

Introduction into Business Plan Writing

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Sept. 24, 2010



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1

Sources for this lecture:

- Barringer, B.R. and R.D. Ireland (2008), Entrepreneurship: successfully launching new ventures, Pearson, Upper Saddle River. [BI]
- Businessstools (2008), Businessplan – professionell gemacht. [BT]
- McKinsey & Company, Inc. (2002), Planen, gründen, wachsen: Mit dem professionellen Businessplan zum Erfolgs, ueberreuter redline Wirtschaft. [MK]
- AWT Horvath GmbH (2007), Der optimale Businessplan: Handbuch Münchner Business Plan Wettbewerb; [HO]
http://www.mbpw.de/fileadmin/Redaktion/Standard_Dateien/e_Han_dbuch_MBPW.pdf



Why a business plan?

- Forces you to think deeply about your business idea
- Helps you to detect flaws of your idea and execution and to fix them efficiently and in a structured way.
- Forces you to reach decisions and thereby also to proceed in a focused way.
- Central means of communication between
 - investors
 - employees
 - founders
- Provides an overview of the resources required and helps detecting financing gaps.
- Almost costless “dry run” before getting serious.



Why a business plan?

No business plan, no funding



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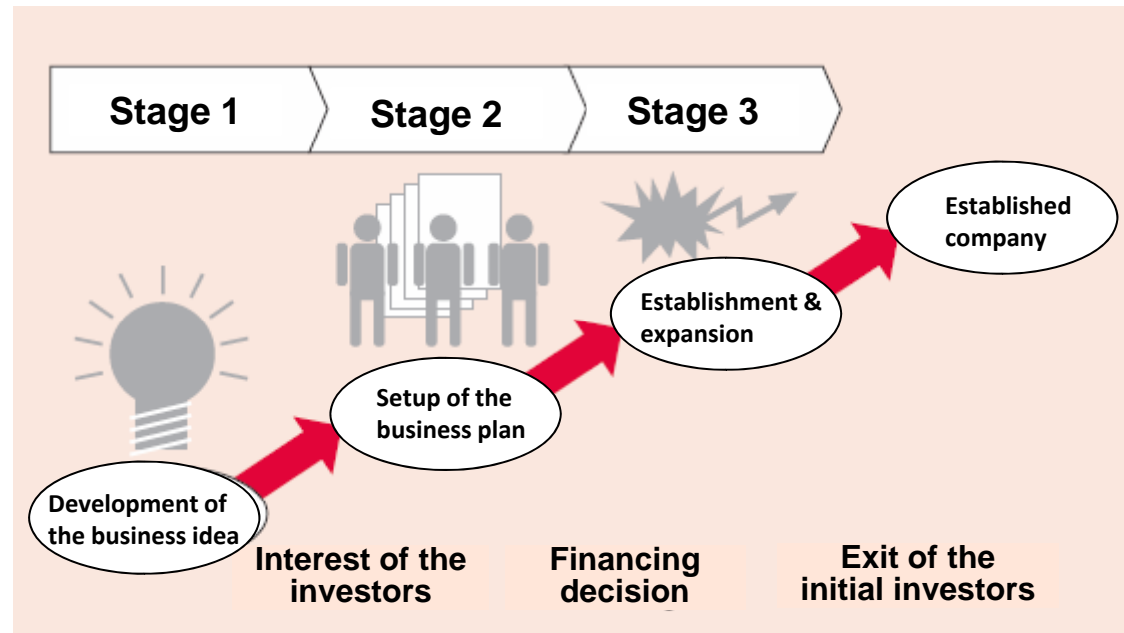
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Time line



Source: HO



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Three elements of a successful firm foundation:

Idea

Team

Capital



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Business plan

The business plan as a decision making tool; key aspects:

- Can we make money out of it?
 - How much money?
 - How?
 - Investments

- IRR?
$$NPV = \sum_{t=0}^n \frac{C_t}{(1 + \bar{r})^t} = 0$$



Business plan

Attributes of an effective business plan should look like:

- Meaningful: contains all an investor needs to know – no more, no less
- Structured: clear structure
- Understandable: clear and simple language, no tech talk, no jargon, nothing of central importance left out
- short: max 30 pages incl. Appendix
- reader friendly: pitch 11, line break 1 ½, 2.5 cm margin
- Appealing: charts and tables are simple and clearly laid out; no PowerPoint shows and gadgets



Business plan

Summary business plan

10-15 pages

Early stage; test the waters; see if interest can be caught

Full business plan

25-35 pages

When funding is needed; blueprint for firm's operations

Operational business plan

40-100 pages

Internal audience; blueprint for operations; guidance for operational managers

Source: BI



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Players the business plan caters to:

Audience	What They are Looking For
A Firm's Employees	A clearly written business plan, which articulates the vision and future plans of the firm, helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.
Investors and Other External Stakeholders	A firm's business plan must make the case that the firm is a good use of an investor's funds or the attention of other external stakeholders. The key is to include facts generated through a properly conducted feasibility analysis. A business plan rings hollow if it is based strictly on what an entrepreneur or team of founders "thinks" will happen.

Source: BI



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Business plan

The business plan may help to...:

...think about the risks associated with your business

...think about the unforeseeable; devise strategies

...assemble first budgets

...test your idea

...the investor is the hardest examiner – wants to limit own risk



Business plan

The business plan as a decision making tool; key aspects:

- What is the value added for consumers? What problem does the idea solve?
 - What need in what form (product, service)
 - Unique Selling Proposition
- What is the market?
 - How large?
 - What target groups?
 - Differentiation to competitors?



Business plan

Consumer utility

- Founder: solution; investor: market
- The product/service as a vehicle to consumer satisfaction is central, not the utility itself
- Compare to existing products; keywords: cheaper, more flexible, safer, more reliable, more handy, nicer, smaller, more easy to use, lighter, faster
- Express consumer utility in numbers
- USP:
 - an offer that makes sense (selling proposition)
 - Unique – *my* solution from the consumer's perspective



Business plan

Market

- How large?
- Target group?
- Verify your statements by stating the assumptions!



Business plan

Differentiation

- Direct competitors – producers of direct substitutes (Lätta and Becel)
- Indirect competitors – producers of indirect substitutes (Lätta and Kerrygold)
- Show you identified your competitors
- Show you understand the business model of your competitors



Business plan

Money making potential

- Make rough estimates of your costs and earnings
- Justify your estimates
- State the assumptions
- Rule-of-thumb: a gross margin of 40-50% during start phase



Business plan

Presentation

- Killer criteria
 - Does the idea fulfill a consumer need?
 - Is it innovative?
 - Does it have a clear focus?
 - Is it profitable in the long run?
- What is the amount of effort you invested already?
- Be clear and concise!
- Details and detailed cash flow statements are not urgently relevant



Business plan

Good writing:



Wolf Schneider: Deutsch für Profis. Wege zu gutem Stil. Broschiert - 268 Seiten - Goldmann, Erscheinungsdatum: 1999, ISBN: 3442161754,



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Business plan

Sell your idea:

- Say: “I have an idea for reducing fuel consumption by 10 percent for a tractor park of 100. My own price and cost analyses make me convinced that a margin of 40 percent is realistic. I have spoken to X and Y about possible distribution channels”
- Don't say: “I have an idea for an engine that runs on rape oil. The transmission mechanism is mechanically very demanding but I solved the problems by using a cardan shaft and a computer-automated way of ignition that processes 1,000 pieces of information per second”.
- Don't say: “This is an brilliant idea. It has huge market potential. You will make a lot of money.”



