

# How to Write a Successful Business Plan

A practical guide

# How to Write a Successful Business Plan

A practical guide

*A business plan should describe your business concept, how your company will operate, what the company plans to do, your business goals and how you intend to achieve them.*

# Foreword

Economic innovation and development often spring from small and medium-sized enterprises, whose owners are willing to take risks in order to invest in their future. These owners – or entrepreneurs – seek opportunities to start up or develop their businesses. Unfortunately, most new ideas meet with skepticism, and it is not until an idea has shown itself to be sound that it gains general acceptance and access to capital. Shortage of venture capital is often a serious obstacle for many entrepreneurs as they set out to realize their ideas and initiatives.

A well-written business plan significantly enhances an entrepreneur's chances of getting past the first hurdle of an initial, hasty perusal by prospective investors. In many cases, a business plan is the best way for an entrepreneur to arouse interest in his or her activities. It provides potential investors with a realistic picture of the business, future plans and opportunities.

This booklet, which was compiled by the economist Peter Tovman of Peter Tovman AB for CONNECT Sweden, provides examples of the main components of a successful business plan. We sincerely hope that the contents of this publication will prove useful to both prospective and established business people.

Stockholm, December 1998

CHRISTER ZETTERBERG  
*Chairman, CONNECT Sweden*

## CONTENTS

1. Why do you need a business plan?	5
2. Target groups	6
3. Structural and editorial aspects	8
4. Contents	10

# I. Why do you need a business plan?

A business plan should describe both your internal and external business goals in a clear and concise manner. The aim is to tell your readers something about your business and a little less about the company's products. All aspects of your business need to be examined closely and your plan should contain answers to every question that might conceivably arise. If your business plan does all of these things then you have a highly effective tool for precisely describing your business and business goals.

The person who is writing the business plan needs to place different emphasis on different sections of the document. In practice, this means that you will have a number of different versions of your plan. The basic framework can be re-worked depending on your aim and the target group involved.

*Internally:* Your business plan will give you a sound point of departure as you seek to recruit a dynamic board of directors, executives and other members of staff. The plan will provide guidance for management, as well as milestones and points of reference that will be useful when you want to gauge the progress you have made. Furthermore, drafting your business plan will force you to think and think again, structure, formulate and re-formulate your ideas.

*Externally:* A business plan shows prospective investors, customers and suppliers that your ideas are sound and that your forecasts are based on documented facts and factors that can be measured.

A business plan is a dynamic document. It should be updated and revised so that – as far as this is possible – it reflects new situations.

All companies should have some kind of rolling three-year business plan. Development and financial goals should be set up on a continuous basis for each year.

There is no getting away from it – your company must have a business plan. It makes no difference whether you are applying for a modest start-up grant or asking investors to place massive sums at your disposal. You simply have to have a business plan regardless of whether you are running a small grocery business, a somewhat larger company that develops advanced medical equipment or a major multimillion corporation with numerous subsidiaries and associated companies.

A business plan always builds on the same basic principles irrespective of the size or type of business concerned, which is made clear in this booklet. The main difference lies in the amount and type of information provided.

To summarize:

- A business plan describes business activities.
- A business plan convinces the company's stakeholders of the soundness of your business concept.
- A business plan changes as business activities change.

## 2. Target groups

Who is going to want to read your business plan?

People who intend to invest in your company, wish to secure you as a customer or generally want to give the company a helping hand, in other words any of the following:

- banks
- prospective investors
- likely strategic partners
- likely partners in mergers or acquisitions
- customers
- suppliers
- distributors
- law firms
- accounting firms
- insurance brokers, etc.

Different target groups will look for different things in your business plan. For example, a **bank manager** has the following to say about a business plan:

When we consider a company's application for credit its business plan forms the cornerstone of any decisions we might take. We look at the company's current situation because we take out mortgages in that company as security. We take a long, careful look at the company's order book, balance sheet stability, profitability development to date, owner stability, company structure and any legal disputes that might be outstanding. Then we consider the future of the company, new products, threats and opportunities, and of course financial projections. But we are "allergic" to companies that produce business plans containing detailed budgets for the next three years and loads of diagrams but with nothing to substantiate them. We

take business plans of this kind as a warning not to get involved with the company. On the other hand, we also look closely at the use of language, layout and the quality of the facts presented.

