



Augmented training methodology and materials

CERlecon - CE119
Deliverable D.T2.7.3

Final version
03 2018



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1. Project summary and document introduction

Change is still needed to make the cities and regions in Central Europe better places to work and live. Daring young entrepreneurs with brilliant ideas could contribute considerably to this change. But they can't. Factors such as a lack of an entrepreneurial culture and mind-set leading to a limited interest in entrepreneurship are hampering their efforts. There is also inadequate training to improve their skills and entrepreneurial competences and innovation in general is being hampered by the lingering effects of the historical east-west divide and the recent economic crisis through an underinvestment in R&D.

And yet, entrepreneurs must be empowered to create change; they "form the majority of business entities and are the biggest employers" in Central Europe. "It is important to provide, at regional level, the right mix of financial and non-financial support to assist entrepreneurs to create new firms." "And this is our goal. By mid-2019, we will contribute to a change in the way entrepreneurs are inspired, trained and supported through a balanced package of strategies, actions plans, pilot actions, training, and tools to create new-type comprehensive regional innovation ecosystems in seven Central Europe regions. With our three-step logical project approach (Development - Implementation - Improvement), we want entrepreneurs and SMEs to benefit the most from what we do. But also their regions will benefit because from now on regional smart specialization strategies will be further used to develop novel technologies, and brilliant products and services for economic and social innovation." The joint development of all outputs and a transnational network interlinking the regional ecosystems to improve international skills emphasize the project's transnational character. At present, there is presumably no such state-of-the art innovative support scheme in Central Europe. "That is why everything that we do will be transferable for the benefit of others."

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WORK PACKAGE T2 will implement the new-type comprehensive six-domain regional innovation ecosystems in PP regions to train and create new firms, above all through synergies with funding initiatives.

It will also implement the trans. network that interlinks the ecosystems to accelerate international SME growth. T2 pilot actions will implement, test and evaluate the T1 eConcepts, leading to strategy finalisation. T2 will produce four outputs to achieve Project SO2/Results.

Output O.T2.1: Reg. Playparks: 7x reg. pilot actions for innovation ecosystems implementation in PP regions through two activities: (1) Development: Pilot action template for six-domain reg. ecosystems, leading to (2) Implementation: Reg. Playparks in PP Regions based on reg. pilot actions.

Output O.T2.2: Playparks network: 1x trans. pilot action for innovation ecosystems network implementation through two activities: (1) Development: Pilot action template for trans. network incl. links between reg. Playparks and the network, leading to (2) Trans. Pilot Action tailored to and implemented in the project area.

Output O.T2.3: Playparks network: Joint Playpark staff training through two activities: (1) Initial joint trans. training of Playpark staff and after the 1st cohort training experience at the reg. Playparks (2) Augmented joint trans. training of Playpark staff.

Output O.T2.4: Playparks network: Training methodology and materials ePortfolio through one activity: (1) Training methodology and materials for Playpark staff training. Process-related communication aims to increase the commitment of the target group (policy/support/SME/funding initiatives) and to create a positive attitude towards the Playparks and network.

Led by an experienced start-up/SME support provider (PP10), all project partners will be involved in all WP activities. T2 is the logical result of T1 and prepares the way for T3.

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DELIVERABLE D.T2.7.3

Augmented training methodology and materials

Reg. Playpark staff and the training team develop together staff training methodology and materials, which are posted to the online Playparks network platform (D.T2.4.1)

The purpose of this document is to depict the training methodology of the Augmented training methodology and materials to be held in Brno in March 2018, as well as to collect the materials to be used during the training.

2. Augmented training methodology

The Augmented joint transnational training (D.T2.6.2) will be held in Brno, Czech Republic, in March 2018. The purpose of the Augmented joint transnational training is to enable each partner to successfully organize and run the regional CERlecon Playparks.

The training has been tailored according to the feedback collected in the evaluation process of the Joint initial training (D.T2.5.3) and of the training methodology and materials used (D.T2.7.2), as well as according to the feedback collected during the SC Meeting in Rijeka in November 2017 (D.M.3.7).

The training will be action oriented - the aim is to enable participants to use and to teach the selected tools and activities that are to be applied in all seven regional Playparks, and to deepen the knowledge of tools already being used at the regional Playparks.

Moreover, the training will be run by project partners themselves and is envisaged as a learning activity, as well as knowledge sharing among partners. PP6 Stuttgart Media University and PP10 STEP RI Science and Technology Park of the University of Rijeka will be delivering the workshops during the Augmented joint transnational training.

Key characteristics of the training:

- Train the trainer/consultant/mentor format
- Workshop style - extremely practice oriented - participants should be able to deliver lectures and/or mentorship to Playpark beneficiaries
- Q&A sessions
- Leveraged with reading materials, tools and other sources (books, webinars, YouTube...)

Key topics of the training:

- Playpark management and startup consulting skills in general
- Startup development and growth tools (Business Model Canvas, Business plan, Easy Start-up simulation)

3. Augmented training materials

Training materials are sorted below according to the daily timetable.

	12.03.	13.03.	14.03.	15.03.	16.03.
	Monday	Tuesday	Wednesday	Thursday	Friday
08.00 - 09.00	Travel				
09.00 - 10.00				Business Planning PP10 STEP RI	Easy Startup Simulation PP6 HdM
10.00 - 11.00		Business Model Canvas PP10 STEP RI	Business Planning PP10 STEP RI		
11.00 - 12.00					
12.00 - 13.00		<i>Lunch Break</i>	<i>Lunch Break</i>	<i>Lunch Break</i>	<i>Lunch Break</i>
13.00 - 14.00					
14.00 - 15.00				Easy Startup Simulation PP6 HdM	
15.00 - 16.00		Business Model Canvas PP10 STEP RI	Business Planning PP10 STEP RI		Travel
16.00 - 17.00					
17.00 - 18.00					

Interreg

CENTRAL EUROPE

CERlecon



European Union
European Regional
Development Fund

TAKING
COOPERATION
FORWARD



Training Brno 13.3.2018.