Business plan

Questions you should be able to answer yourself:

1. **Problem solution:** What problem does your idea fix? What exactly is the innovation behind your idea? In what sense is your idea unique? Can it be protected by IPR?
2. **Market:** Who are your customers? Why should a consumer buy your product? What need is met? How will the product be distributed?
3. **Competition:** What is the competitive advantage of your firm? Why can't competitors not just copy it? Why is your product better than alternatives?
4. **Money making potential:** Where is the money making potential? What are your costs and what are your prices?



Business plan

Charts, figures, tables

1. Max. four figures
2. Only if absolutely necessary
3. Referenced in the text!
4. Simple and clear presentation
5. Consistent formatting



Business plan

Business idea description

1. Title page:

1. Product/service name
2. Names of founders; addresses
3. Date
4. Confidentiality statement

2. Text

1. 2-5 pages
2. Clear structure, subtitles and indentation



Business plan

Elevator speech

<http://www.youtube.com/watch?v=Tq0tan49rmc&feature=Playlist&p=F463EB968A6B52BB&index=5>



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Structure

1. **Business idea**
2. **Business team**
3. **Marketing**



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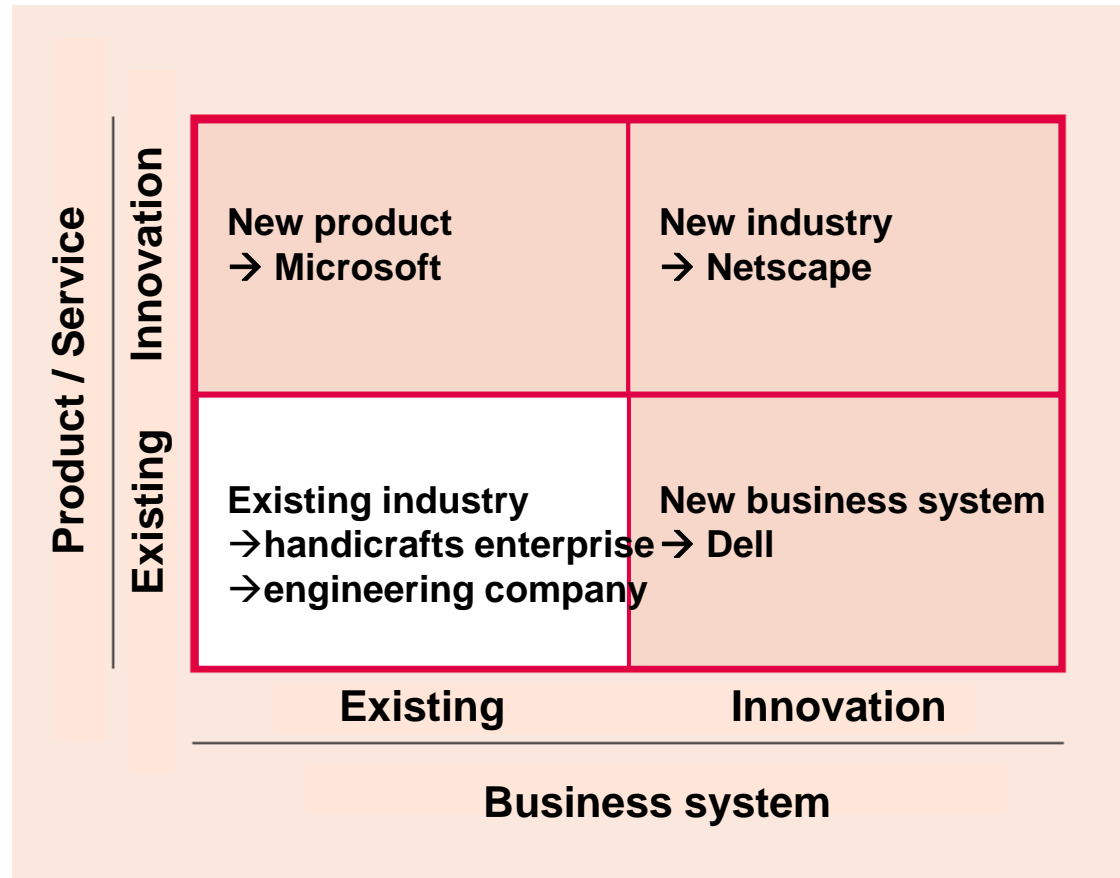
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Section 1: Business idea

Innovative business ideas:



Source: HO



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Section 1: Business idea

What? Idea – problem solution, new product or service

Main questions to ask:

- Does the idea have consumer appeal?
- What should my founding team look like ideally?
- Where do I find “seed money”



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Section 1: Business idea

What? Turn idea into a business plan

Main questions to ask:

Investors not only invest in the idea but (mainly) in the people behind it:

- Do I really want to put an investor into the co-pilot seat?
- Do I have the required strength and experience?
- Do I have the right communication skills?
- Do I have the will to turn my idea into a successful business?



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Section 1: Business idea

More questions to ask:

- What consumers do I want to target?
- What price to ask for?
- Where to establish my business?
- Make or buy?



Section 1: Business idea

Information sources

- Suppliers and customers
- Salespeople and intermediaries
- Technology experts/product developers
- Lawyers, public trustees, bankers



Section 1: Business idea

Main advises:

- See the big picture
- Focus on “the big think”, not the details!
- Speak to people inside and outside your team



Section 1: Business idea

The business plan may help to...:

...think about the risks associated with your business

...think about the unforeseeable; devise strategies

...assemble first budgets



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Section 1: Business idea

Financing:

- Cost for earning a livelihood of the team members
- Rudimentary production
- Prototypes



Section 1: Business idea

You have now:

- had an idea
- checked the idea for its plausibility
- checked its degree of innovativeness – is it truly novel? Is it protected already?
- discussed your ideas with friends, family, experts, potential customers
- thought about the timing



Section 1: Business idea

Sell your idea:

- Put yourself in the shoes of the investor
- Make her feel you think as she thinks (you probably should anyway)



Section 1: Business idea

Questions you should be able to answer yourself:

- **Problem orientation:** What problem is to be solved? What consumer need is fulfilled? What (quantifiable) consumer utility is obtained?
- **Offer:** What product or services do you want to sell? What is it that you offer exactly? Where is the innovation? How can it be applied?
- **Development stage:** At what stage of development currently is your product/service?