A **venture capital company**<sup>1</sup> takes a different view of a business plan:

We focus mainly on the potential of the company concerned. Will it be possible to introduce the company on the stock exchange in a couple of years? The current situation is important but not crucial. The most important questions are what can be done with the company and how much it will cost. How much money will we have to pump in? What economic exposure will we be subjected to? And above all, who is the person who has initiated the venture? Is he an entrepreneur, a salesperson who can clinch business deals and build up the company? It's OK if the business has operated at a loss as long as there is potential to move forward and build up the company. The key is the businessman, the entrepreneur, the person behind the business venture.

A **sales manager** in a fast growing company says that the business plan was the deciding factor when she accepted a job there:

---

<sup>1</sup> A company that specializes in giving active business development support (risk capital and know-how) to companies with growth potential.

When a headhunter contacted me, the business plan was one of the first things I asked for. There I could see that they planned to invest in my field, and that they had budget figures to back up projected growth. And the business plan also showed that the company was highly innovative.

I had been offered qualified positions in other companies before but either they had no business plans or the business plan didn't focus on investments for the future, which is why I turned down job offers at these firms. I must say I have never regretted my decision.

Thus, it is vital to know what the recipient of your business plan will regard as important. Let's take a closer look at the bank and the venture capital company. The bank's initial position will be to find out if your company will be able to repay its loans. The future potential of the company is important as well, but the risks involved cannot be too high. For example, if the company were to experience a shortage of capital, the bank could be forced to borrow more money. A venture capital company on the other hand will be more interested in the future potential of your business. The present is only a springboard to the future, that is to say, a higher level of risk is acceptable. Hence, a venture capitalist will have a different angle on your business plan than your bank manager.

The different purposes and target groups of a business plan are listed below:

<b>Purpose</b>	<b>Target group</b>
Management tool	CEO, management, owners, board of directors
Presentation and sales	External stakeholders, e.g. financiers
Acceptance of concepts and plans	Employees, CEO, management, owners, board of directors
Recruitment	Potential employees and members of the board

The person writing the business plan should place different emphasis on different aspects of the business plan. In practice, this means that you should have a number of different versions. The basic framework can be adapted to suit your aim and target group. These days, computers make this a relatively simple operation.

To summarize:

- The content of your business plan must be adapted<sup>2</sup> to your purpose and target group.

---

<sup>2</sup> We are talking about editorial aspects only – you may not manipulate, distort or withhold facts.

# 3. Structural and editorial aspects

Different target groups will be interested in different aspects of your business and this should be reflected in the business plan you submit to them. When you embark on your business plan, try to envisage what your reader will consider important.

Important things to remember as you prepare your business plan:

- ***It should be no more than 20 pages in length including appendices***

A reader may well lose interest if the document is too long. Anyway, someone who is familiar with business plans will know what kind of information is important and will focus only on the relevant parts.

- ***Supporting facts and figures should be presented in appendices***

The copy text of a business plan should serve as a summary with clear references to the appendices, which contain more detailed information.

- ***Your business plan must be easy to understand***

If you can't present your products so that a non-expert understands them, then you will in all likelihood have difficulty marketing your company. Use everyday language and avoid specialist terminology. Even if you know that the reader is an expert in the field, he or she may pass the document on to a colleague for an opinion or assessment. That person may be good with balance sheets but may not understand what your product is about, which could lead to a negative assessment.

- ***Your business plan must be clear and well arranged***

A well-known venture capitalist once said that he only needs five minutes to read a business plan by which time he knows what his decision will be. Aspects that should be highlighted include your entrepreneurial skills, orders on the books and balance sheet stability. Naturally, not everyone who reads business plans makes decisions in five minutes, but clarity is vital for prompt understanding of the content. Careful editing enhances the value of your business plan quite significantly.

- ***You must supply facts and figures***

All statements must be backed up by facts and figures. If you claim that the market is expanding by 50 percent annually, you should also give your source. Otherwise the reliability of your business plan is undermined and you risk losing the trust of the reader.

- ***Adapt the content of your business plan to your purpose and target group but make sure you don't distort the information***

As we said earlier, information will need to be reworked for use in different contexts but it must not be distorted. An example taken from the IT industry will serve to illustrate the point. Until quite recently, IT companies attracted massive investments. This encouraged entrepreneurs in other fields to produce business plans that led potential investors to believe their companies had a greater focus on IT than was actually the case. An experienced reader will see through such practices and lose confidence in your business plan. The investor will become wary.

