HANDBOOK - BUSINESS PLAN

Practice-oriented guidance of the

venture *forum* neckar

venture *forum* neckar e. V.
Bildungscampus 3
74076 Heilbronn

Phone: +49 (0)7131 - 7669 – 112
Fax: +49 (0)7131 - 7669 – 999
Web: www:vf-n.de
E-Mail: info@vf-n.de

I. The business plan - the first step to success

1.1 Importance of the business plan

The successful establishment of a technology company requires a solid foundation. The company must be able to cope with the technical requirements of product development and the management requirements of marketing, financing and business development. To do so, it needs a competent management team, an excellent product idea with very good market opportunities, a broad capital base and a sustainable business concept.

A written business concept is called a business plan The business plan describes the company's goals, strategies, innovation, market, and tasks for all areas of the company. The focus is on qualitative statements on the development of the company, its potential and also its risks. The planning horizon should extend from three to five years.

The business plan plays a central role in the development of young technology companies. It sets the decisive course for future success. The thorough preparation and regular updating of this document should, therefore, be a top priority.

How do investment companies evaluate the business plan?

When drawing up the business plan, it is important to know how investment companies work and what they pay attention to. At first sight, an equity investor behaves in a rather strange way: he gives capital but does not set interest rates or repayment of principal and does not require collateral.

On closer inspection, however, this behaviour can be better understood. An investment company only invests in companies where a high increase in value can be expected. The expected increase in value of the invested capital is between 15 and 25 percent per year. After about five to ten years, investment companies sell their shares; e.g. to the other shareholders of the company, to other companies, or the company is floated on the stock exchange. From this sale, equity investors hope to achieve the high return they were aiming for. From these considerations it is clear what private equity companies are looking for in a business plan:

- The business idea must have a clear customer benefit.
- In the medium term, the company must supply a large and growing market and have an international orientation.
- The product should be innovative and have unique selling points that clearly set it apart from the competition.

- The business concept for opening up the market must be coherent and convincing. The plan should be based on comprehensible assumptions and facts.
- Investment companies pay particular attention to management. After all, the success of a young technology company depends largely on the ability of the management to implement the business concept.

Investment companies receive several hundred enquiries from companies seeking capital every year. These are subjected to a detailed examination, the so-called investment review, in which the submitted business plan plays a decisive role. Ultimately, investment companies only finance about 10 percent of companies seeking capital. However, do not let this discourage you. If you have a realistic business concept with good prospects and present it in an advantageous light, your chances of obtaining financing are very good.

1.2 Tasks of the business plan

The business plan is, therefore, by no means just "paperwork" to complete the investors' files. Rather, it fulfils important internal and external tasks.

Within the company it is a central management instrument. It serves

- to structure and present your own thoughts and concepts,
- the binding definition of objectives, strategies and measures,
- as a guideline for the daily work of management and employees,
- as an instrument for the target-performance, comparison and, thus, the early recognition of bottlenecks (e.g. personnel, capital, time).

So use the preparation of the business plan as an opportunity to think through your own business concept in detail and to question it critically. In the instructions, you will find many important aspects that you may not have considered yet.

Externally, the business plan is an indispensable prerequisite for

- Debt capital with banks,
- Equity capital from investment companies, private and industrial investors,
- Funding from various Federal Government, Regional and EU sources.

Without a meaningful business plan, successful negotiations with investors are not possible. The higher the economic and technical risk of the innovation and the higher the capital requirement, the more important a conclusive overall concept is, along with proof of real opportunities on the market.

The business plan gives the external negotiating partner the first, important impression of your company. It is the business card of the company and is intended to convince potential investors, therefore, special attention should be paid to the external form, especially to a clear structure and comprehensible presentation.

The following explanations should help you to draw up your business plan. To illustrate this, we have formulated a number of central questions which should serve as food for thought. Please try to take the answers to these questions into account in your comments, even though it may not be possible for all questions. The practitioner tips should help you to avoid typical mistakes in the presentation and implementation of your business idea.