Section 1: Business idea

Questions you should be able to answer yourself:

- **Life cycle:** For how long will your product meet strong demand? What development steps do you expect? How do you plan to further develop your product or service? How large have development costs been so far?
- **Imitation:** In what sense is the idea unique? How to protect it?
- **Property rights:** Who owns the concept, materials, marketing rights? Is the product/service approved?



Section 2: Business team

Why found as a team:

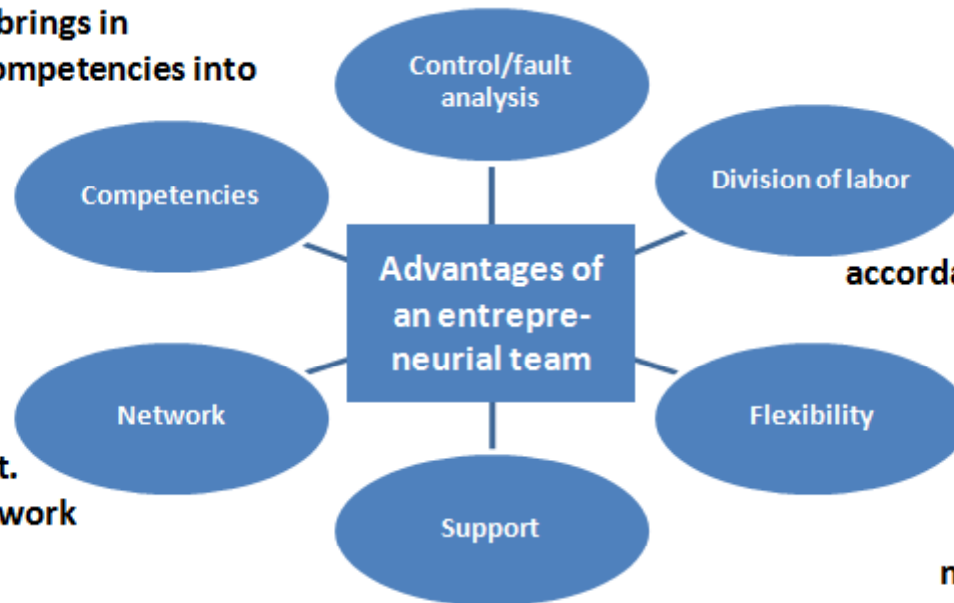
1. Complementary skills
2. Labor division
3. Better solutions
4. Investors like to invest in teams

Demonstrate the investor that you all are 100% supportive!



Errors can be analyzed and avoided by the team. This procedure reduces the danger of getting on the wrong track.

Everybody brings in different competencies into the team.



A universal genius is not needed. Tasks can be assigned in accordance with personal competencies.

Networks are important. A team has a bigger network than a single person.

Sickness or absence is not a catastrophe because team members can stand in for you.

All are in the same boat and team members can provide mutual assistance in case of need.

Source: BT



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Section 2: Business team

**Investors invest in people,
not so much in the idea!**



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Section 2: Business team

Complementary skills

1. Select people that can do things you can't do
2. Soft skills and hard skills



Section 2: Business team

Course correction:

1. You will need to make adjustments to your initial plans; a team will make it easier to detect false tracks and to change course
2. Train presentations before a critical audience
3. Better analysis of presentations in a team
4. Better accessibility in teams



Section 2: Business team

A team is more than the sum of it's pieces.



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Section 2: Business team

Why not more team foundations?

1. We are educated as solo players
2. Bad experience in teams
3. Need to share benefits



Section 2: Business team

What makes a good team?

1. Complementary skills and strengths
2. Shared vision
3. 3-6 team members
4. Flexibility
5. Stick together in good and bad times
6. Tenacity



Section 2: Business team

The investor's view:

1. Personality, hard and soft competences determine the investment decision to 80 percent
2. Send positive signals! If you are not excited about your idea you may get in trouble attracting employees and customers
3. Show the investor where your strength and weaknesses are



Section 2: Business team

Presenting the team to investors:

1. Put yourself in the shoes of the investors
2. Describe the relevant skills of the team members
3. Say if you have worked together before
4. Present the team as a whole; what is the role of each member?, who owns what share?
5. Milestones in CVs (education, practical experience, stays abroad, leadership experience, relevant hobbies and achievements)
6. Max 1/3 page per member
7. Full CVs in the Appendix



Section 2: Business team

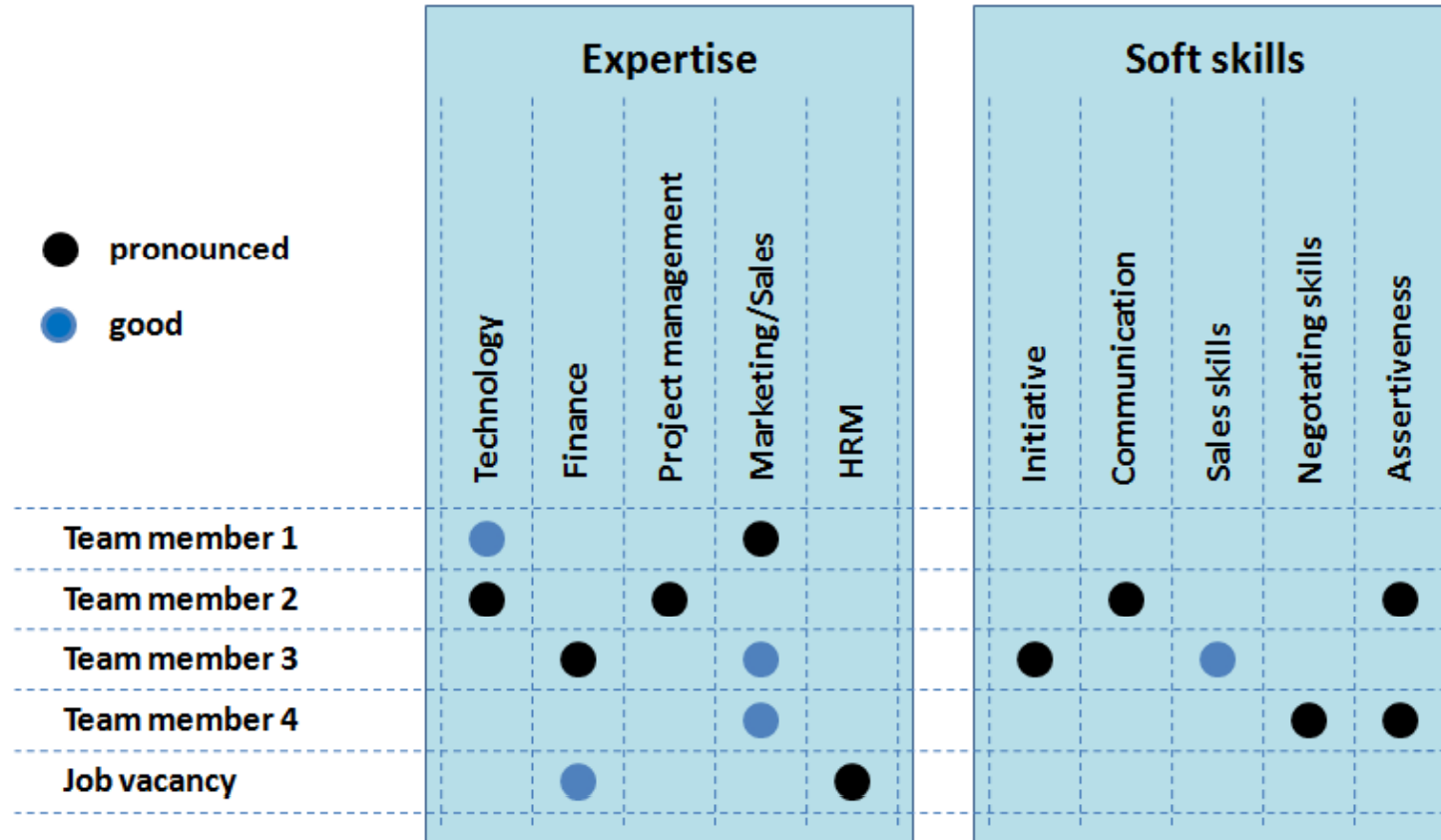
Questions you should be able to answer yourself:

