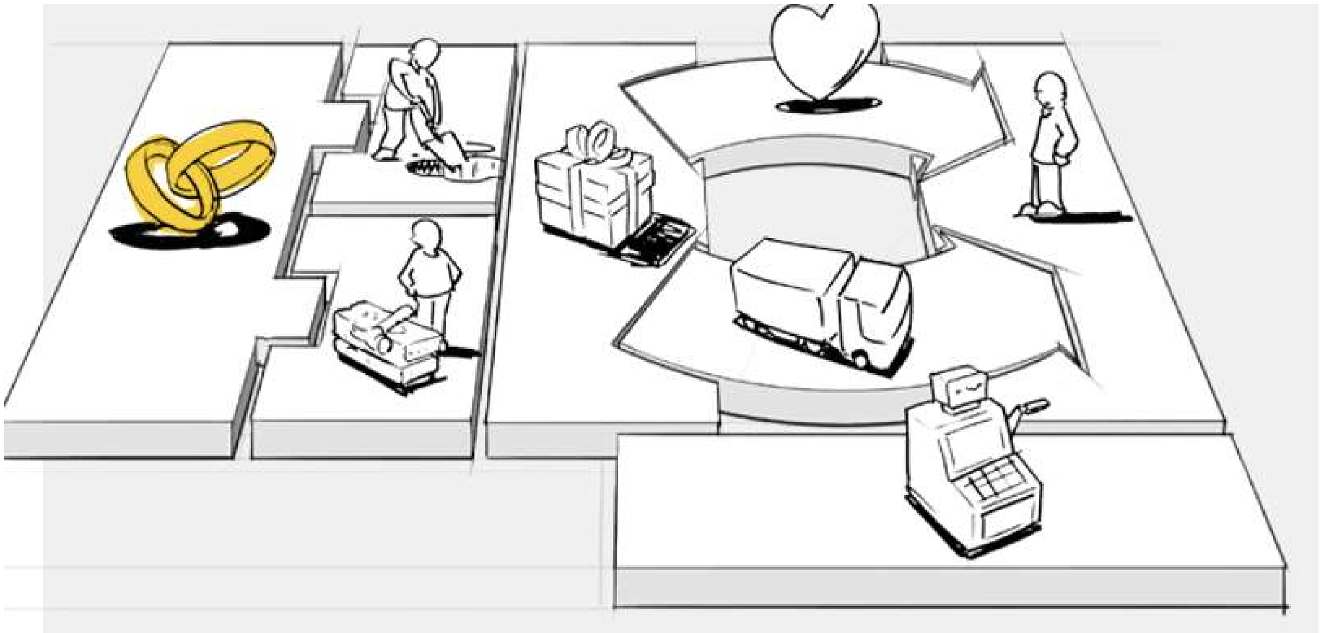


We distinguish:

- Strategic alliances between non-competitors
- Coopetition: Strategic partnerships with competitors
- Joint ventures to generate new business
- Vertical cooperation (supplier, retailer)

BMC – Cost Structures

Based on the previous dimensions the cost structures of the business model can be estimated.
Cost driven business models (= low cost) need to focus a lot on this dimension.
In value driven business models cost structures are an important side condition.



Technische Hochschule Rosenheim

A **Business Plan** explains in a compact form the commercial and financial details of a business idea.

Reason	Internal audience	External audience
Foundation	• Forces to discuss unpopular topics • Helps to avoid failure • Helps to stay objective • Delivers plan values for later controlling. => Needs to be consisent and complete.	• Is supposed to convince investors • Delivers the „first impression“ of the company => Needs to be convincing and should show the mentality of the company and its founders
Regular strategic planning	• Forces to get a complete analysis (= not only high level KPIs) • Basis for strategic controlling => Must contain specific target KPIs	• Basis for investor reporting • Critical for re-financing => Has to contain concrete KPIs
Complex new projects („Business Case“)	• Forces to get a complete analysis (= TCO, Financial impact …) • Delivers success criteria => Must contain specific target KPIs	• Should convince investors • Should convince other stakeholders • Basis for later controlling => Must be convincing and comprehensive