Tips

- The business plan is usually aimed at decision-makers with a background in business administration. It must be easy to understand for people who are not technical experts.
- Avoid too many technical details in favour of a clear presentation of the competitive advantages, economic opportunities, market situation and future corporate tasks.
- Present the important tasks, opportunities and risks completely yet concisely. If possible, do not exceed 30 pages (without attachments). Concentrate on the essentials.
- The business plan must be convincing - in terms of its content and preparation.
- However, remain objective and realistic, an exaggerated presentation looks like an advertising text and is too implausible. Also point out weaknesses and risks.
- Use the business plan as an internal management tool.
- Develop your business plan over time, i.e. refine and update it continuously.
- Present your business plan professionally in meetings with investors (e.g. slides with the most important statements).
- The business plan should appear as one cohesive document. If several people are involved in its preparation, one person should lead the final editing, adjusting the format and presentation of individual parts.
- Test your business plan; present it to friends or experts and discuss your concept with them.

II. The structure of the business plan

The business plan should consist of seven key sections and should include an appendix. This structure is formed by the information required by investors.

Section 1: Summary

Section 2: Corporate purpose and legal relationships

Section 3: Management and personnel

Section 4: Business model and innovation

Section 5: Market and competitive situation

Section 6: Planning

Section 7: Opportunities and risks

Appendix

In these sections, investors expect information on the company's history, business objectives, legal situation, management, innovative product, market and competitive situation, planning, capital requirements, possible return on investment, opportunities and risks.

1. Section 1: Summary

The summary should contain a concise outline of the main points of the business plan formulated not as an introduction, but as a condensed presentation of the following sections. Investors always look at the summary first. It should be read and understood in five to ten minutes. Therefore, be particularly careful with the it, express yourself succintly and precisely. Bear in mind that the reader's interest must be piqued at this point.

The summary should include the following points:

Business purpose / business idea: Briefly describe the purpose of your company, your range of services or your innovation project as well as the relevant markets.

Success factors: Describe what is special about your business idea and where the main competitive advantages lie. Also elaborate on the customer benefits and the personal competences of the management team.

Corporate goals: Clarify the background, the goals and the expansion possibilities of your company. Describe your "corporate vision" optimistically and realistically.

Economic targets and capital requirements: Specify with key figures/benchmark figures which sales and profit targets you are aiming for and how much capital is required to implement your ideas.

Questions on the summary

- What is the objective of your business?
- What services do you wish to provide to which markets?
- How is market access to be achieved?
- How big is the market potential now and in the future?
- What important milestones in the company's development have you reached so far?
- What makes you successful? What are your competitive advantages and where is the customer benefit?
- What goals have you set yourself?
- How do you intend to achieve these goals (concrete steps)?
- What turnover and profit are you planning for the next five years?
- What is your capital requirement?

Tips

- The summary is a separate section; do not confuse it with an introduction or the brief description of your business idea on the cover page.
- Write the summary last; only when all the other building blocks have been completed can you formulate your ideas and goals briefly and accurately.

2. Section 2: Corporate purpose and legal relationships

This section describes the past development and current situation of your company. It forms the basis for the following sections and is intended to provide the investor with sufficient background information to assess the initial situation.

Name, address, date of foundation

Business purpose, company development: Describe the purpose of your business and give a brief outline of its historical development.

Legal form, ownership: Describe whether you are or want to be the sole owner of your company or whether you want to realise your idea with partners. If the latter is the case, describe the shareholder structure (capital contribution, liability, functions in the company) and the objectives of the individual shareholders. Indicate which legal form has been chosen for the company and why.

Questions about the object of the company

- When and by whom was your company founded?
- What considerations led to the foundation?
- What legal form does your company have?
- Why was this legal form chosen?