1. Who are the members?
2. Why do we make a great team (experience, education, previous success, reputation)
3. Why relevant for the business in question?
4. Did we work together before?
5. Did we decide upon the ownership structure?
6. If team incomplete – how to fill the vacant position?



Section 2: Business team

The investor's view:



Source: MK



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Section 2: Business team

How to hire:

1. Friends & family, friends of friends
2. Coaches
3. Venture Capitalists



Section 2: Business team

Money:

**Get ownership structure straight right away
and definitely before speaking to investors!**



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Section 2: Business team

Money:

1. Allocate according to current and future commitment to the firm
2. The team member who had the initial idea may get more
3. Same for executive



Section 3: Marketing

Elements of the marketing plan:

1. The market and competition
2. Targeting a submarket
3. Determine marketing mix



Section 3: Marketing

Key questions:

1. How large is the market?
2. How fast does it grow?
3. What does characterize the market?



Section 3: Marketing

	Existing market	New market
Situation	Improved product in an existing market. Market data is available and published in business journals, official documents or on the internet.	New product in a new market, no data available.
Proceeding	<ul style="list-style-type: none">• Gather statistics from diverse sources.• Check if the data is consistent and plausible• Extrapolate market growth by means of historical data	<ul style="list-style-type: none">• Do market research (e. g. survey)• Estimate market size by means of demographical data and survey results• Logical deduction of the estimation and clear differentiation between data and assumption

Source: BT



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Section 3: Marketing

Market size and growth:

1. Key figures: # customers, # units sold, total sales
2. Hard to come by for new markets, easier for established markets
3. New markets: need to conduct own market research



Section 3: Marketing

How to estimate:

1. Clearly state the assumptions behind your estimates
2. Make things comprehensible
3. Check sources
4. If you can't get what you want, take the second best number
5. Does it make sense?



Section 3: Marketing

Example: diaper consumption

1. Base: population of 7.3 , life expectancy 80 years
2. Assumption: diapers worn 2 years
3. # children waering daipers: $2/80=2.5\%$ of the population, 180,000
4. Assumption: 5-7 diapers per day → 0.8-1.4 mio. Diapers (correct: 1.15-1.25 mio.)

Source: MK



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Section 3: Marketing

Competitive situation:

1. What are the main players in your market?
2. What are their strengths and weaknesses?
3. How long will it take until my idea is copied?
4. Is my idea copy able and how much effort does that take?



Section 3: Marketing

Competitive situation:

1. What are the main players in your market?
2. What are their strengths and weaknesses?
3. How long will it take until my idea is copied?
4. Is my idea copy able and how much effort does that take?



Section 3: Marketing

Targeting a submarket:

1. Who are your customers?
2. What consumer groups are particularly attractive?
3. What differentiates your product from competitor's products?
4. What market share do you expect to reach in your targeted segment?



Section 3: Marketing

Segmenting consumers:

1. Sort according to criteria that make your customers homogeneous
2. Helps you to target your marketing
3. Helps you to design your marketing mix
4. Helps you to position your product



Section 3: Marketing



- Total revenue
- Number of potential customers
- Total sales volume
- Expectations about the future

- Divide the market into homogenous subgroups
- Possible criterias:
 - geographic
 - demographic
 - Behaviour
 - Lifestyle
 - ...
- Develop different marketing strategies for all subgroups

- Overview and listing of the competitors
- Analysis of the:
 - Target group
 - Product
 - Market share
 - Growth
 - Cost item
 - Distribution channel
 - ...
- Swot analysis

- Differentiation from the competition – design of a USP
- Distinct positioning compared to the competition

Source: BT



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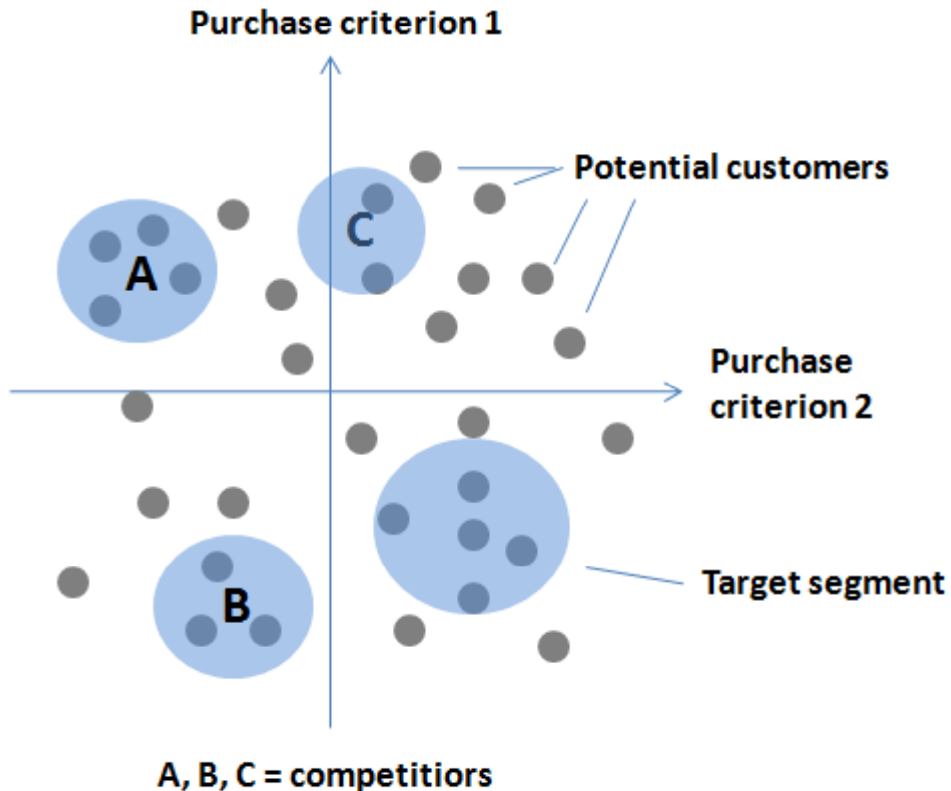
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Section 3: Marketing