- **Prepare and rehearse an oral presentation of your business plan**

When you submit your business plan you may normally be expected to give an oral presentation. Prepare one in advance. It should last no longer than eight minutes and contain all the messages you feel are most relevant for your audience. The purpose of an oral presentation is to generate a positive attitude towards your business plan and give your audience confidence in your business.

- **The information in your business plan should be so concrete that it could be used as a basis for decisions**

A business plan should contain down-to-earth, concrete statements and arguments. The company that stated in its business plan that it expected to acquire 20 percent of the Swedish market but failed to substantiate that claim with detailed facts and figures did not supply the right kind of information. Credit institutions can't use this kind of business plan as a basis for financial decisions as it lacks credibility.

- **Never tell lies**

Never tell lies or distort the facts in a business plan. Sooner or later lies will be exposed, damaging the other party, your company and you.

- **Secrecy**

The purpose of the business plan should deter-

mine what trade secrets can be revealed in your document. If a business plan is to be used in initial business contacts with an investor, trade secrets are normally omitted. The same applies to a business plan that will be used in the initial stages of a recruitment drive.

- **Make use of external expertise**

Ask a person who is accustomed to working with business plans to read your document. Preferably this should be someone familiar with how the target group concerned thinks and reacts when they read business plans. If you haven't formally started the company, you should let an auditor look at your business plan. Let an information professional handle editing and layout. It is also valuable to take advice from an external expert when you are working on the content. See it as an investment. After all, your business plan is one of your most important tools for attracting investors.

- **Start on your business plan as soon as possible**

Even if you don't see an urgent need for a business plan for your company, we strongly urge you to write one. So when the need arises you will be well prepared.

*To summarize:*

- Prepare your business plan with care.
- Let different people read your business plan.
- Never tell lies.

# 4. Contents

In this section we will look more closely at the components that should be included in a business plan. Use headings as a starting point. You will have to adapt the contents of your business plan to the circumstances of your company, your goals and target groups.

Many financiers have their own models for business plans. When you come in contact with someone like this, make sure your business plan contains the headlines and information he or she is likely to look for. You should either revise your business plan or write a new one following the financier's model. The latter option should not be too time-consuming because you already have the basic information.

The level of detail you choose depends on several factors – the size of your company, the scope of your product program and what you are trying to achieve.

## Recommended headings in a business plan

1. Summary
2. Business concept
3. Background
4. Owners
5. Board of directors and auditor
6. Company management
7. Organization
8. Products
9. Markets and marketing
10. Sales and distribution
11. Competitors
12. Customers
13. Production
14. Suppliers
15. Premises

16. Environment
17. Contracts and disputes
18. Current financial situation
19. Financing
20. Cost structure
21. Capital requirements
22. Investments
23. Financial development projections
24. Problem inventory
25. Exit and possibilities to redeem shares
26. Appendices

## 1. SUMMARY

The first part of a business plan consists of a summary. This must be brief – no longer than two pages. The purpose of the summary is to set out the main points<sup>3</sup> of a financing proposal for the financier, to arouse curiosity and encourage further reading.

- A brief description of the business, e.g. business concept, when and by whom the company was started, what products you develop, produce and sell, subsidiaries, associated companies, presence abroad, export activities.
- Owner structure, members of the board and management team.
- Turnover and earnings for the last three years, budget for the current financial year and projections for the next three years.

---

<sup>3</sup> *The contents and wording must be adapted to your goal – in this case raising capital for your company. A business plan can also be a useful tool for the board of directors as they develop the company's future product strategy.*

- The purpose of the business plan. For example, does it target banks or investors in order to raise capital? Or is it designed to help management formulate future product strategy?
- The strong aspects of your business, for example, products, patents, product ownership rights, product development or export investments.
- Risks, for example, a high product development rate in your field of business.
- Risk handling.

## 2. BUSINESS CONCEPT

In this section you should describe your business concept and operations in simple terms.

- When you formulate your business concept you need to touch upon the following:
  - What customer needs are met by your business concept?
  - What problems does your business concept solve?
  - Who is the customer?
  - What is the unique feature, specialty?
  - Benefits from your customers' perspective?
- Has your business concept changed since the company was started, if so, how and why?
- Special features that distinguish your company from your competitors should be highlighted, for example, patents, licenses, trademarks and technology ownership rights.