Business Model Canvas *applied*



CERlecon, PP10 STEP RI, Boris Golob bgolob@uniri.hr

Agenda

- BMC recap
- Traditional “analog” Taxi Business model
- Every day BM – Local restaurant
- Social/Mission driven BMs
- Technology enabled BM
- Sustainable Playpark BM
- Product to service BM (Interreg CE Things+)

Know your business model

Recap&Upgrade

How do you make money and more...

Business model is
the rationale of how an
organization creates, delivers and
captures value
= makes money
+ impact
social & environmental

For understanding,
analysis and creation
of business models
you need...












The Business Model Canvas.

It allows you to describe, design, challenge, invent, and pivot your business model.

The Business Model Canvas

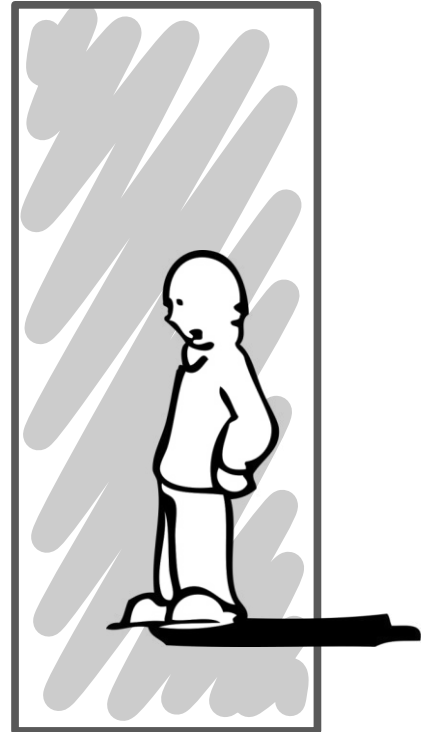
Designed for: _____ Designed by: _____ Date: _____ Version: _____

Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 			Revenue Streams 	

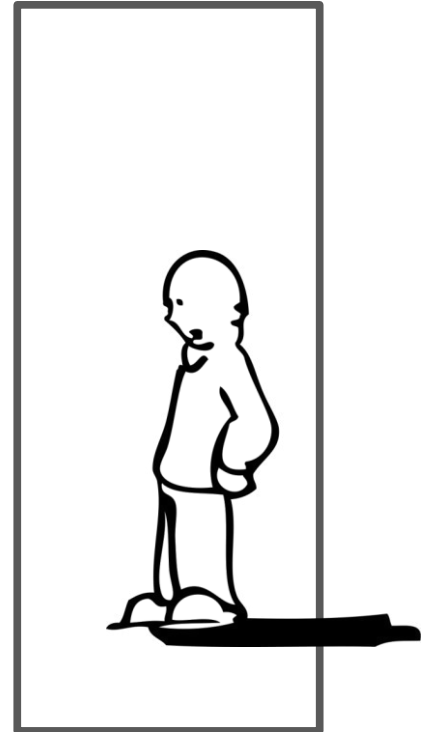
DESIGNED BY BUSINESS MODEL FOUNDATION AG, THE MAKERS OF BUSINESS MODEL GENERATION AND STRATEGYZER
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Strategyzer
strategyzer.com