Questions on the legal situation

- How much is the equity capital?
- How are the shares distributed among the shareholders, what is the ownership structure?
- Are there any stakes/financial interests in other companies?
- What are the medium and long-term goals of the shareholders?
- Which important contracts exist and with whom?

3. Section 3: Management and personnel

Equity investors believe that their investment is above all an investment in the people involved. While products, technologies or markets are also of great importance, ultimately, it is the entrepreneurial and technical competences of management that will be decisive for the successful implementation of innovation. Arthur Rock, the legendary financier of start-ups such as Apple, Intel and Teledyne, says: ***"I invest in people, not ideas.***

This means that only a company with a complete and qualified management team has a good chance of success. Capability and know-how must be present at senior management level across all areas of business management, marketing, sales, production, development, financing etc. If you are not yet able to cover certain departments, investors expect your explicit willingness to recruit appropriate experts into the management team.

3.1 Management Board

Indicate who is in charge of management and what professional and entrepreneurial know-how they possess. Highlight those aspects that are important for the implementation of your project. Professional experience, knowledge of the industry, previous successes and social skills count for more than just an academic degree. Also point out gaps in experience and show ways in which the management team should/could be completed. Investment companies will be happy to assist you in selecting suitable experts.

3.2 Other employees and consultants

Organisational structure: Describe the organisational structure of your company. Describe how many employees you employ, their qualifications and the age profile/structure of your company. Particularly important in this context are the managers and key personnel. Give a reason if you fill important positions with inexperienced employees.

Consultants: Also name your most important consultants. The inclusion of e.g. tax consultants, management consultants or advertising agencies will not be evaluated negatively, but is a proof of your professionalism.

Questions about organisation and management

- What does the organisational structure of your company look like?
- How many people do you employ in total?
- Who are the key people, what functions do they perform, what are their qualifications and professional backgrounds?
- What previous professional successes and qualifications can you demonstrate?
- What experience do you have that is directly relevant to your business idea?
- What is your personal motivation?
- What are the gaps in the management team?
- Where are the weak points in your current organisational structure?
- What important positions still need to be filled in the future?
- Are you ready to bring some more top-class people into your company?
- To what extent are you dependent on key employees?
- Are these replaceable?
- How are the key personnel paid (e.g. royalties/profit shares, bonuses)?

- Are there contracts with external consultants?
- Is there an advisory board or supervisory board? If so, what is its composition?

Tips

- Do not underestimate the importance of the right composition of the management team. If you lack experience in important areas, you should strengthen your management team.
- Young and small companies often have problems in recruiting experienced and qualified managers. Think about creating incentives, e.g. by involving key people in the company.

4. Section 4: Business model and innovation

This section serves to present your range of services and your business model. If your company was founded in connection with the innovation to be financed and if you do not offer any other products, please skip the following section.

Describe the profile of your business venture here. This business model illustrates what is sold to whom, how market access will be created and how a strong competitive position will be achieved. In this context, show what your particular strengths and advantages over your competitors are. Also address your business/company principles and long-term business objectives.

The business model also includes the value chain of your company, starting with procurement, development, production/manufacutring and sales. The upstream and downstream stages of the value chain are included (procurement and distribution partners). Your investors are primarily interested in the central value-adding activities and processes on which you should focus in your presentation.

Questions about your business model

- What is the "mission" of your company, what are your long-term goals?
- What kind of leadership (quality, cost or technology) do you strive for?
- Which services do you want to sell to whom?
- How will market access be achieved?
- What are the key value-adding activities of your business?
- How important are your innovation, other products and services in the value chain?
- What are the critical success factors?
- How is your competition policy defined?
- What are the particular strengths and weaknesses of your company compared to its competitors?

Tips

When describing your business model, try to show how your company works as a whole. Address your innovation, the market, the competitive situation, marketing strategy etc. only as far as necessary. You should go into more detail in the following sections.