Selection of the segment



Source: BT

Evaluation criteria

- Size and growth of the segment
- Profitability of the segment
- Conformity of product and customer needs
- Possibilities to differentiate the own product from the competitors' products
- Intensity of the business competition
- Market risk
- Customer structure



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Section 3: Marketing

Relevant criteria:

1. Segment size
2. Segment growth
3. Congruence between product and customer needs within a segment
4. Differentiation of own product compared to competitors



Section 3: Marketing

Relevant criteria - details:

Consumer goods

1. Geography: country, population density
2. Demography: age, gender, income, occupation, firm size
3. Lifestyle
4. Behavior: how many times used, used for what
5. Shopping behavior: brands, price sensitivity



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Section 3: Marketing

Relevant criteria - details:

Capital goods

1. Demography: firm size, sectors, location
2. Operations: technology
3. Purchasing behavior: central/decentral, criteria, contracts
4. Situative factors: urgency, order size



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Section 3: Marketing

Questions you should be able to answer yourself:

1. How large is the market?
2. How fast does it grow?
3. How good is the match between product and consumer needs
4. How well are we differentiated from other goods?
5. Why should a consumer buy my stuff rather than someone else's?

<http://www.youtube.com/watch?v=P4JAbsYq8jE&feature=fvw>



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Section 3: Marketing

USP:

1. Offer that is anchored in the brain of the customers
2. Central job of marketing to formulate a USP
3. Put yourself in the shoes of the consumers
4. Differentiate yourself from competitors



Section 3: Marketing

Successful positioning:

1. Relevant consumer needs identified
2. Clearly defined consumer segments
3. Proficient offer of product and services
4. Uniqueness
5. Cater to the subjective perception of consumers
6. Ensure after sales consumer satisfaction



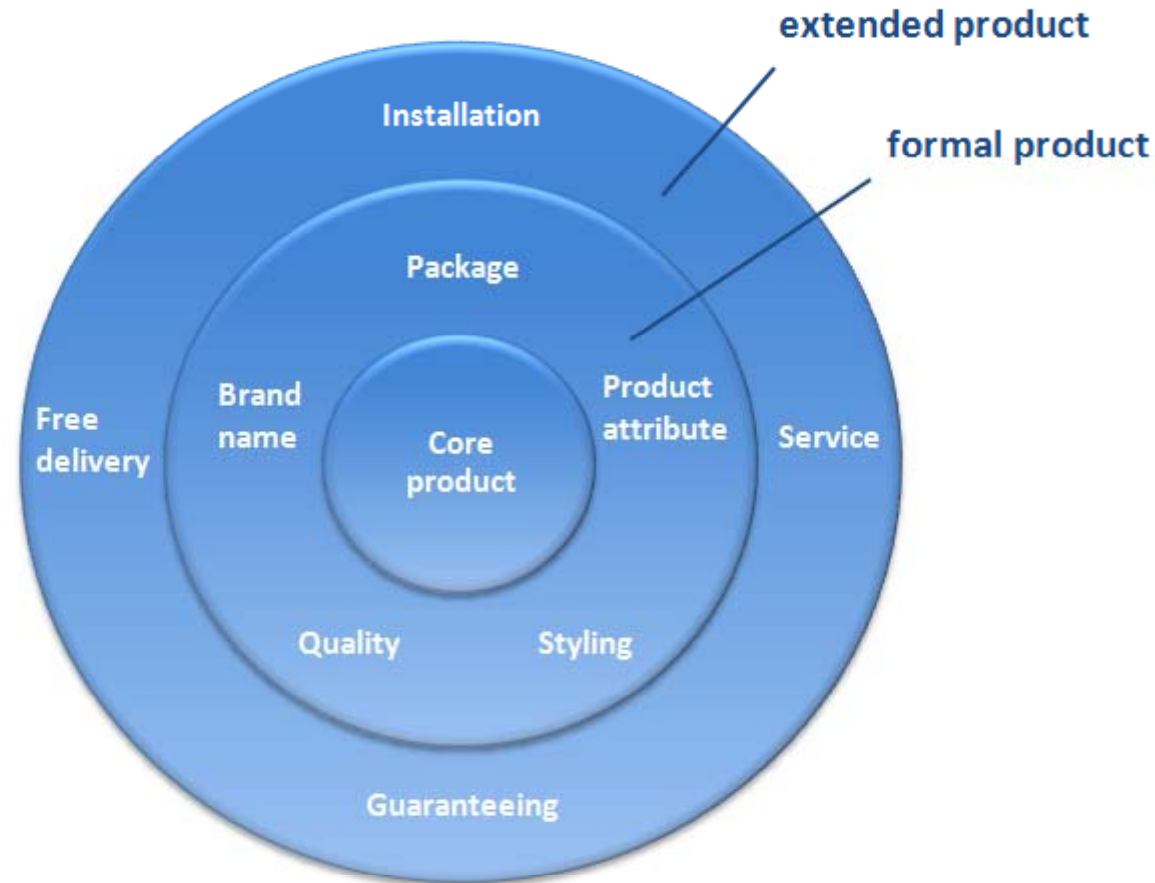
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Marketing mix:

1. **Product:** product characteristics
2. **Price:** price charged, pricing strategy
3. **Place:** how to deliver?
4. **Promotion:** how to communicate?



Section 3: Marketing



Does the overall product satisfy customers' needs?

Source: BT



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Section 3: Marketing

Product

1. Does our product meet the needs of my target segment?
2. Do we want to deliver a uniform product or do we want to deliver smth. That caters to specific (sub-) groups?