Criteria 1: „Hard facts“

1. Company structure
   - Legal form
   - Shareholder structure
   - Ownership

2. Product / Service
   - Value proposition
   - Pricing strategy

3. Market and Competition
   - Customer segments
   - Market volume and growth
   - Current and potential competitors

4. Marketing / Sales
   - Market access
   - Sales channels
   - Marketing

5. Management
   - Functional/technical knowledge
   - Business know how
   - Industry experience
   - Entrepreneural experience

6. Three year planning
   - Investment planning
   - Personnel planning
   - Profitability planning
   - Cash flow planning
   - Risk analysis

7. Capital demand
   - Financing gap
   - Payback strategy
   - Securities

Technische Hochschule Rosenheim

Criteria 2: Personality of the founders

- Personal background
- Entrepreneurial mindset
- Social competence
- Motivation
- Willingness to take risks

Between the lines

Criteria 3: Overall

- Financing volume in relation to personality of founders
- Revenue- and profitability expectation after 3 years
- Scaling options
- Market development expectation
- Cross-Selling opportunities
- Leverage effect of founder?

One of the most difficult assumptions in a business plan is a realistic estimation of the achievable sales volume. It depends on many factors with many uncertainties.

At the same time, the sales volume is the central pillar of the business plan!

Did the founder study the market?

	2022	2023	2024	2025	2026	2027
Total market volume in units	481.786	546.607	611.429	676.250	741.071	805.893
Growth p.a. in %		13%	12%	11%	10%	9%
Share of target market segment	**4%**	**4%**	**4%**	**4%**	**4%**	**4%**
Market volume in segment	19.271	21.864	24.457	27.050	29.643	32.236
Own market share	0%	2%	3,0%	5,0%	10,0%	15,0%
Sales volume	**0**	**437**	**734**	**1.353**	**2.964**	**4.835**
Aktive Monate		10	12	12	12	12
Absatz pro Monat		44	61	113	247	403

Is the own competitive position realistic and does it fit to the strategy?

Personnel plan / HR plan

The number of required employees will determine the cash requirements for salary payments. These costs need to show up in the **cash flow planning!**
The costs planned here need to include side expenses like social security, healthcare, headhunters ….

Function	Name	Details / Qualification	Contract Type	Start of employment	Fixed Salary Year 1	Variable Salary Year 1	Total Year 1	Fixed Salary Year 2	Variable Salary Year 2	Total Year 2	Fixed Salary Year 3	Variable Salary Year 3	Total Year 3
Manager				Jan 22	70.000 €	- €	**70.000 €**	70.000 €	50.000 €	**120.000 €**	100.000 €	80.000 €	**180.000 €**
Sales 1	**na**			July 22	60.000 €	20.000 €	**80.000 €**	60.000 €	40.000 €	**100.000 €**	70.000 €	50.000 €	**120.000 €**
Sales 2	**na**			Jan 23			**- €**	60.000 €	40.000 €	**100.000 €**	70.000 €	50.000 €	**120.000 €**
Admin 1	**na**			July 22	45.000 €		**45.000 €**	45.000 €		**45.000 €**	45.000 €		**45.000 €**
Admin 2	**na**			Jan 23			**- €**	45.000 €		**45.000 €**	45.000 €		**45.000 €**
Production 1	**na**			Jan 22	35.000 €		**35.000 €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Production 2	**na**			Jan 22	35.000 €		**35.000 €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Production 3	**na**			Jan 22	35.000 €		**35.000 €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Service 1	**na**			Jan 23			**- €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Team Lead 1	**na**			Jan 23			**- €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
R&D 1	**na**			Jan 23			**- €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Purchasing	**na**			Jan 23			**- €**	35.000 €		**35.000 €**	35.000 €		**35.000 €**
Summe							**300.000 €**			**655.000 €**			**755.000 €**

Does the founder have a realistic view on the number of staff needed for the business to work?

Which fixed costs will arise? Risks?

Salary expenses are some of the most important fixed costs of a startup. They influence the expected profit. Make sure to reflect them correctly in **P&L planning.**

Technische Hochschule Rosenheim

If assets are purchased (= not financed) the total acquisition costs need to be paid immediately. This needs to be reflected in Cash Flow planning.