4.1 The products

Describe your existing range of products and services. Address the following points: **importance of the individual products** for your company (e.g. share of turnover, contribution margin, qualitative significance).

Essential technical features, whereby you should really be brief and avoid "technical jargon".

Service and maintenance offer

Customer benefits/competitive advantages: Show why your customers buy from you and what benefits they get from your services. If there are comparable products and services of competitors on the market, justify convincingly what additional benefits the customer has. Evaluate your range of services from the customers' point of view.

Substitution competition: Include alternative technologies or other types of competing products that solve or could solve the same customer problems in the future.

Life cycle phase of your products, i.e. how long they have been on the market and when they will be replaced by successor products.

Property rights situation, i.e. existing patents or property rights.

4.2 Innovation

If the equity capital to be raised is intended to finance the development and market launch of an innovation, the following aspects should be considered:

Main technical features (see section Business Model)

Customer benefits, competitive advantages, substitutional competition: (see section on business model) Innovations only have good chances on the market if customer benefits and competitive advantages are particularly pronounced. Investors generally expect clear unique selling points here that distinguish them from competing offers. Many technology-oriented company founders believe that their innovation is unrivalled. They are often mistaken. There may not be competing products with the same technological basis or operating principle, but there are usually competing offers that solve the same customer problems in a different way.

Development of the product idea: Describe here how your product idea came about, where the inspiration came from.

The status of the development work: Explain how far the development work has progressed. Typical stages of development are: Idea or concept for an innovation, functional model, prototype, market-ready product, product that meets the requirements for series production. Describe your approach to development and explain the milestones achieved so far. Try to estimate precisely what effort is still required to bring the innovation to market maturity (necessary development steps, time required, capital requirements, milestone planning for further development).

The property rights situation (see section on business model)

Questions on the characteristics of innovation

- What are the main features of your main products or innovation?
- Are there alternative technologies or solution principles for your innovation?
- To what extent is your innovation a market novelty?
- What is the current state of the art in your field?

Questions on customer benefits and competitive advantages

- Which target customers are you addressing?
- What are the unique selling points of your innovation?
- What are the competitive advantages? (for a detailed competitive analysis, see the section on competition)
- What is the benefit of your offer from the customers' point of view?
- How did you incorporate customer requirements into product development?
- Do you need to improve your product or supplement it with services in order to achieve a clear customer benefit and clear competitive advantages?
- Which partnerships are necessary to fully realise the customer benefit?

Questions on the development status of innovation

- What stage of development is your innovation in?
- Have you already won pilot or reference customers?
- What steps and what effort are still needed to get the product ready for the market?
- When is the market launch planned?
- What problems could arise during market introduction (e.g. teething problems)?
- Which research and development cooperations have you entered into or are you planning?

Questions about the property right situation and legal situation

- What patents or industrial property rights do you own?
- If there are no intellectual property rights, why not?
- What other possibilities of technology protection exist?
- What patents or intellectual property rights are held by competitors?
- Which legal regulations, norms or industry standards must your products comply with?
- Do you need official approvals or permits?

Tips

- Do not be too hasty in assuming that your innovation is unrivalled. In many cases competitors solve the customer problem with another technology that competes with your innovation.
- For many innovations, quality deficiencies, start-up difficulties, etc. become apparent during market launch, which can put the company in great difficulty. Investors therefore critically examine the market maturity and demand proof.
- During the development work, it is essential that you orientate yourself to the customer's needs as well as the planned expenditure and time scheduled for the development. This is only possible if your innovation project is based on detailed project planning.

4.3 Further steps in company development / production set-up

Explain the next steps in company and product development and the requirements that must be met (financial, personnel, organisational, etc.) Discuss:

The planned production for your innovation, i.e. outline the planned production process and machine requirements. Also show which capacities or which capacity expansions are required for the targeted sales volume.

