

BUSINESS PLAN

ELABORATION GUIDELINES



INDU Innovation Network Development Unit

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GENERAL CONSIDERATIONS

Document format

Entrepreneurial team can decide to carry out the elaboration of the documentation, either in Word document or in Powerpoint format. However, bear in mind that if eventually presentation format is chosen, this document is not a supporting document in a presentation, therefore schematic points when including the information must be eluded. Since the committee evaluates the case with just only the documentation given, no points subject to interpretation shall be written down, because they will open more questions rather than clarifying.

Language

All the documentation must be written and delivered in English, including tables and illustrations. You are addressing an international committee, so make sure all the information is included in English. Otherwise the committee will not understand these parts written in another language and consequently they will not be able to assess the case.

Sources of information

Include sources of information for extracted data, illustrations or figures. It is not just professionalism but giving credibility to the document and the work carried out.

References

Include the references (Name, author, URL, ..) to all these articles you mention in the text and link them to easily identify which mention refers to what point in the bibliography.

Include text references below each table or illustration in the form "*Table 1. Competitors benchmark...*", so the committee can easily address them in their discussions (or you can easily mention them in the text)

Page numbers

Include page/slide numbers. This will facilitate referring to specific sites in the document when comments are provided.

Coherency

Document coherency and consistency of the numbers, figures and text is a very critical issue. Make sure all the numbers presented make sense with what it is said in the text or illustrations and vice versa.

Ex 1: if you are planning to increase your marketing team in a given year, marketing expenses must increase accordingly.

Ex 2: if you defined your Total Addressable Market with X EUR, make sure your sales are below X.

Work ahead

If you still don't have some accurate numbers to present in a given section, just present the big numbers/data, but clarifying that the work will be carried out as part of future work. Anyhow don't abuse from this extraordinary resource, because it might make your business and team fall into disrepute.

Chapter 10 - Further development must reflect the suggested recommendations in the Opportunity assessment report and the Opportunity Assessment Committee Report (these documents will be distributed if assigned).

Annexes

Feel free to use annexes to complete the information, but be reasonable in the length of the annexes provided.

BUSINESS PLAN STRUCTURE

1. INTRODUCTION/CONTEXT (OPTIONAL)

This section is optional to include in the documentation. It should gather all the important points needed to quickly overview the entire case and position the reader in the appropriate context before starting the reading of the case.

2. PROBLEM ADDRESSED/CUSTOMER NEED

This section shall describe the problem or customer need the company is addressing. The best approach to describe the problem section is to use a **market pull** perspective instead of technology push perspective:

- Technology push: A technology push implies that a new invention is pushed through R&D, production and sales functions onto the market without proper consideration of whether or not it satisfies a user need.
- Market pull: Market pull is developed by the R&D function in response to an identified market need.

Try to quantify if possible the customer pains, it can help both the reader and the venture to easily visualize the magnitude of the problem and consequently place the business in the correct context. In fact, the problem could easily show the opportunity behind together with the potential market.

3. SOLUTION

This section shall include all the information related to the way the venture solves the customer pain you addressed before. It shall include three sections: description (including technical details), unique selling proposition and IP strategy

a. DESCRIPTION

This subsection shall include the description of the solution, including technical features and details on how the technology works. It is recommended to include some references to the Technical Assessment document in order to provide more details about the technical description.

The description shall contain the product portfolio of the venture and the results of any type of pilot test carried out. It is recommended the use of diagrams to have an overview and to better give an idea on how the solution works in their application fields.

One special question the committee regularly asks is the Levelised Cost of Energy (LCOE), if applicable to the case. This number expresses the total discounted cost of the energy farm

(installation, O&M, amortization, subsidies, ...) throughout the lifetime (average 20 years) divided by the total energy output generated throughout the considered lifetime. Anyhow, this calculation may imply thorough financial modelling the majority of the ventures shouldn't even consider at this early stage. Therefore, there exist approximation formulas¹ and calculators² to get this LCOE value.

b. UNIQUE SELLING PROPOSITION

This subsection describes the benefits the customers will get from the solution. Another way to express the meaning of the Unique Selling Proposition (USP) is to describe the reasons why a customer should buy our proposal.