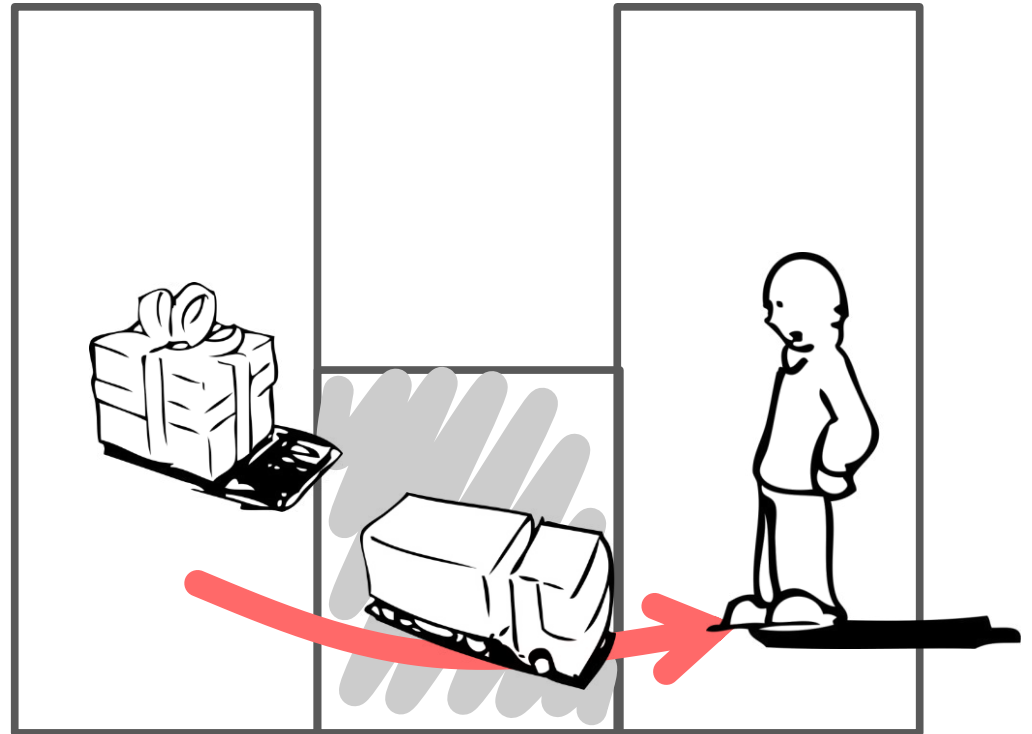
Customer Segments



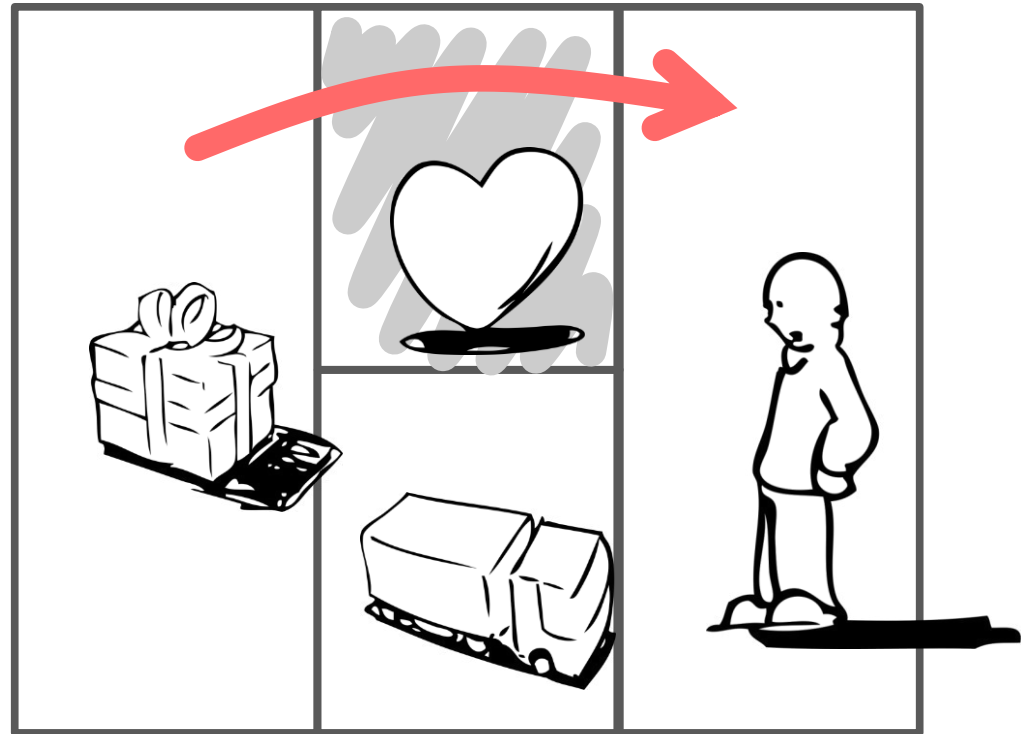
Value Proposition