## 3. BACKGROUND

A brief description of company background (history) and current situation.

### **Products**

- What products has the company produced, developed or sold so far?
- Discussion about why customers prefer your company to your competitors, whether they

will continue to do so, and about the risk of the products becoming obsolete, hard to sell or replace.

### **Founders**

- Description of the founders, their experience and role in the company.

### **Problems**

- Has the company encountered any major difficulties over the last few years?
- What steps have been taken to prevent this from happening again?

## 4. OWNERS

In this section you should describe the shareholders and any links between your business and other activities in which the shareholders are engaged. Current or planned stock option agreements or similar circumstances should be noted, likewise shareholder agreements – if any exist. (Shareholder agreements can be attached.)

### **Owners**

- Who owns/own the company?
- How long have the present owners owned the company?
- Summary of owners since the company began operations.
- Are the owners actively involved in the company?
- Are the members of the management team partners in the company?
- Are other employees partners in the company?
- Have options and convertibles been issued?

### **Investors**

- Present and previous external investors

### **Shareholder agreements**

- Are there any shareholder agreements?

## 5. BOARD OF DIRECTORS AND AUDITOR

### **Members of the board**

- The following information about each member of the board should be supplied in brief:
  - Qualifications
  - Role on the board (e.g. ordinary member, legal advisor)
  - Involvement in other business activities
  - Number of shares owned (at present and projections for the future).
  - Is the member of the board employed in the company?
  - List persons who have served on the board in the last five years.

### **Auditor**

- Who is the company auditor?
- For how long has he/she served as auditor for the company?
- List persons who have previously served as auditor.

### **Changes**

- Provide information about any changes that are due to be made with regard to the board of directors or the auditor.

## 6. COMPANY MANAGEMENT

### **Management**

- The following information about members of the management team should be supplied:
  - Role in the company
  - Qualifications
  - Age
  - Involvement in other business activities
  - Number of shares owned (at present and projections for the future)
  - Options
- Show how the management team is organized with the help of an organizational chart.

### **Key members of staff**

- Presentation of other key members of staff

### **Reward system**

- Pay policy, bonus systems, partnership offers, etc.

### **Experts**

- Does the company have an advisory body?
- Does the company rely on any external experts?

If you are describing a new or small company where you are the owner, you should focus on yourself and key members of staff. Change the heading to “Management/owner”. This heading should be moved to and replace “Owners” (item 4). Select suitable points from the checklist under items 4 and 6.

- Previous work experience/positions
- Education
- Civil status
- Children
- Record for nonpayment of debt.

## 7. ORGANIZATION

If the business consists of more than one legal person, a summary of the group structure should be supplied.

### **Subsidiaries and associated companies**

- A brief description of operations
  - Turnover
  - Results
  - Number of employees
  - CEO
  - Chairman of the board
  - Stake in company

### **Type of company**

- In what corporate form does the business operate?

### **Company structure**

- Provide an organization chart showing company structure including parent company, subsidiaries, associate companies and owner structures.

### **Operative organization**

- Provide a chart of the operative organization showing number of employees and senior management.

### **Data security**

- Are routines in place for continuous follow-up of data security?
- What contingency plans do you have for more serious disruptions?

### **Employees<sup>4</sup>**

- Number of employees
- Number of employees assigned to different functions
- Educational background
- Other experiences
- Average period of employment

## **8. PRODUCTS**

This section should describe the products so that a non-specialist can understand what you are talking about.

### **Present products**

- How mature are your products?
- Has it been upgraded?
- When will more radical changes be needed?
- How much will this cost?

---

<sup>4</sup> *Employees are a company's most valuable resource, particularly in a knowledge-intensive business. That's why it's a good idea to supply information about employees under a separate heading.*

- How do you intend to finance these measures?
- Do the products require extensive service?
- Who performs service?
- Do the products require extensive warranty obligations?
- How often do customers utilize warranty obligations?
- How much does this cost the company annually?

### **Trends**

- What trends currently have an impact on your products?
- How do these trends affect the present product program?

### **Patents**

- Has the company been granted patents or trademark protection for its products?
- For how long are these valid?
- Have any of your patents or trademarks been infringed? In what countries are the patents or trademark protections valid?
- How well protected do you consider your products to be in the face of possible infringements or in relation to your competitors?