In this subsection try to be as clear and direct as possible.

Quantify the USP, if possible. Quantification is extremely important to strengthen our message.

Ex 1. USP without quantification: Cost savings (readers don't know how much money they can save; it can be 1 EUR or millions of EUR. Therefore as the committee is skeptical by definition, worst case will be considered)

Ex 2. USP with quantification: Up to 50% of cost savings (this is the clearer approach, since readers and customers can easily figure out their savings according to their actual numbers)

Some cases will find that quantification of the value proposition is complicated to carry out, because results may vary from case to another. Therefore, it is always recommended to quantify it using your best case scenario and clarifying that it is the maximum output you expect to have. Another way to do it is to include ranges of expected benefits.

c. IP STRATEGY

Technology protection strategy (IP) and freedom to operate (FTO) assessment are two very important subsections the committee regularly asks about. Therefore, all EAS documentation shall include the IP Strategy the company is going to follow, the patents they already have filed, the patents they plan to file or the already holding patents. Additionally the FTO must be checked in order to guarantee we are not infringing any other company's patent.

One special case is the protection of software, which can't be generally protected by patents, or it results almost useless to do it. Therefore this section must express the way the venture plans to prevent others from copying (copyright strategy, trade secret ...)

Technology Assessment document might be a good source of information to either extract or refer in the documentation because it usually contains concerns regarding Intellectual Property.

¹

http://csep.efchina.org/report/20112844913435.70772110666485.pdf/Levelized%20Cost%20of%20Energy%20Calculation_BV_EN.pdf

² http://www.nrel.gov/analysis/tech_lcoe.html

4. MARKET

Basic market description is expected to see in the EAS documentation. It shall include three important subsections to easily identify the market: market segmentation and target of primary market, market potential and expected market growth.

There is an optional section to be included, depending on the maturity of the company within the KIC InnoEnergy Highway®. This section belongs to the customer discovery phase, if the company has already undertaken this analysis, conclusions shall be included in the market section.

a. MARKET SEGMENTATION

Market segmentation defines customer groups depending on some common characteristics we define. This will help us to identify ideal or less ideal customers we can sell our product to. Ideal groups or customers are defined as primary targets and these groups of customers will be our priority when focusing our sales efforts. The rest of groups (secondary and tertiary targets) are not excluded, for sure, from our sales actions; however they are not as important as primary target markets, and therefore moderate resources shall be allocated for them. EAS_IN_Doc1 shall provide at least the definition of the segmentation and the selection of our primary target.

If available, market segmentation per type of product should be included in the documentation.

Some ventures do the segmentation based on the industry. However, bear in mind, that a certain industry comprises a lot of different companies within its value chain, so doing the segmentation based only in the industry and not mentioning the position of the target in the respective value chain, may provide very poor information. Concretion is requested to easily identify the target customer.

Ex 1. Energy value chain: Sourcing, Generation, Transmission, Distribution, ESCOs ...

Ex 2. Steel value chain: Sourcing, manufacturing, logistics, installation ...

b. MARKET POTENTIAL

Market potential shall be evaluated in the form of total addressable market (TAM). The TAM is an estimate of how much a company would make in sales if there were no other competitors. It can be calculated like:

$$\text{TAM} = \text{Market size in units} * \text{price of your product.}$$



Figure 1. TAM, SAM and Target Market

Therefore some rough numbers and assumption should be considered in order to estimate the TAM. Generally the easiest way to reach to a TAM figure is to calculate the total number of units we can sell in the market times average price of the unit.