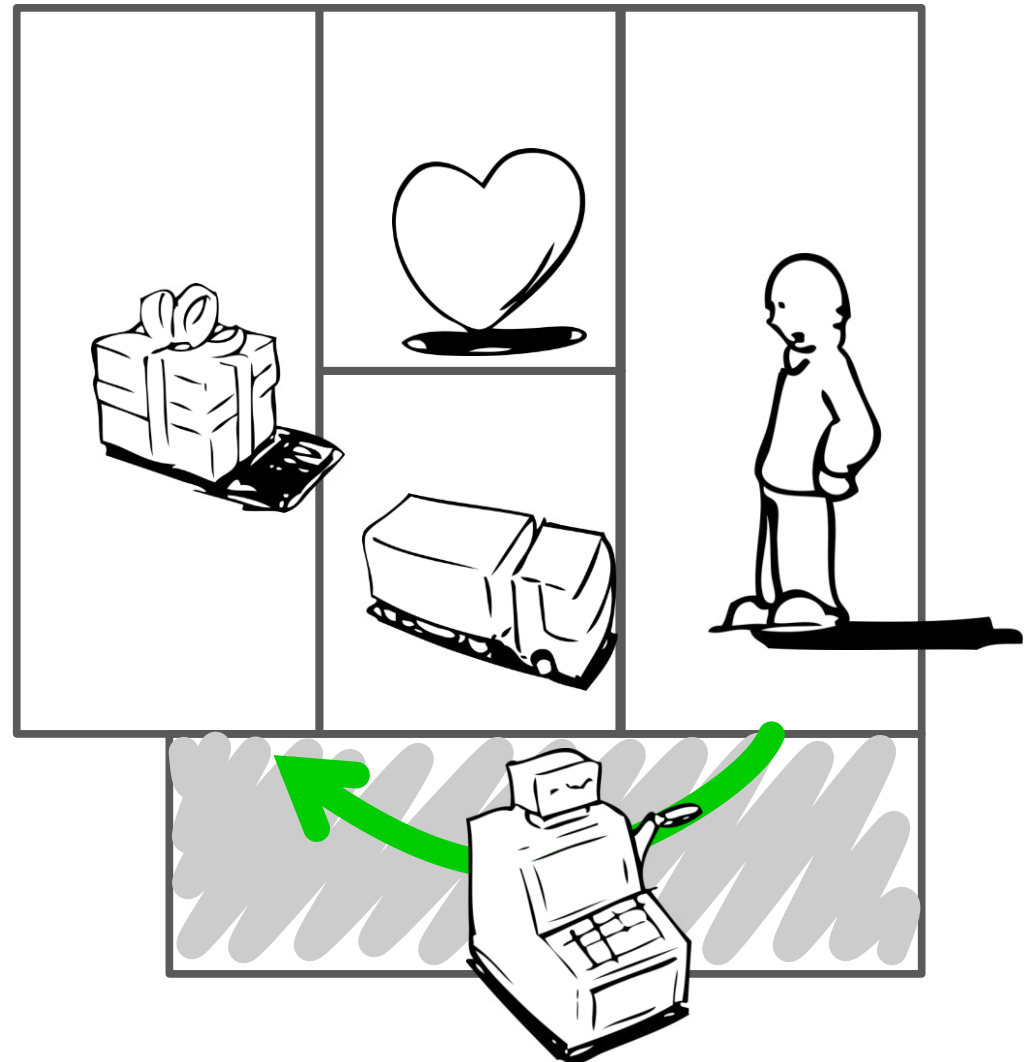
Channels



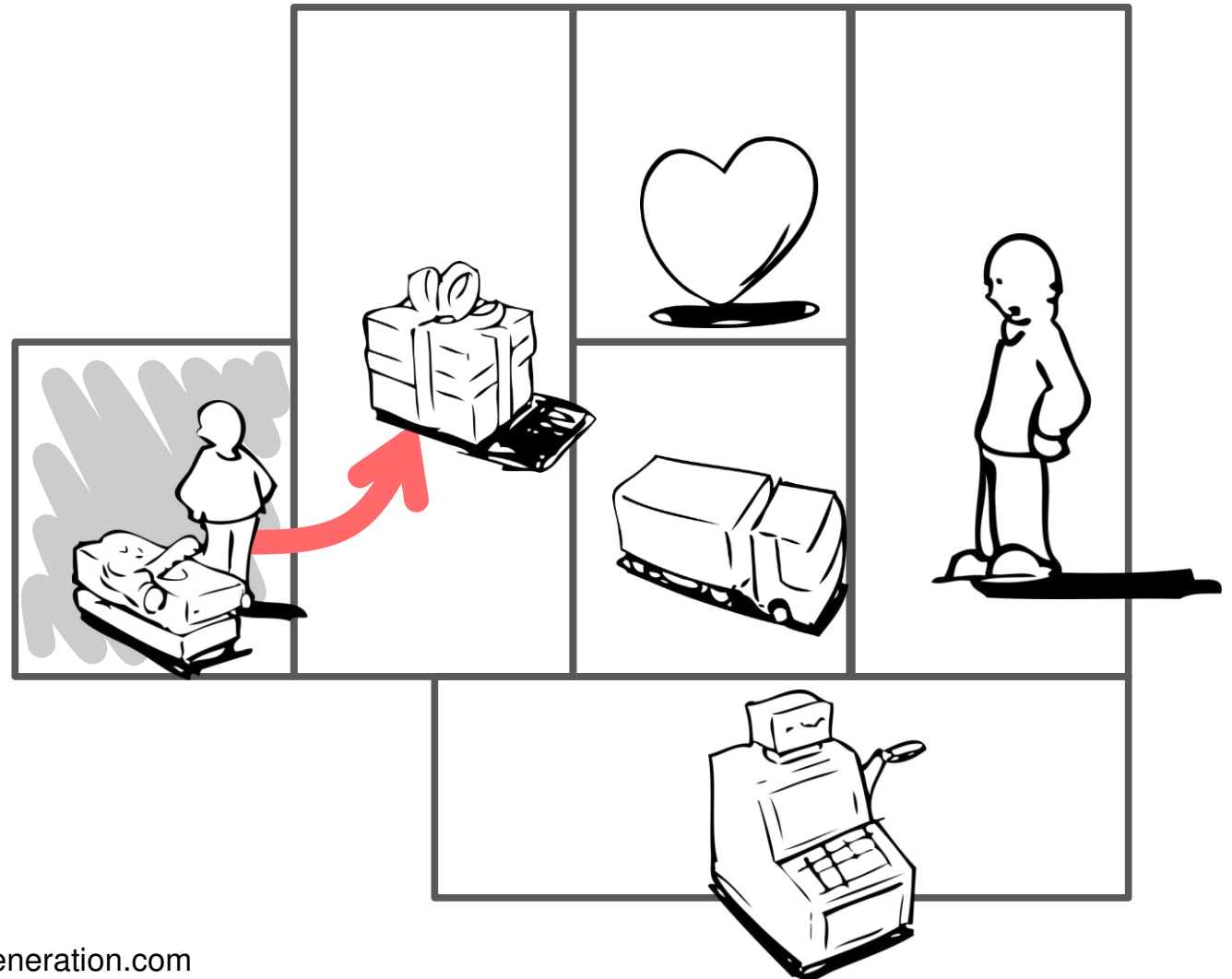
Customer Relationships



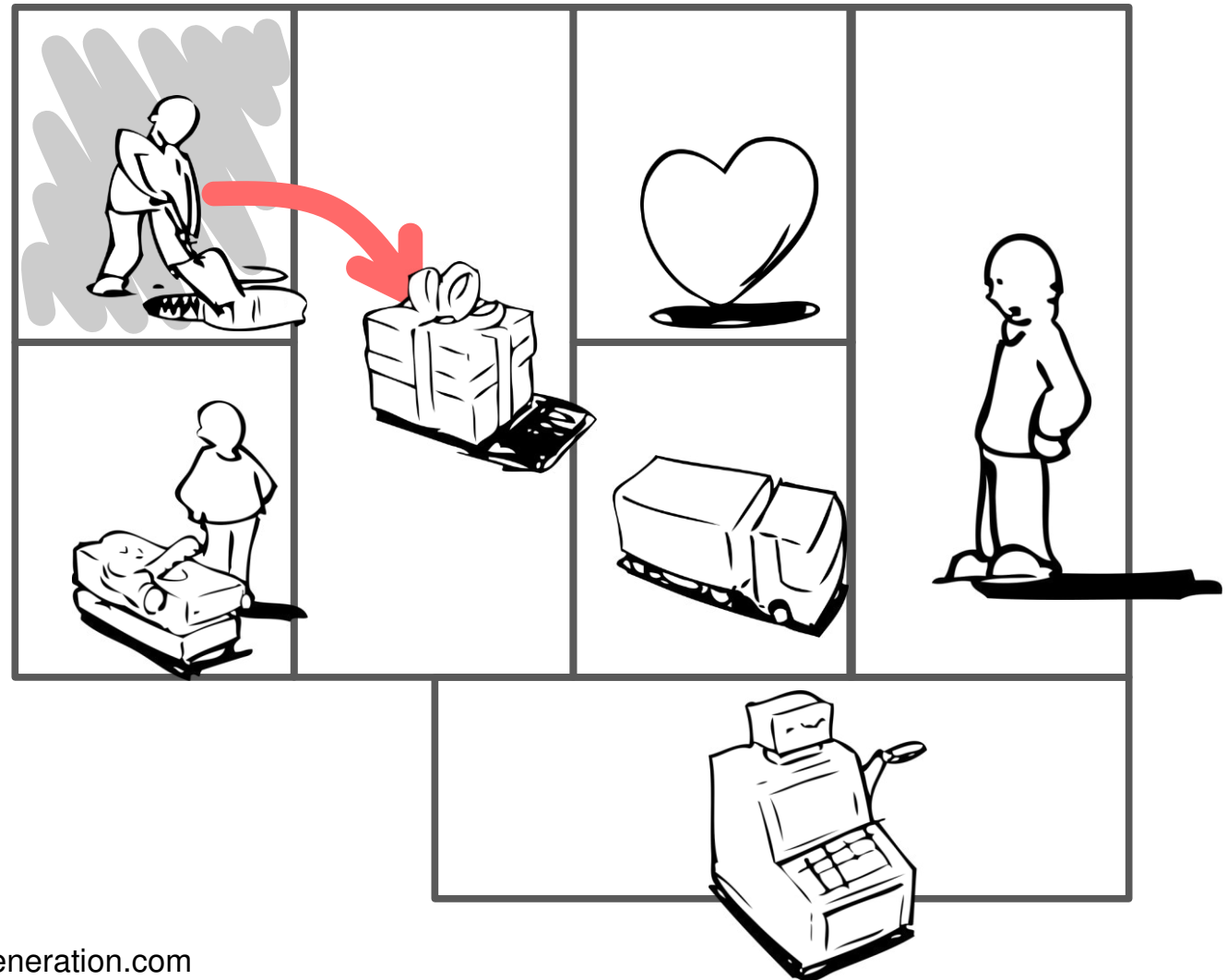