Type	Investment Object	Reason / Description	Month of purchase	Total acquisition cost	Useful life	Depreciation p.a.
Tangible	**Equipment**	Production machine	Jan 22	**150.000 €**	10	15.000 €
	Company Car	Car used by sales rep	Mar 22	**60.000 €**	5	12.000 €
						- €
						- €
						- €
						- €
Intangible						- €
						- €
						- €
						- €

Did the founder consider all that is required? Is the overall asset portfolio efficient? Does the founder burn too much money / employ to much capital?

Assets can be securities for debt capital / bank credits.

Depreciation flows into P&L Planning. Make sure to synchronize this accordingly.

Profitability plan – Profit/Loss-Planning

First year monthly | Two following years quarterly

P&L	Jan	Fel		Dez	Total Y1	Q1 Y2	Q2 Y2	Q3 Y2	Q4 Y2	Total Y2	Q1		Total Y3
Sales Revenues	233		6	363.946	1.192.385	2.036.327	2.036.327	2.036.327	2.036.327	8.145.308		.931	18.059.724
… Product X	233		6	363.946	1.192.385	2.036.327	2.036.327	2.036.327	2.036.327	8.145.308		.931	18.059.724
					0					0			0
Cost of Good Sold (COGS)	0		1	163.251	326.503	610.898	610.898	610.898	610.898	2.443.592		.479	5.417.917
… Product X			1	163.251	326.503	488.718	488.718	488.718	488.718	1.954.874		.583	4.334.334
…					0					0			0
					0					0			0
Selling & General & Admin expenses	12.325		5	12.325	147.900	407.265	407.265	407.265	407.265	1.629.062		.986	3.611.945
Research & Development expenses	5.363		3	5.363	64.356	101.816	101.816	101.816	101.816	407.265		.747	902.986
Other operating expenses	11.500		0	27.000	163.500	43.000	42.500	42.500	63.500	191.500		.500	191.500
… Lease expenses	9.000		0	9.000	108.000	27.000	27.000	27.000	27.000	108.000		.000	108.000
… Energy	1.500		0	1.500	18.000	4.500	4.500	4.500	4.500	18.000		.500	18.000
… Insurance	1.000		0	7.000	18.000	3.000	3.000	3.000	9.000	18.000		.000	18.000
… Communication				7.500	7.500				15.000	15.000		.000	15.000
… Fees					0	500				500			500
…			0	2.000	12.000	8.000	8.000	8.000	8.000	32.000		.000	32.000
Operating Profit	-28.955	-	6	156.006	490.126	873.347	873.847	873.847	852.847	3.473.889		.219	7.935.376
Interest expense					0					0			0
Other income / expense					0					0			0
Profit before taxes	-28.955	-	6	156.006	490.126	873.347	873.847	873.847	852.847	3.473.889		.219	7.935.376
Taxes			7	39.002	122.532	218.337	218.462	218.462	213.212	868.472		.055	1.983.844
Profit after taxes	-28.955	-	0	117.005	372.954	655.010	655.385	655.385	639.635	2.605.416		.164	5.951.532

The Profit & Loss Statement shows the aggregated financial results that are planned for the first years of the company. It delivers the basis for profitability analyses.

Technische Hochschule Rosenheim

P&L	Jan	Fe
Sales Revenues	233	
… Product X	233	
Cost of Good Sold (COGS)	0	
… Product X		
…		
Selling & General & Admin expenses	12.325	
Research & Development expenses	5.363	
Other operating expenses	11.500	
… Lease expenses	9.000	
… Energy	1.500	
… Insurance	1.000	
… Communication		
… Fees		
…		
Operating Profit	-28.955	-
Interest expense		
Other income / expense		
Profit before taxes	-28.955	-
Taxes		
Profit after taxes	-28.955	-

It is crucial to explain planned revenues by sales volumes and price expectations.

Product costing must be provided. Are the prices for raw materials, production expenses etc. known and realistic?

Important cross-check: What „margin" is expected?
(Sales – COGS) in % of Sales
Is this plausible / comparable within the industry?

Complete? Personnel expenses included?

Are the relations plausible? Expenses for insurance, tax advisor etc. …

Passt dies mit Finanzierungsplan zusammen?

When does the company break even?