Ex 1. Considering:

- We normally install 5 of our products per solar panel
- There are 1,000 solar panels installed in the market we are addressing
- Each product's average price is 100 EUR

TAM:

- $TAM = (5 \text{ product/solar panel}) \times (100 \text{ EUR/product}) \times (1,000 \text{ solar panel}) = 500,000 \text{ EUR}$

There are two important points to consider when calculating the TAM:

- TAM must be always given in EUR (or any other currency)
- Since TAM is a non-realistic overestimation (calculated without competition or any other market constrain) it can never be lower than the Revenue figures.

Consider estimating a TAM per each of the product/service within venture's portfolio.

c. MARKET GROWTH

This section shall include the evolution of the market throughout the forthcoming years. In some cases this information can be merged with the one presented in the Market Potential section.

Our market can vary not only due to organic growth, also because of our actions: geographical expansion, increase of our product portfolio, increase of addressed segments ... In these cases, it would be nice to have some brief explanation on company's market penetration strategy and what the new targets will be.

When addressing different markets from different countries (e.g. for geographical expansion) a prioritization, and explanation on why those countries are selected and how they will be addressed, should be included.

It is interesting to remark that whenever market data presented is very outdated, some justification shall be given to proof that the market we are addressing is indeed steady and no variations suffered along the time.

5. COMPETITION

a. COMPETITION ANALYSIS

Competition section shall cover the analysis and description of potential competitors and their solution in the market. There are two types of competitors to consider:

- Direct competitors: These are the companies with products/service in the market that perform the same function as ours.
- Indirect competitors: Also named as substitutive. These are the companies with product/service in the market that partially cover the customer need we are addressing.

Even if direct competitors are the most threatening ones for our business, indirect competitors shouldn't be underestimated. In fact, the majority of the competition usually comes from indirect sources, because no matter how innovative your solution can be, you are at least competing with how the things are doing currently.

b. COMPETITIVE ADVANTAGE

Competitive advantages are the differential factors of our company that enable to outperform our competitors.

Generally, competitive advantages are considered solely in the technological dimension. However, differential factors are usually found in the business model that can be stronger advantages than the technical ones: logistics (inventory management, distribution chain), partnerships (R&D partners, commercial partners), financial (pricing, investment accuracy, country subsidies, thorough expense controlling)...

Therefore it is recommended to go beyond the technical features and thoroughly analyze the entire company's assets.

6. BUSINESS MODEL (OPTIONAL)

Due to the fact that some ventures at this stage still don't have a clear business model defined, the business model section is an optional field to fill, depending on the maturity of the company.

Said so, a Business Model Canvas is recommended to be used in this section, if applicable.

7. FINANCIALS

Financial section must be completed with assumptions and profit and loss statement. Additionally, two other statements, balance sheet and cash flow are optional to include. Anyhow, even if for the Executive Summary, cash, asset and liabilities management are not needed to include, they can be added to the document since they are really valuable sources of information to correctly assess and evaluate the venture.

a. ASSUMPTIONS

The entire hypothesis considered to build the profit and loss account (and other statements if applicable) must be considered under this section. At this early stage, without historic data of the company, the only way to build a profit and loss account for future years is to base our numbers in assumptions. Consequently, the more solid assumptions we launch, the more coherent will be our numbers. A profit and loss account without proper assumptions can result in an incomprehensible group of numbers.

b. PROFIT AND LOSS

Profit and loss statement, besides being a statement to show our financial performance, it is a statement used to check the coherency of the overall strategy. Therefore, all the planning must be reflected in the P&L numbers.

Ex 1: If you are planning to carry out a geographical expansion you will need to allocate more resources in Marketing and Sales, for instance, to support this growth. Accomplishing a geographical expansion without investing in resources generally is not feasible.

It is recommended to use the standard layout for a P&L account, so the readers can easily identify the items and they are not getting lost in the numbers. Five years is the standard analysis period to consider, starting from current year. If the company has some historic financial performance it can be included as an annex to the documentation.

Make sure all the additions and subtractions in your calculations are correct.