### **Licenses**

- Is the company a licensor or a licensee?
- For how long are the various licenses valid?

### **Competitors**

- What distinguishes your products from those of your competitors with regard to technology and function?
- Is copying common in this branch of business?
- Is it easy for your competitors to copy and exploit your products? If so, how do you deal with this?
- Where do your company's products stand in comparison with those of your competitors?

### **Current development**

- What product development is currently under way?
- How long has it been in progress and when will the work be completed?
- How have these development activities been financed?

### **Planned development**

- What product development is planned?
- When is it expected to start and finish?
- How will it be financed?

### **Development work**

- How are development activities organized?
- Are they conducted in-house or in cooperation with experts from outside? If external consultants are involved, state who they are:

## **9. MARKETS AND MARKETING**

### **The market – current situation**

- Description of the market: location, current size, opportunities for growth and special features.
- The company's market share.
- Can the market be divided into segments and target groups?
- The company's segment and target groups.
- Is the company's location a crucial factor in terms of proximity to the market and suppliers?

### **The market – future prospects**

- Facts that support forecasted changes in your market share.
- How mature is the market?
- What segment of the market will be targeted?
- Possible threats.
- How do you propose to overcome these threats?

- Special opportunities that you intend to take advantage of.
- Comments on obstacles that can reduce the risk of new competitors moving into the market in the near future (e.g. price competition).
- What factors affect the development of the market?

### **Trends**

- Could the current or prospective market be affected by changes in fashion or other external influences, e.g. business cycles?
- What trends are apparent in the market?
- Are there any seasonal variations?

### **Marketing plans**

- If you have marketing plans, they should be attached as an appendix to the business plan.

## **10. SALES AND DISTRIBUTION**

### **Sales organization**

- Describe the structure of your sales organization: staff members, locations, distributors, mail order services, your own sales outlets and management.
- If you have your own sales staff, state the number of inside and outside sales people, administrative and sales support staff.
- How long have the salespeople been employed in the company (on average)?
- Where are the salespeople located?
- How many distributors does the company have?
- Where are the distributors located?
- How long have the distributors been associated with your company (on average)?
- What other products do the distributors sell?
- Will there be any changes in the sales organization?

- What do you know about your competitors' sales organizations?
- What distinguishes your company's sales organization from those of your competitors?
- What are the strengths and weaknesses of your sales organization compared with your competitors?

#### **Marketing activities**

- What kind of marketing activities is the company currently engaged in?
- How are the company's products positioned in relation to competitors regarding, for example, quality, price, service, and image?
- Do you have any activities that might be designated as "customer support"?
- How are sales made? Does the customer call you, does the company contact the customer, do sales people visit customers, or are orders placed via fax or regular mail?

#### **Targets and budget**

- What are the company's sales targets?
- Who is responsible for following-up sales targets?
- Do sales people receive a fixed salary or a commission on sales?
- Do you have budgets for sales staff and distributors, etc?
- Who follows up the budget and how?
- How do you follow up the results of sales activities?

#### **Pricing strategies**

- What pricing strategy do you apply?
  - Ordinary prices?
  - Introductory prices?
  - Regular customer prices?
  - Volume prices (quantity discount)?
  - Seasonal prices?
  - Bargaining room (margin for haggling)?
  - Different prices for different target groups?
  - Other methods?

- What distinguishes the company's pricing strategy from that of its competitors?

#### **Distribution**

- Describe the distribution channels used.

## **II. COMPETITORS**

In this section you compare your main competitors and their market share with that of your own business.

#### **Facts about competitors**

- Which companies are your competitors?
- Who owns them?
- Competitors' turnover, sales volume, debts and profitability?
- Competitors' distribution channels?
- How do your competitors market their company and its products?
- Which competitors are price leaders?
- Competitors' order books?

#### **Competitors compared with your company**

- How unique are your company's products compared with those of your competitors?
- What kind of countermove might be expected from your competitors if and when your company launches new products?
- Threat of new competitors or actors entering the market?
- What are competitors' strengths and weaknesses compared with your company?
  - Product function
  - Reliability
  - Durability
  - Design
  - Delivery guarantees
  - Service
  - Marketing
  - Pricing

## 12. CUSTOMERS

This section describes your company's most important customers and their share of turnover. It should also discuss how the company would handle the risks involved if it is dependent on a limited number of customers.