Revenue Streams



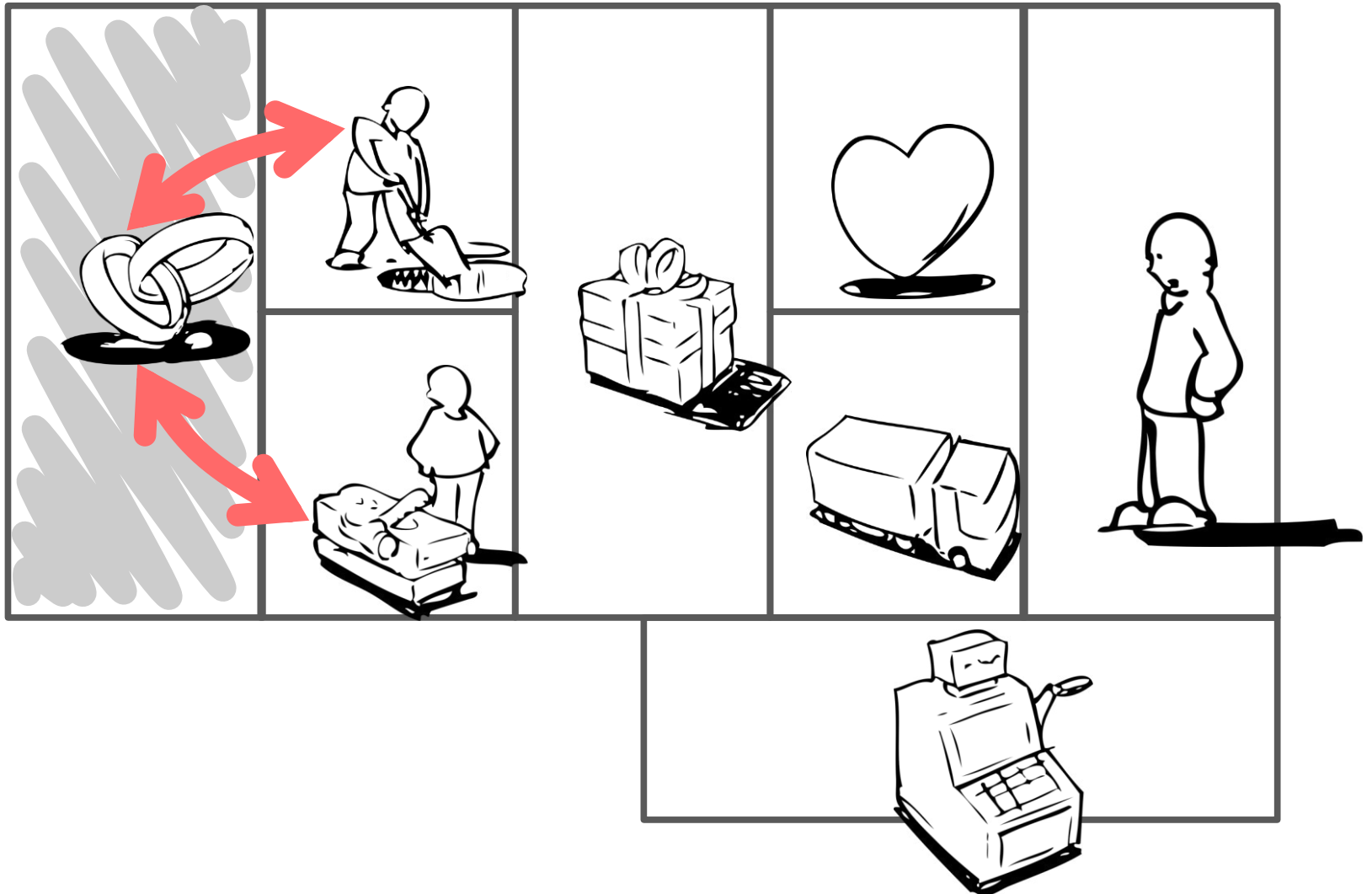
Key Resources



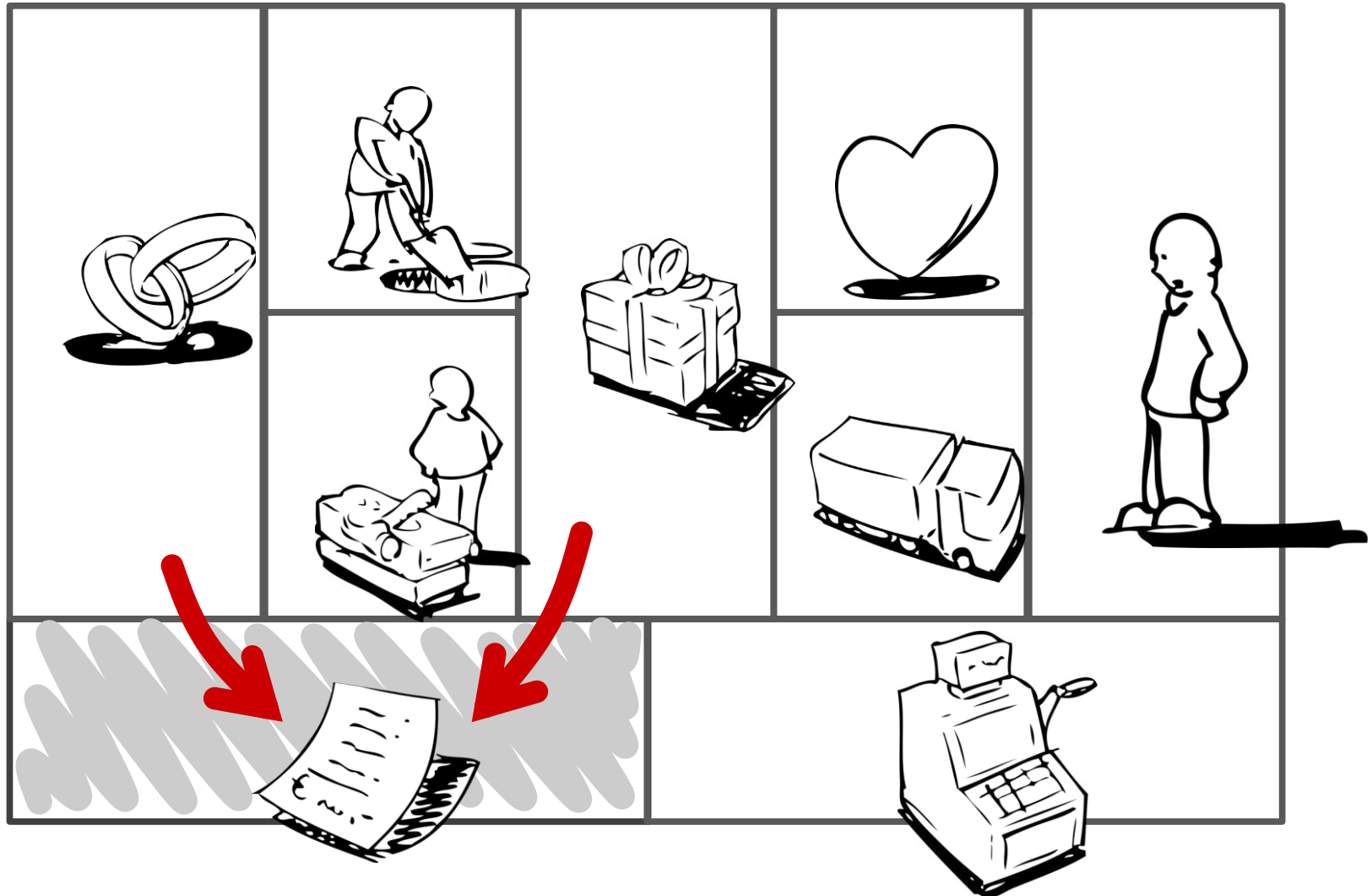