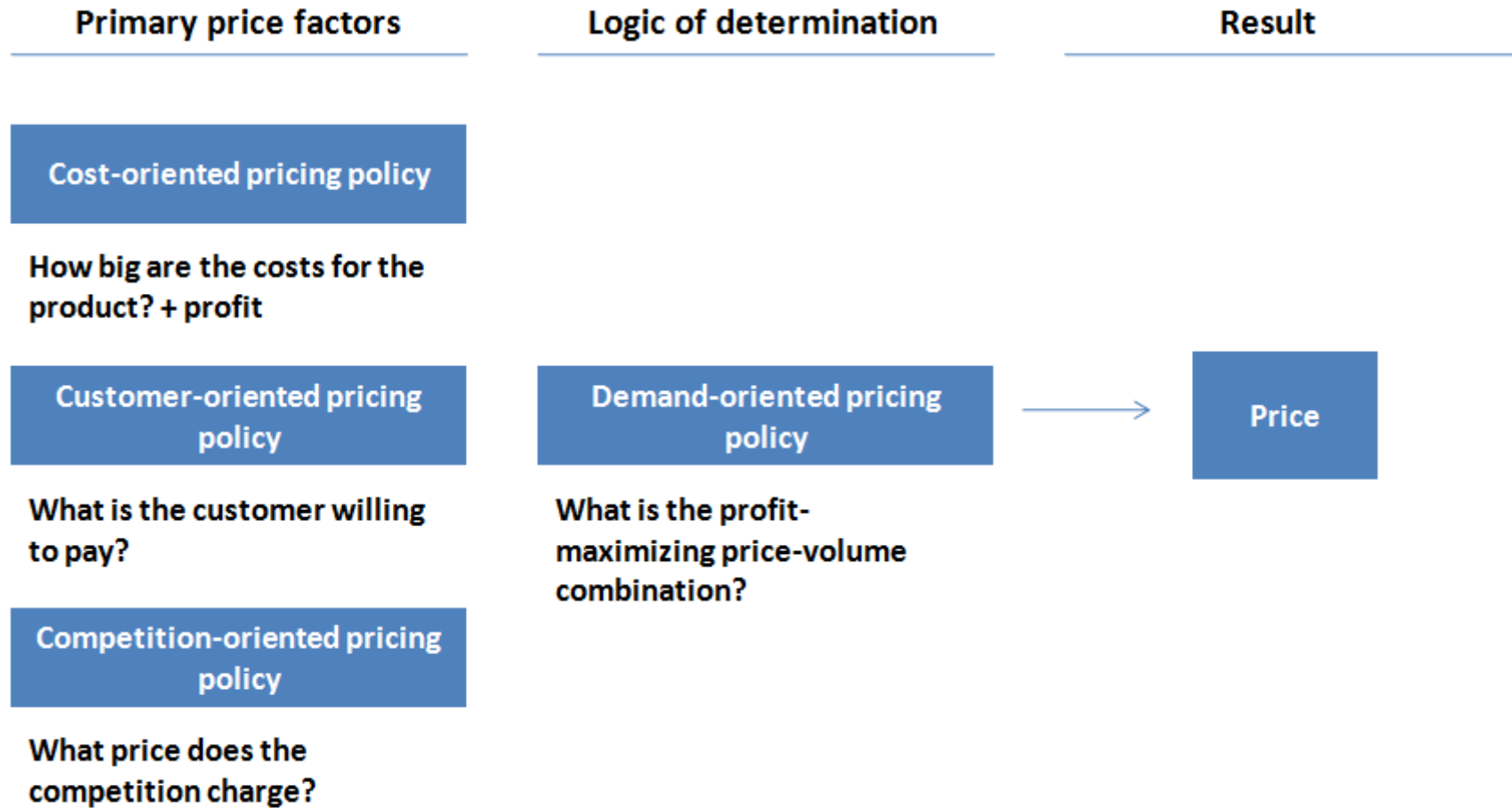
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Price:

1. What price for our offer?
2. What pricing strategy?
3. How to determine prices?
 1. $P=mc+\text{markup}$
 2. Markup determined by competitive situation!
 3. Make profits!
4. Pricing strategy:
 1. Low price, high market penetration (standards)
 2. High price , high absorption (high investment risk)



Section 3: Marketing



Source: BT



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Section 3: Marketing

Place:

1. How do we want to sell and why that way?
2. How many potential customers?
3. Private consumers or firms?
4. What way of shopping do they prefer?
5. Does the product need to be explained?
6. Upper or lower price segment?
7. Make or buy of distribution?



Section 3: Marketing

Distribution:

1. Direct: costly, excellent monitoring
 1. Own shops
 2. Own agents: costly, only if products are complicated
 3. Direct mail: data banks for consumer segmentation
 4. Call centers: broad public, outsource
 5. Internet: low costs, no counseling, target group



Section 3: Marketing

Distribution:

2. Indirect:

1. Retailers; hard to get in, which shelves?
2. External sales agents; hard to find good agents, costly if successful, cap on risks
3. Franchising: fast regional growth, low investments
4. Gross trade: high margin, simplifies contact to retailers



Section 3: Marketing

Promotion:

1. Attract attention
2. Inform
3. Convince
4. Establish trust



Section 3: Marketing

How to get your message across:

1. Classical advertising: print media, radio, TV, cinema
2. Direct marketing: direct mail, call, online
3. PR: <http://www.blacksocks.com/news.php?lang=d>
4. Trade shows, fairs
5. Customer visits



Section 3: Marketing

Questions you should be able to answer yourself:

1. Market overview: potential size, volume, volume in relevant submarket, success criteria, why buy (quality, service, advice, price, innovativeness, environmental friendliness)?, is the market cyclical, what external factors affect the market?
2. Market segmentation: most important submarkets & customers?, who do we cater to with our offer?
3. Customer structure: customer characteristics, purchase habits, why this sub-segment?
4. Market trends: what are the current and future trends?, how will we react?, what are the growth rates in our target markets?



Section 3: Marketing

Questions you should be able to answer yourself:

5. Competition: hardest present competitors?, hardest future competitors?, what is our market position, strengths and weaknesses
6. Marketing strategy: what market share do we want to achieve?, how do we differentiate us from competitors?, is there a USP, is it well defined?
7. Marketing-Mix: what properties does the product have?, can we quantify consumer utility?, what pricing strategy, price discrimination?, what distribution channel?, how to reach customers, expenses for marketing



Section 3: Marketing

Information sources:

1. Market analyses
2. Interviews with experts, consumers, suppliers
3. Media
4. Trade associations
5. Internet
6. Trade shows
7. Annual reports
8. Compendia
9. Test purchases at competitors
10. Competitor visits