Successor products, expansion of your range of services: Here you should show when and which of your current products are to be replaced by successor products, what development work is necessary for this and what production facilities need to be set up. You should also set out which products and applications could, by way of example, be created in the future on the basis of the technology of your innovation (diversification possibilities, further development potential).

Milestone - Planning the further development of the company: Outline future steps for company development. Use milestones to illustrate how and when the production, structure, and range of serivces of the company should be developed or expanded.

Questions about manufacturing

- Why do you or do you not manufacture yourself?
- Which production process and which production equipment do you have or are planning?
- How advanced is your vertical integration?
- What is your production capacity?
- What quantities do you want to produce?
- How can you adapt your production capacity at short notice?

- What investments are required for the establishment of production or an expansion of capacity?
- What quality assurance measures do you envisage?

Questions on procurement and logistics

- Which raw materials or parts do you source from suppliers?
- What does your supplier structure look like?
- What kind of warehouse structure are you planning?

Questions on further development

- When will your existing products be replaced by successor products?
- Which variants or further developments are you planning?
- What other products or applications can be derived from your technological base?
- Do you meet the technological and personnel requirements for the development of further products?
- How can funding be secured?
- How many employees do you need and what qualifications should they have?

5. Module 5: Market and competitive situation

5.1 The market

Your company can only be successful if there is a receptive market for your products or your innovation. Investment companies primarily finance companies with high growth potential. As such, they usually require a larger growth market with corresponding sales prospects for the companies. You should therefore demonstrate the potential of your target market with reference to an analyses of the industry and market. Your comments should include information on market size, returns typical of the industry, barriers to market entry, competitors, suppliers, customers and distribution channels (see also the following sections).

Generally, reliable market figures will not yet have been published in the case of innovations and very young markets. You must, therefore, find other ways to describe your market. For this purpose it is usually unnecessary to have an often quite expensive market study prepared. If you "explore" the market yourself, you will not only save time, but you will also get to know your market segment better and can make important contacts.

The best way to do this is as follows:

- Put together a list of questions to be answered.
- List what information you need to answer these questions and where you can get the necessary data from (e.g. trade directories, bank sector reports, trade journals, associations, statistical offices, Chambers of Commerce, patent offices, databases, Internet, trade fairs, personal contacts, etc.).
- Prepare a questionnaire or checklist and have as many discussions as possible with (potential) customers, suppliers, experts, etc. Be creative and use all information possibilities.
- Don't just focus on numbers, but describe your target market, the industry and future development. Find out what influences the described development and what significance these factors have for your company.

Questions on market development

- How can your industry, the overall market and the market segment you are targeting be described and defined?
- Why are you targeting this particular market segment?
- What is the market volume, market potential, growth rates in the industry, the overall market and your target market?
- What trends are emerging in your industry, the overall market and your target market?
- What will determine market developments?
- What roles do innovation and technological progress play?
- At what stage of development are your market segments?
- How are your material costs developing, what are the prices that can be achieved on the market for finished products in your industry?
- What are the sources of your market information?
- On what assumptions are their estimates based?

Questions on market opportunities and risks

- What are the key success factors in your market?
- What returns are achieved in the industry?
- What kind of market restrictions or barriers to market entry exist?
- Which laws, regulations or provisions influence the market?
- To what extent is your company affected?

Questions about customer demands and customer behaviour

- Who are your existing and potential customers?
- What are the demands and needs of your customers?
- Which factors (e.g. product characteristics, prices, service, image, distribution channels) are decisive for purchasing?
- Why do your customers buy from you? Why do potential customers not buy from you?
- What does a typical purchase decision process look like?
- How long does it take, who makes the purchase decision?
- What is the typical purchase size?
- If your customers are other companies, what size are they?
- To what extent are you dependent on major customers?
- What possibilities do customers have to influence the market (on prices, products, etc.)?

Tips

- Do your own initial market analysis, proceed creatively and conduct many discussions with potential customers, suppliers, experts, etc.
- Obtain support from universities (e.g. on dissertations).
- Use your market analysis to make important contacts.