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Detail... (e.g. per product, country)					
Cost of goods sold (COGS)					
Detail...					
Gross Margin					
Fixed Costs					
Detail ... (e.g. G&A, Marketing, ...)					
EBITDA					
Depreciation					
EBIT					
Financial Interests					
EBT					
Corporate Taxes					
Net Profit/Loss					

Table 1. Profit and loss model

c. BALANCE SHEET (OPTIONAL)

This information is optional to include in the EAS documentation, since it requires of even more hypothesis to build it than the P&L. Therefore, as a result of this the Balance Sheet might contain very fragile information that is far from the reality. Even though building a Balance Sheet is a sign of maturity (and a must for an actual company management) and it is recommended to work on that.

There are two options to include the balance sheet information: projections throughout the analysis period (preferred) and last consolidated balance sheet.

It shall at least contain the most relevant items under Asset and Liabilities:

TOTAL ASSETS	TOTAL LIABILITIES
Current Assets	Current Liabilities
Cash	Account payables
Inventory	Short term debts
Account receivables	Equity
Fixed Assets	Common stock
Machinery	Retained earnings
Accumulated Depreciation	Long term liabilities
	Long term debts

Table 2. Most relevant items of the Balance Sheet Statement

Make sure your Total Asset and Total Liabilities figures match.

d. CASH FLOW (OPTIONAL)

Even if cash flow is one of the most relevant items to consider when looking at the profitability of a company, this section will remain as optional because its elaboration is highly dependent on a proper balance sheet elaboration. Anyhow, as stated above, it is highly recommended to start elaborating the cash flow statement.

Cash flow measures the cash management ability of a company. There are different approaches to consider when elaborating the cash flow (cash position, free cash flow analysis ...), however the one shown in Table 3 summarizes the most relevant items and it is recommended as it is clearer due to its more structured format (anyhow the cash flow methodology used is under the criteria of the entrepreneur and all formats are more than welcome):

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flow from operations					
EBIT					
Depreciation (+)					
Taxes (-)					
Δ Working Capital (+/-) <i>(WC=Current assets- Current liabilities)</i>					
Cash flow from financing					
Debt return (-)					
Debt increment (+)					
Capital increase (+)					
Dividends (-)					
Cash flow from Investments					
Investment costs (-)					
Sold assets (+)					
CASH FLOW					

Table 3. Cash flow structure with most relevant items

8. THE TEAM

The team section shall be completed with the short resumes, competencies, experience and background of the entrepreneurial team as well as their role within the venture. Optional members to be included in this section are the rest of the team members that comprise the whole team and the advisory board (if any).

9. ACHIEVEMENTS

Description of the most important milestones achieved up to date. Breakdown by the four dimensions KIC InnoEnergy considers in the roadmap elaboration:

a. FINANCE

Main milestones achieved in the financial section (sales accomplished [gross numbers or percentage of sales out of the year's objectives], fund raising, access to grants ...)

b. TEAM

Main milestones achieved in the team section (new member incorporation, trainings ...)

c. MARKET/COMMERCIALIZATION

Main milestones achieved in the market section (market analysis, partnerships, distribution network establishment, customer discovery...)

d. TECHNOLOGY

Main milestones achieved in the technology section (proof of concept finished, tests completed, certifications obtained, improvements finished ...)

10. FURTHER DEVELOPMENT

Description of the most important milestones planned in the near future (from 6 months to 1 year). Breakdown by the four dimensions KIC InnoEnergy considers in the roadmap elaboration:

a. FINANCE

Main milestones ahead in the financial section (capital needs [how they plan to get them and the type of private capital they are targeting], access to grants ...)

b. TEAM

Main milestones ahead in the team section (new members incorporation, trainings ...)

c. MARKET/COMMERCIALIZATION

Main milestones ahead in the market section (market analysis, partnerships, distribution network establishment, sales accomplished ...)

d. TECHNOLOGY

Main milestones achieved in the technology section (new developments, tests to be completed, certifications to obtain, enhancements ...)