Key Activities



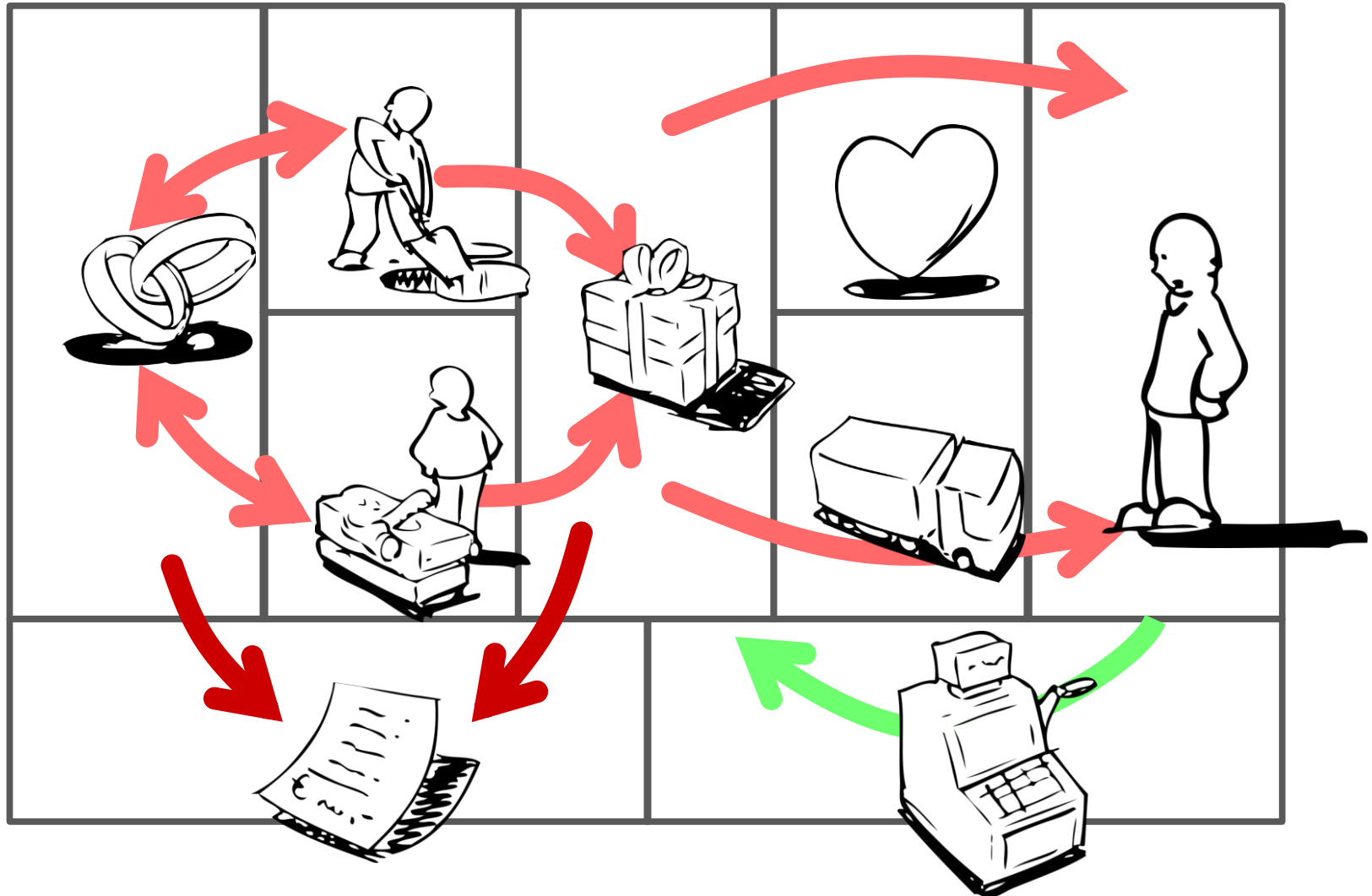
Key Partners



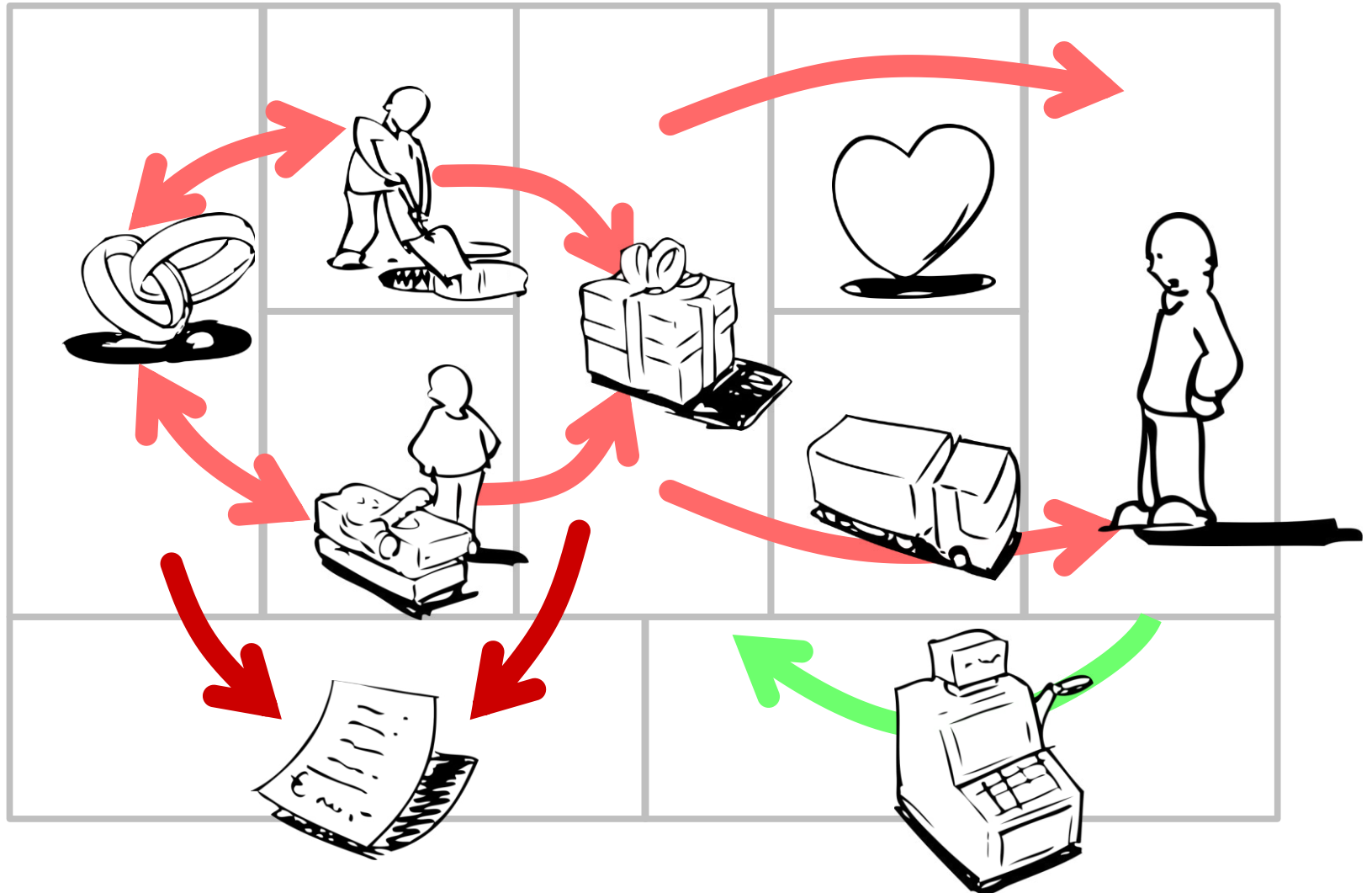
Cost Structure