5.2 The competition

Do not underestimate the competition. Conduct a competitive analysis and examine the strengths and weaknesses of your competitors. For this purpose, evaluate all important (current and potential) competitors based on the following suggested criteria: sales and turnover, growth, market share, products, customer service, target customer groups, cost position, prices and distribution channels, location, proximity to customers, expertise, etc.

Compare competitors on these points with your company and determine your competitive advantage. For the sake of clarity, avoid unnecessary details when presenting your business plan.

Questions on the competitive analysis

- Which major competitors offer or are developing similar products?
- Which ones solve customer problems with other products or technologies?
- What products and solutions do your competitors offer?
- Which customer groups do your competitors appeal to?
- What market share do your competitors have?
- What strategies do your competitors pursue?
- What new developments can be expected from competitors?
- How profitable are your competitors operating now and in the future (estimate)?
- What distribution channels do your competitors use?
- What are the strengths and weaknesses of your offer compared to those of your competitors (in terms of price, quality, functionality, operating costs, service, etc.)?
- How do products (in terms of price, quality, functionality, operating costs, service, etc.), sales, location, etc. present themselves? of your competitors? Compare the strengths and weaknesses of your important competitors with your own in an overview profile!
- Do you have a clear competitive advantage? How lasting will this be?
- How will you defend it?

5.3 Marketing/Sales

In this section you should explain how you (want to) market your product or innovation.

Market entry strategy: To describe your market entry strategy, draw up a timetable and list the activities you plan for a successful market entry. Also take into account measures that you will carry out or have already carried out in preparation for the market entry (e.g. winning pilot customers, participation in trade fairs, publication of articles in the trade press, etc.)

Sales concept: Explain your (planned) sales channels (e.g. direct sales, sales via sales partners or the trade) and show how you imagine your sales organisation to be structured. In doing so, you should consider the required number and qualifications of the sales staff. Also consider the future, e.g. how your sales strategy could be adapted to changing products or customer needs.

Pricing: Indicate in which price range you offer your products (e.g. high price, low price). Also take into account your discount and conditions policy (e.g. discounts for major customers). Disclose how your prices came about (e.g. calculation on a cost basis, orientation towards the competition, orientation towards the customers' willingness to pay, pricing according to your own feeling). Justify your pricing strategies.

Sales promotion/advertising: Briefly describe how you want to draw your customers' attention to your product or innovation and which advertising instruments you intend to use (e.g. advertisements, trade fair stands, publications, image brochures etc.)

Questions about marketing objectives and market position

- What is your current market share in the individual market segments?
- What market share are you aiming for in the future? Questions on market launch
- What steps are you planning to take to launch your product?
- What timetable do you foresee and what are the main milestones?
- What specific activities are required from the first customer contact to the conclusion of the contract?

Questions about the sales concept

- What does your sales organisation look like?
- Which distribution channels do you use (possibly differentiated by products, customer groups, domestic/foreign)?
- Who are your sales partners?
- How will your sales and company results be distributed among the individual sales channels?
- What margin do you need to calculate per distribution channel and product?
- What are your distribution costs?
- What qualifications, what training should your sales staff have?
- How are the sales staff paid?

Questions on pricing policy

- What price should your products achieve?
- What conditions (e.g. payment deadlines, discounts) do you grant?

Questions about service and warranties

- Which services, maintenance contracts etc. do you offer? What is their significance?
- What are your costs for guarantees and warranties?

Questions on advertising and communication

- Which communication concept do you pursue?
- Which advertising media do you use?
- What costs on advertising and sales promotion are incurred during the product launch and later on?
- How do customers perceive your company image?

Tips

Design your advertising and promotional material professionally and with your customers in mind. Remember that you cannot distinguish yourself in the market solely through your technical capabilities. Your performance/competitiveness/competitive edge can only be shown to its fullest advantage in the eyes of your customers with a professional and well thought-out communication concept.