### **Generally about customers**

- Where are your customers to be found geographically speaking?
- How many customers do you have at the moment?
- Are your customers small or large, do they buy often or infrequently?
- Are they solvent?
- Are the customers retailers, distributors or end-consumers?
- Which customers or target groups are most loyal to the company?
- Price sensitivity?
- Average amount per purchase?
- Turnover rate of customers?

### **Key customers**

- Who are the company's most important customers?
- If the company is dependent on a small number of customers, how do you handle the risk this entails?
- In what way are these customers dependent on your company?

### **Customer representatives**

- Who at the customer makes purchases or closes deals?
- Is the sales process short or protracted?

## 13. PRODUCTION

Current and potential production capacity should be described here, as well as the technical level of your production methods and advantages in relation to your competitors.

### **Company's own production capacity**

- What proportion of your products are you able to manufacture in-house?
- Where does production take place geographically?
- What phases of production is the company responsible for?

### **Sub-contractors**

- What proportion of your products is manufactured by sub-contractors?
- What phases of production are the sub-contractors responsible for?
- How many sub-contractors do you use?
- Is the company dependent on them?
- What are you doing to reduce the vulnerability of your position?
- Describe the economic situation of your sub-contractors.
- Are any of the sub-contractors dependent on the company?

### **Efficiency**

- Relevant business ratios, e.g. production per employee, machine efficiency. How many employees are engaged in production?
- Are there production bottlenecks?
- If so – how are you dealing with them?

### **Production methods**

- The technical level of your production methods and their advantages in relation to your competitors.
- Do your production methods require specially trained staff?
- Technical development of production methods and equipment.

### **Finances**

- Describe purchasing and stock management procedures.
- Is production capital-intensive?
- Do you need to invest in production?

- Is there a potential for rationalizing production?
- Provide production estimates and contribution margins 1 and 2 for each important product.

#### 14. SUPPLIERS

This part describes your main suppliers and their financial situation.

##### **Generally about suppliers**

- Where are your suppliers located geographically?
- Do several suppliers compete with each other?
- Do you have any protection against suppliers who deliver late or supply poor quality goods?
- The financial circumstances of your suppliers.

##### **Key suppliers**

- Who are your most important suppliers?
- Is your company dependent on a small number of suppliers?
- Suppliers' financial circumstances.
- If the company is dependent on a few suppliers, how have you tried to reduce your dependence on them. For example, what would you do if one or more of them chose to sell exclusively to your competitors?

##### **Agreements**

- Do you have agreements with suppliers?
- Are agreements with suppliers necessary if your business is to function?

#### 15. PREMISES

This section provides a brief description of the physical location of your company. Do you own your premises or rent them? Will you be able to expand in your current premises?

##### **Rented premises**

- How long does the contract run for?
- Where are the premises located?
- Rent levels?

##### **Owned premises/properties**

- Market value
- Mortgages
- Type of premises or property.

##### **Space requirements**

- Are the current premises too small or too big?
- Would you be able to expand in the current premises?

##### **Location**

- Is the company obliged to locate to a certain place, for example because of localization subsidies?

#### 16. ENVIRONMENT

This section describes any air and water emissions, permits currently required or likely to be required in the future, and environmental investments that have already been made or are expected to be necessary in the future.

##### **Environmental problems**

- Do company operations result in any air or water pollution, etc?

##### **Permits**

- What environmental permits are required?

##### **Investments**

- What environmental investments have been made in the last five years?
- What environmental investments are planned for the next five years?

## 17. CONTRACTS AND DISPUTES

### **Ongoing disputes**

- Is your company involved in any ongoing legal disputes. If so, what are they about?
- What will be the outcome of a positive or negative result respectively?

### **Potential disputes**

- Is your company currently involved in any disputes that might be expected to result in legal proceedings?
- What could these disputes cost the company?

### **Basic agreements**

- Information about basic agreements, for example, concerning royalties, licenses, options and rent, as well as supplier and retailer agreements.

### **Insurance**

Information about the structure of the company's various insurance policies: insurance companies, the purpose of the insurance policies.

## 18. CURRENT FINANCIAL SITUATION

This section contains the results of the current financial year, budget discrepancies, orders on the books and profitability.