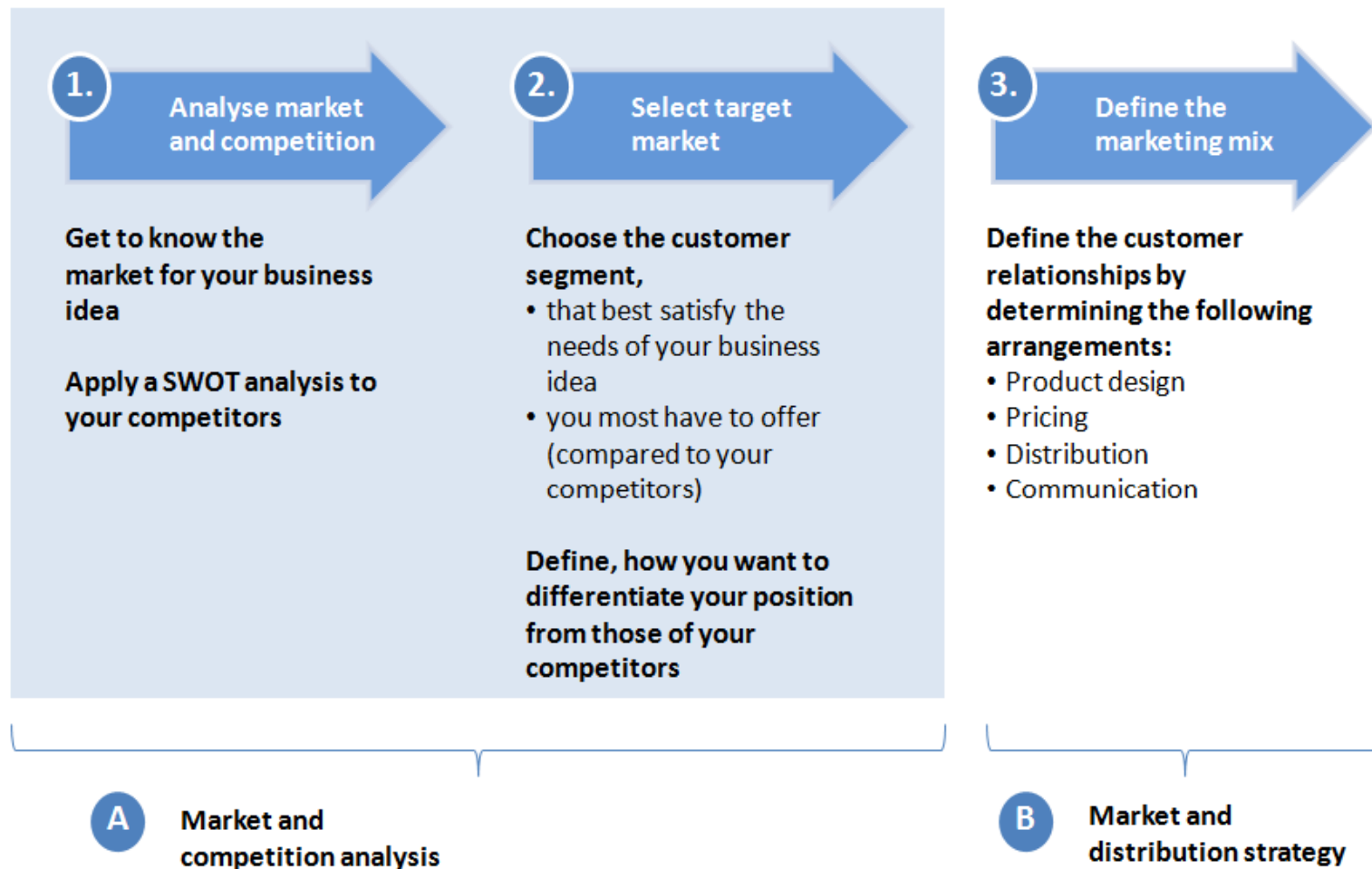
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Suggested structure in a business plan

1. Market analysis
2. Customer analysis
3. Competition analysis
4. Competitor analysis
5. Marketing mix



Section 3: Marketing



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Section 4: Business system

Business organization:

1. Activities of a firm do deliver the end product
2. Often depicted in figures like this:

R&D → Production → Marketing and sales → Distribution → Service



Section 4: Business system

Business organization:

R&D → Production → Marketing and sales → Distribution → Service

1. Use the “generic” system and change it according to your needs
2. Example:
 1. break down “Production” into purchase, raw material processing, parts assembly”
 2. break down “Sales” into logistics, wholesale trade and retail trade



Section 4: Business system

Business organization:

Make or buy?

1. Efficiency gains from buying
2. Stay focused
3. Investment & expenditures
4. Hold up problems
5. Quality problems



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Section 4: Business system

Business organization:

Make or buy?

1. Strategic importance: F&E done in-house
2. Comparative advantages: focus on the stuff you are good at and outsource the rest
3. Supply: is it possible to outsource at all?



Section 4: Business system

Make or buy?

1. Strategic importance: F&E done in-house
2. Comparative advantages: focus on the stuff you are good at and outsource the rest
3. Supply: is it possible to outsource at all?



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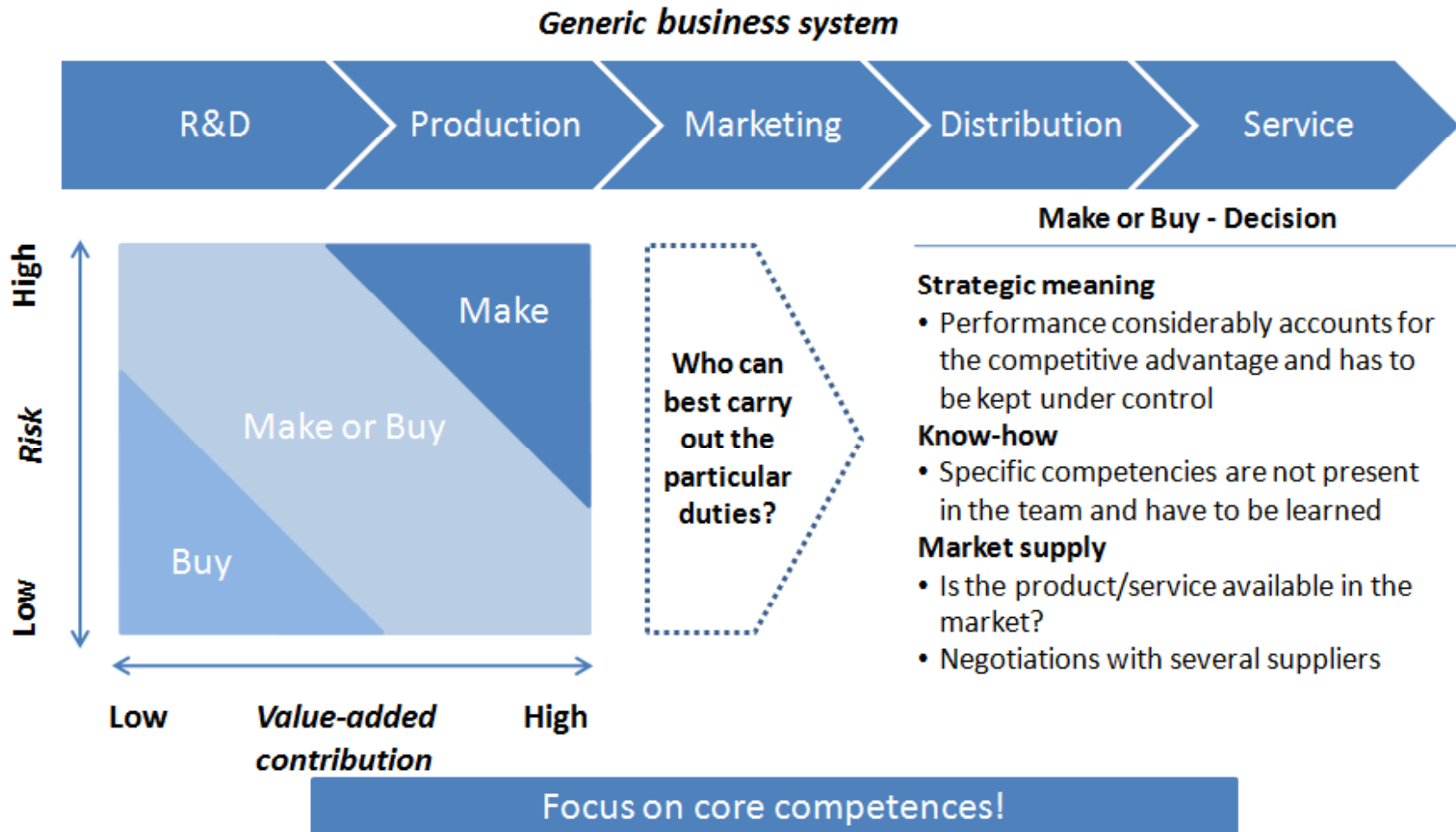
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Section 4: Business system