6. Section 6: Planning

In Section VI you show whether your business idea is financially viable and profitable. To do this, you must compile the results from the previous sections. In the interest of clarity, you should only present overviews of the economic development of the company and the financing requirements within the text of the business plan. Please include detailed information (e.g. planned balance sheet, planned profit and loss account) in the appendix. The planning software on the CD will help you to prepare your plan.

6.1 Current economic situation Describe

First of all, examine the current economic situation of your company. Outline:

- the development of sales, costs and earnings (entire company and differentiated according to e.g. customer groups or product groups),

- the annual accounts

- personnel development, - important events (e.g. major investments, acquisition of important customers)

in the last three years (where possible). Above all, please also present the current figures for the current financial year, the current financial situation (bank connections, credit lines, loan drawdowns, liabilities due, outstanding receivables) and the current, fixed order backlog (if applicable, compared to the previous year). At this point, you should not only compile bare figures, but also explain the economic development and the current situation.

At this point, you should also show how your internal reporting system is structured, which data is included and which analyses are possible.

6.2 Normal operational planning, 5-year plan

Ideally, you should plan the future development of your company for the next three - or better five - years. Build up the planned figures on the actual company figures from the last financial years. Pay particular attention that

- your plans are compatible with the previous chapters of your business plan,
- income and expense structures of recent years are comparable with those of the budgeted figures. Otherwise, a comparison is not possible for the investor. Different approaches, e.g. in the treatment of balance sheet items, should be standardised.

As a general rule, short-term planning is more detailed than longer-term planning. Therefore, plan the first planning year on a monthly basis, the following years - depending on possibilities and requirements - on a quarterly, biannual or annual basis.

The logic, consistency and comprehensibility of the planning as well as the internal connection with the qualitative statements of the previous elements in your business plan are important. In any case, you should comment sufficiently on the planning figures and explain the underlying assumptions.

Remember that overly optimistic plans are implausible and leave a negative impression. It is better to plan conservatively and realistically. In addition to your "normal planning", you should also draw up a pessimistic scenario, which shows the future development of the company and its liquidity, e.g. if sales do not start as expected, costs increase, the economy weakens or prices cannot be pushed through.

The planning consists of the following parts (see also the planning software):

Sales and profit planning (entire company and differentiated according to e.g. customer groups or product groups): It provides an overview of the future success of your business activities, i.e. how much is "left over" at the end of a year. To do this, calculate the difference between all income and expenses in a financial year and calculate the net profit or loss for the year. This gives you an overview of the changes in value, but not a reliable insight into your liquid assets. Your financial situation can only be determined with liquidity planning.

Personnel planning: Here you can show which employees with which qualifications and which salary you want to hire at different times. Note that you must take into account the total personnel costs (including non-wage labour costs).

Investment planning: This planning takes into account the goods you want to purchase in order to use them for your business. These include buildings, machines, vehicles, computers or software. The amounts to be taken into account are the purchase price excluding VAT plus ancillary costs (for example, for installation) minus any rebates and discounts granted.

Liquidity planning: In liquidity planning, all incoming and outgoing payments are recorded in terms of amount and timing. Your company will only remain liquid if the sum of the opening balance of liquid assets and incoming payments is greater than the sum of outgoing payments for each period. For periods in which this does not apply according to planning, you must add capital. Liquidity planning should also include a sufficient safety reserve.

Planning questions

- What developments do you expect in terms of sales, expenses and income over the next five years?
- When do you reach the break-even point, i.e. at what turnover do you first make a profit (break-even analysis)?
- When will your cash flow be positive?
- How many staff with what qualifications (and at what cost) will the various departments of your company need over the next five years?
- What investments do you want to make in the short, medium and long term?
- How will your liquidity develop in the short term (detailed planning for the first twelve months) and in the medium term (rough planning for the quarters of the following years) based on the planned business activities?