### **Turnover**

- Turnover for the current financial year.
- Budgeted turnover for the current financial year.
- Reason for any discrepancies.
- Turnover for the corresponding period of the preceding financial year.

### **Results**

- Result during the current financial year.
- What result is budgeted for the current financial year?

- Reason for any discrepancies.
- Result for the corresponding period of the preceding financial year.

### **Order book**

- Value of contracted orders.
- When will these orders be filled?
- Profitability.
- Budget.
- Reason for discrepancies
- Prospective orders (negotiations in progress) and amounts?
- When will these orders be filled?

### **Balance sheet**

- Accounts receivable (including a rough age analysis)?
- Accounts payable (including a rough age analysis)?

### **Cash flow**

- Cash flow statement including unused credits.
- Budgeted cash flow including unused credits?
- Reasons for discrepancies.
- Cash flow compared to the same period in the preceding financial year.

## 19. FINANCING

This section describes how the company is currently financed, e.g. equity, bank, convertible loans<sup>5</sup>, leasing, factoring and securities given to the bank, and other funding.

### **Equity**

- How much have the owners invested in the company in the form of equity, shareholders' contributions, loans or other items?

---

<sup>5</sup> Loans that can be converted into equity.

### **Loans**

- How much money have you borrowed from the bank and other financiers?
- What proportion of funds borrowed in the last few years have consisted of soft financing<sup>6</sup>?
- How much has been repaid, how many items have been written off by the financier and how large is the remaining debt?

### **Other forms of financing**

- Have you received any advance payments from customers, e.g. for product development?
- Other financing.

### **Securities**

- What securities and warranties has the company given to the bank, other financiers, customers, etc.?

## **20. COST STRUCTURE**

This is where you describe the company's break-even point and the proportion of variable costs in relation to total costs.

### **Break-even**

- What turnover and volume respectively are required for the company to break even?

### **Fixed and variable costs**

- What proportion of total costs constitute fixed and variable costs respectively?
- What items constitute fixed and variable costs respectively?
- Would it be possible to increase the proportion of variable costs, that is to say, reduce the proportion of fixed costs?

---

<sup>6</sup> Financing where repayment is not required if the financing goals are not achieved.

### **Currency sensitivity**

- Is the company affected by currency fluctuations?
- What measures has the company taken – or plans to take – to reduce its vulnerability with regard to currency fluctuations?

## **21. CAPITAL REQUIREMENTS**

In this section you explain why you need fresh capital<sup>7</sup>, what amounts are involved, how you intend to finance the overall plan and how the money will be used.

- What will the new capital be used for?
- When will it be used?
- Why is financing/investing important for the company?
- Who in the company is managing the project?
- What are the financing goals?
- When can these goals be achieved?
- What is the return on the investment?
- In what way does the investment affect the company's profitability in general terms?
- What will the expansion cost?
- How will it be financed?
- When do you estimate that you can repay?
- What risks does the investment entail for the company and financier?
- What opportunities does the investment offer to the company and financier?

## **22. INVESTMENTS**

Here you should list any other important investments not described above.

### **Investments effected**

- What investments have been carried out in the last few years?

---

<sup>7</sup> See note 3.

- What did these investments involve?
- What was the purpose of the investments?
- How did these investments affect the company?
- How were the investments financed?

#### **Ongoing investments**

- What investments are currently under way?
- For what are the investments intended?
- What is the purpose of the investments?
- How will these investments affect the company?
- How are these investments financed?

#### **Future investments**

- How much capital will you need to invest in the next three years?
- For what are the investments intended?
- What is the purpose of the investments?
- How will these investments affect the company?
- How will the investments be financed?

### **23. ECONOMIC DEVELOPMENT – PROJECTIONS**

Projections for the current financial year and for the next three (to five) financial years should be presented here.

The projections should show sales targets, earnings, product development, market shares, etc. The assumptions on which the projections are based should also be described.

Prerequisites and estimates for sales, product costs, overheads, depreciation and interest should be presented here with more detailed information in an appendix.

The financial analysis should include a summary of the income statements and balance sheets for the three preceding financial years. Financial statements for the last three financial years should be enclosed, and – if deemed appropriate – more detailed financial analyses.