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90

Section 4: Business system

Business organization:

Strategic partnerships

1. Will the businesses I need as partners participate?
2. How motivated will the partners be?
3. Do they need to work against their self-interest? (win-win?)
4. Partnerships are strategic assets



Section 4: Business system

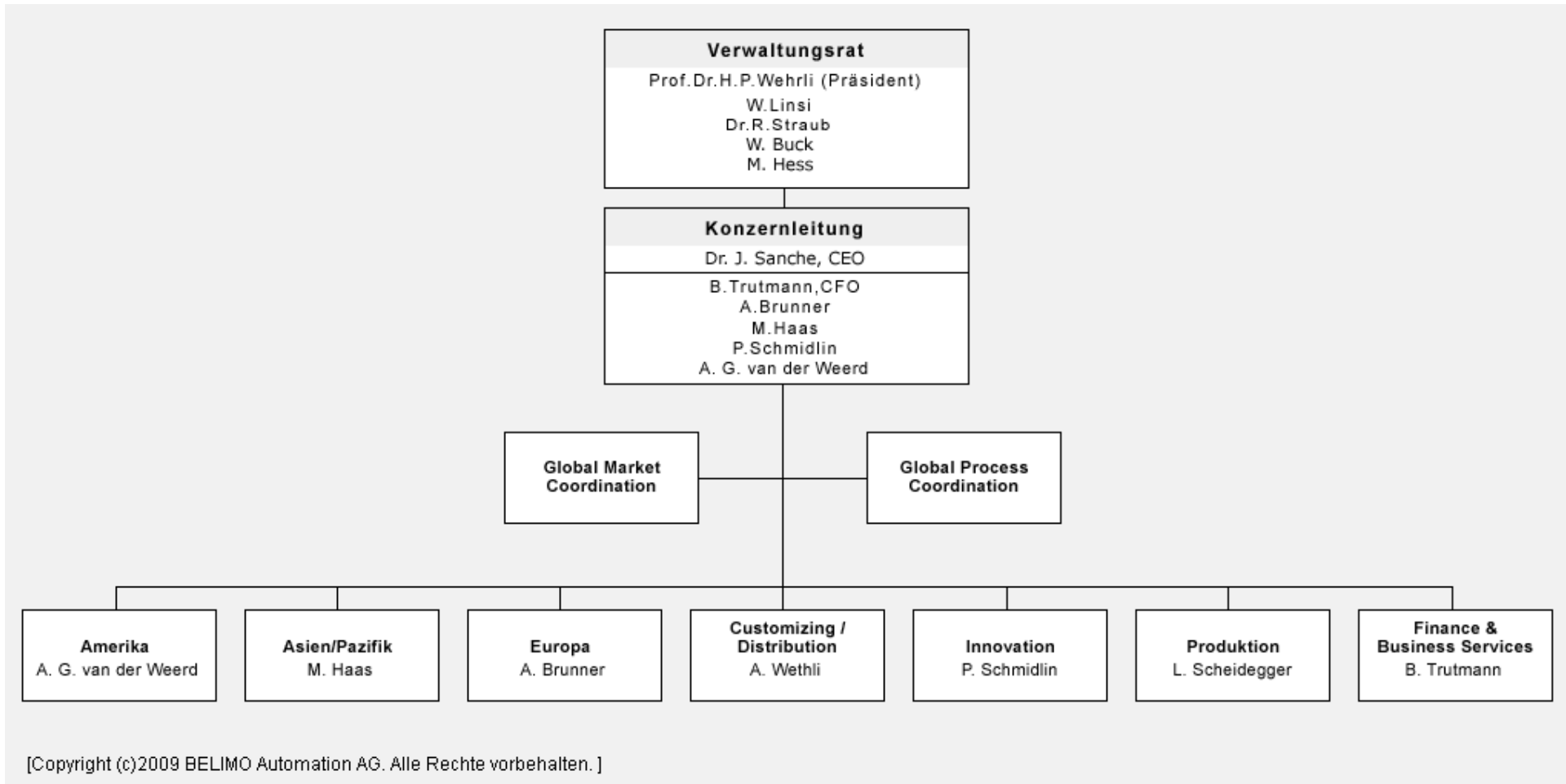
Business organization:

Organization

1. Who is responsible for what?
2. Who reports to whom?
3. Responsibilities according to competencies



Section 4: Business system



Section 4: Business system

Personnel planning:

1. Growth requires staff
2. Plan ahead – six months notice
3. Qualified labor is hard to find, even in times of high unemployment



Section 4: Business system

Legal & ethical foundation:

Establishing a strong ethical culture

Choosing an attorney

Ethically departing from an employer

Drafting a founder's agreement

Avoiding litigation

Choosing a form of business ownership

Source: BI



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Sept. 24, 2010

95

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Legal & ethnical foundation:



Source: BI



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Sept. 24, 2010

96

Section 4: Business system

Legal & ethnical foundation:

1. Lead By Example
2. Establish a Code of Conduct
3. Implement an Ethics Training Program
4. Create an incentive system (use game theory!)
5. A well working firm is able to retain its workers!



Section 4: Business system

Location:

1. Legal environment: liability, taxes
2. Political environment: guarantee of ownership, regulation, standards, start up subsidies
3. Economic environment: business cycle, unemployment, rents and real estate prices
4. Proximity to buyers and suppliers
5. Access to qualified workers and know-how
6. Expect to switch locations frequently within the first five years in business



Section 4: Business system

Questions you should be able to answer yourself:

1. Business system: What does our business system look like? What are the value creating activities? Where do we locate?
2. Organization: What functions constitute our organization?
3. Values and norms: What value and norms coin our organization?
4. Partnerships: What do we make, what do we buy? With which firms do we want to partner? What are the pros and cons of partnering?
5. Production: What does our production look like? What materials do we need?



Section 4: Business system

Questions you should be able to answer yourself:

6. Personnel: What is our staff size in five years? Can we find qualified workers on the labor market or do we need to educate ourselves?
7. Employees: What are the roles, skills and educations of our workers? How many employees will we have? What does the incentive system look like? How do we recruit?



Section 4: Business system

Suggested organization in a business plan:

1. Business organization
2. Partners
3. Structure
4. Personnel
5. Location



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Sept. 24, 2010

101