Technische Hochschule Rosenheim

P&L	Jan	Fe
Sales Revenues	233	
… Product X	233	
Cost of Good Sold (COGS)	0	
… Product X		
…		
Selling & General & Admin expenses	12.325	
Research & Development expenses	5.363	
Other operating expenses	11.500	
… Lease expenses	9.000	
… Energy	1.500	
… Insurance	1.000	
… Communication		
… Fees		
…		
Operating Profit	-28.955	
Interest expense		
Other income / expense		
Profit before taxes	-28.955	-
Taxes		
Profit after taxes	-28.955	-

$$\text{Return on Sales} = \frac{Profit\ After\ Taxes}{Sales} \times 100\ \%$$

$$\text{Return on Equity} = \frac{Profit\ After\ Taxes}{Shareholders'\ Equit} \times 100\ \%$$

$$\text{Return on Assets} = \frac{Profit\ After\ Taxes + Interest\ Expenses}{Assets} \times 100\ \%$$

Cash Flow Planning

The P&L calculates the profits as a basis for tax payments. It is based on expenses and income, and NOT (!) on cash flow. To avoid insolvency, it is crucial to plan the cash inflows and outflows in order to guarantee that the company can pay its liabilities at any point of time!

Cash Flow Planning	Total	Jan	Feb	Mrz	Apr	Mai	Jun
Cash Inflows	**27.397.417 €**	**233 €**	**442 €**	**1.422 €**	**4.456 €**	**6.788 €**	**12.999 €**
… from customer sales	27.397.417 €	233 €	442 €	1.422 €	4.456 €	6.788 €	12.999 €
	0 €						
	0 €						
Other inflows	0 €						
Cash Outflows	**-687.104 €**	**-2.222 €**	**-2.222 €**	**-2.222 €**	**-2.222 €**	**-2.222 €**	**-2.222 €**
… employees	54.107.730 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €
… suppliers	-229.332 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €	-1.111 €
	0 €						
Other outflows	0 €						
Cash Flow from Operating Activities	**28.084.521 €**	**-1.989 €**	**-1.780 €**	**-800 €**	**2.234 €**	**4.566 €**	**10.777 €**
Cash Flow from Investing Activities	**-470.000 €**	**0 €**	**0 €**	**0 €**	**-150.000 €**	**-320.000 €**	**0 €**
… into fixed assets	470.000 €				150.000 €	320.000 €	
Cash Flow from Financing Activities	**241.950 €**	**250.000 €**	**0 €**	**0 €**	**0 €**	**230.000 €**	**-1.150 €**
Interest	-8.050 €						-1.150 €
Principal (liability reducing)	-230.000 €						
Equity Increase	250.000 €	250.000 €					
Debt capital increase	230.000 €	0 €	0 €	0 €	0 €	230.000 €	0 €
Free Cash Flow	**82.446.820 €**	**248.011 €**	**-1.780 €**	**-800 €**	**-147.766 €**	**-85.434 €**	**9.627 €**
Cash Flow cumulated	26.482.263 €	248.011 €	246.231 €	245.431 €	97.665 €	12.231 €	21.858 €

Technische Hochschule Rosenheim

If a financing gap is identified (= cumulated cash flow turns negative), this gap needs to be closed!

Activities							
… into fixed assets	470.000 €				150.000 €	320.000 €	
Cash Flow from Financing Activities	**241.950 €**	**250.000 €**	**0 €**	**0 €**	**0 €**	**230.000 €**	**-1.150 €**
Interest	-8.050 €						-1.150 €
Principal (liability reducing)	-230.000 €						
Equity Increase	250.000 €	250.000 €					
Debt capital increase	230.000 €	0 €	0 €	0 €	0 €	230.000 €	0 €
Free Cash Flow	**82.446.820 €**	**248.011 €**	**-1.780 €**	**-800 €**	**-147.766 €**	**-85.434 €**	**9.627 €**
Cash Flow cumulated	26.482.263 €	248.011 €	246.231 €	245.431 €	97.665 €	12.231 €	21.858 €

This can be done in various ways:

- Organize additional equity capital (= long term and difficult)
- Organize additional debt capital (= bank credits)
- Delay payment of suppliers
- Try to receive earlier payments by customers to reduce the open receivables