Tips

- Consider the payment behaviour/spending habits of your future customers. Compare your assessment with the debtor duration in corresponding industry reports. What happens if one of your customers does not pay? Think about insuring your receivables against default.
- Do not underestimate the start-up period during which no income flows.

- When setting up your business, think about a functioning accounting system that provides you with information on liabilities and outstanding accounts at all times. Write invoices quickly and - if necessary - also reminders.
- Remember that you will have to finance your private life from your salary or the profits of the new company.
- Please note that with increasing sales, costs also increase.
- Critically review all cost items. Also take into account that expansions may require further investment.
- Develop a functioning controlling system at an early stage.

6.3 Capital requirements and use of funds

The liquidity planning shows how much capital you need, i.e. how much capital you require for the planning period.

Please also describe how the capital requirement is to be covered. Although the DVCG (Deutsche Venture Capital Gesellschaft / German Venture Capital Association) sees it as its task to put together an optimal financing package for you, which includes not only equity capital but also subsidies and loans, you should, nevertheless, show how you imagine financing yourself, which personal funds you can use, which subsidies you have applied for or which loans you have been promised. Also try to estimate when and what amounts of equity capital should be paid out to you.

In connection with investments in young technology companies, investment companies often make use of support programmes such as the BTU programme (equity capital for small technology companies). For the application documents they, consequently, need information on how their funds are used in your company. Therefore, please describe in detail for which purposes you intend to use the equity capital, e.g. for financing:

- of research and development work
- the market launch
- the growth of the enterprise

Break down which amounts are attributable to investments and which to personnel costs, the pre-financing of orders, etc.

7. Section 7: Opportunities and risks

Young and rapidly growing technology companies are often characterised by distinctive opportunities and risks which can have far-reaching consequences for the future of the company. They should, therefore, think carefully about possible risks and prepare appropriate decisions or measures. When addressing risk factors, do not portray your company in a negative light. Rather, you are demonstrating that you can think critically and with foresight. You should also incorporate the findings from this section into your planning - especially in the pessimistic or alternative scenario (see the Planning section).

Questions

- What are the fundamental opportunities and risks (market, competition, technology) for the development of your company?
- What measures do you plan to take to limit the risks? What are your alternative actions?
- How quickly and at what cost will you be able to implement necessary measures?
- To what extent could additional capital enable you to take advantage of additional opportunities?
- What is your planning for the next three to five years in the best and worst case scenarios?

III. Apendix

- Extract from the commercial register, legal form, partners (names, shares)

- Curriculum vitae, profiles of the shareholders or managing directors

- Balance sheets, profit and loss account for the last two years - Financial planning Planned balance sheets, planned profit and loss account

- Calculation (Cash Flow)

- Bodies (advisory boards, shareholders' committee) and competencies

- Operating permit, patents, licences, other intellectual property rights/protections (utility models, registered designs)

- Subsidiaries, branches, corporate links with other companies

- Organization Chart

- Leaflets, brochures

IV. Further reading

- Baier, W.; Pleschak, F.: Marketing and financing of young technology companies, Gabler, Wiesbaden
- Dieterle, W.K.M.; Winkler, E.M. (eds.): Start-up planning and start-up financing, Deutscher Taschenbuchverlag, Munich
- Kulicke, M.; Wupperfeld, U.: Venture capital for young technology companies, Physika-Verlag, Heidelberg
- Pleschak, F.; Sabisch, H.; Wupperfeld, U.: Innovation-oriented small companies - How to open up new markets with new products, Gabler, Wiesbaden
- Struck, U.: Business plans, prerequisite for successful capital procurement, Schäffer, Verlag für Wirtschaft und Steuern, Stuttgart
- Wupperfeld, U: Management and framework conditions of private equity companies in the German seed capital market, Peter Lang, Frankfurt/Main