- Summary of the company’s various business goals<sup>8</sup>: Turnover, earnings, market shares, new products, etc.
- Summary of budgets for the income statements and balance sheets and cash flow projections. Complete budgets, estimates, etc, should enclosed in an appendix.
- Summary of basic assumptions e.g. forecasts. Complete information should be enclosed in an appendix.

### **24. PROBLEM INVENTORY**

- What problems face the management? Relations with the owners, obsolete inventory, the relationship income–costs, etc?
- How can these problems be solved?
- If an action plan has been drawn up it should be enclosed as an appendix.

### **25. EXIT PLAN AND POSSIBILITIES TO REDEEM SHARES**

This section should explain how and when the shareholders would be able to sell their shares. Investors often want to see a return on their investments within about five years.

- Have you drawn up a plan to realize profit for shareholders?
- When will this come into effect?
- Realization methods, e.g. spread of ownership without listing, listing, sale of company.

### **26. APPENDICES**

Examples of appendices:

- Organization chart.
- Background information about the board of directors and management team (CVs).
- Technical information.

---

<sup>8</sup> Use the information under “8 Products” and “9 Markets and marketing” in the business plan.

- Sales promotion material.
- Tests and trials that have been carried out.
- Orders.
- A list of current shareholders and the effects of any convertible and option programs.
- Marketing research and comments from a third party.
- Marketing plan.
- Revised annual reports for the last three years.
- Income statements and balance sheets and cash flow reports for the last three months.
- Income and balance sheet forecasts and cash flow projections for the current financial year.
- Action plan, problem solving.
- Detailed financial history of the company for the last three (to five) years.

- Detailed financial projections for the next three (to five) years, by month at least for the first year. These should include income statements, cash flow budgets and balance sheets.
- Estimates for the projections with regard to sales, product costs, overhead, depreciation and interest.
- The most important financial and commercial prerequisites on which the projections are based, e.g. market share, investments in fixed assets, capacity utilization, interest rates, exchange rates and payment patterns for customers and suppliers.
- Shareholder agreements.
- Articles of association.
- Registration certificate.

CONNECT is an organization that links entrepreneurs with the financial, technical and business development resources they need to create and develop high tech companies in Sweden.

By organizing activities and offering advice, CONNECT supports and improves the opportunities for entrepreneurs and startups. The needs of the entrepreneur are always central, and CONNECT's objective is to speed up the commercialization of startups, thereby creating new jobs in Sweden.

The activities are carried out by regional networks co-ordinated by CONNECT Sweden, a project group at the Royal Swedish Academy of Engineering Sciences (IVA). CONNECT Sweden is also responsible – in co-operation with the regional networks – for all activities at national level, and for helping new networks get started. Within each network, people representing various areas of expertise contribute their time and know-how in various CONNECT activities. They represent a range of professions – entrepreneurs, accountants, lawyers, management and marketing consultants, and venture capitalists.

CONNECT is a non-political, non-profit-making, private initiative. CONNECT Sweden is financed mainly by the Swedish Industrial Deve-

lopment Fund and the Confederation of Swedish Enterprise. The regional networks are financed mainly by membership fees, fees for partner packages, and by fees for events. For more information, see CONNECT's website: [www.connectsverige.se](http://www.connectsverige.se).

•

The Royal Swedish Academy of Engineering Sciences (IVA) is an independent academy with a task to promote technical and economic sciences and to develop economic life. In co-operation with economic life and the university IVA initiates and proposes measures, which strengthen industrial competence and competition ability in Sweden. For more information, see IVA's website: [www.iva.se](http://www.iva.se).

•

The Swedish Venture Capital Association is an independent, non-profit association supporting the interests of companies and persons who are active in the Swedish private equity and venture capital industry. The Association's objective is to promote an efficient private equity and venture capital market in Sweden. For more information, see the Association's website: [www.vencap.se](http://www.vencap.se).



KUNGL. INGENJÖRSVETENSKAPSAKADEMIEN  
Royal Swedish Academy of Engineering Sciences



SVENSKA RISKKAPITALFÖRENINGEN  
*Swedish Venture capital Association*

The original Swedish text of this publication was written for and published by CONNECT Sweden, a project run under the auspices of the Royal Swedish Academy of Engineering Sciences (IVA), Stockholm, Sweden (IVA-R 428, ISSN 0348-7393, ISBN 91-7082-634-X).

Copyright: IVA and CONNECT Sweden.