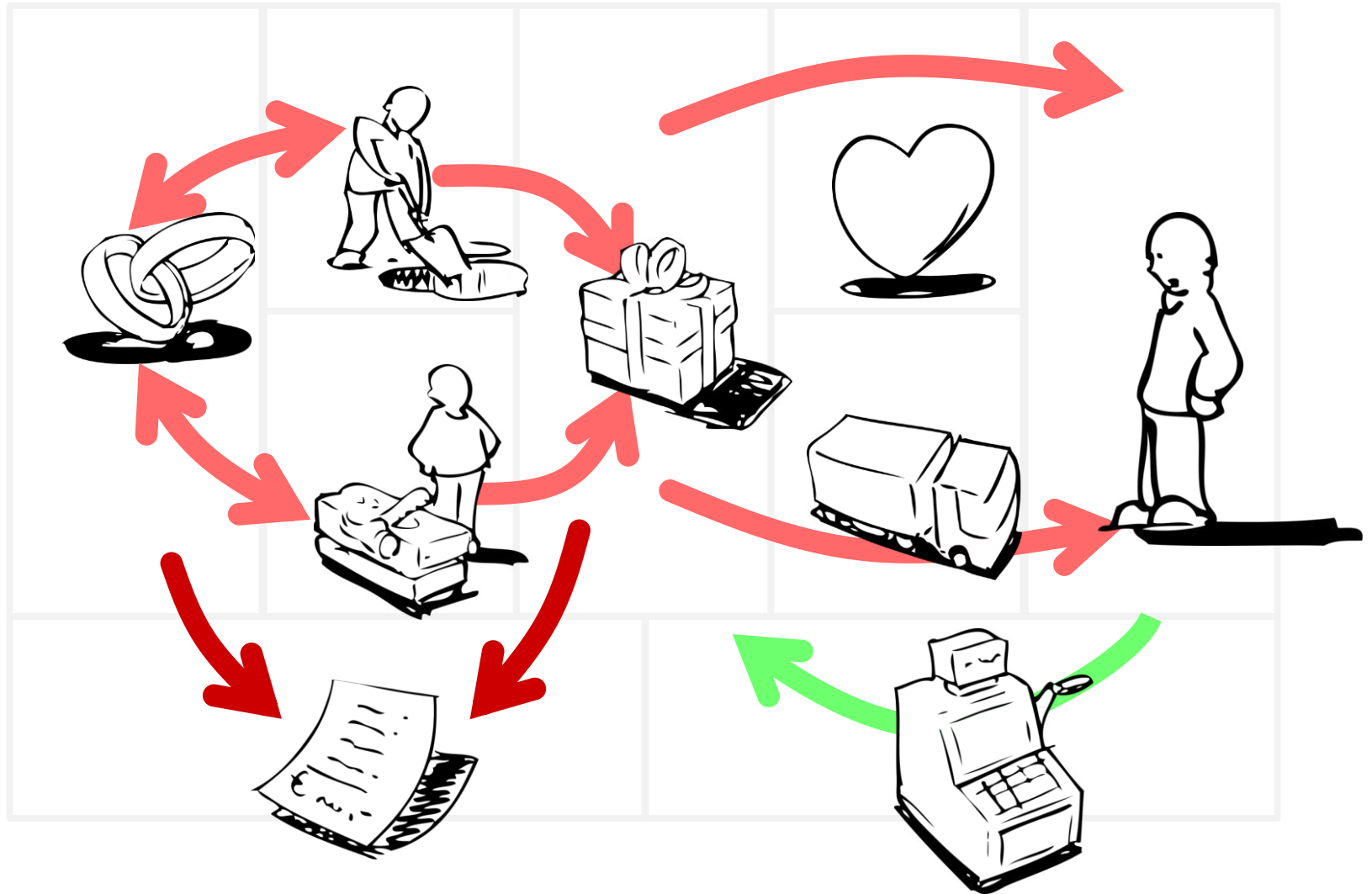
Business Model Canvas



Business Model Canvas



Business Model Story





Create your own
business model

Ground Rules

RULE #1

Avoid writing directly on a canvas



RULE #2

Don't get stuck with *Blah Blah Blah*



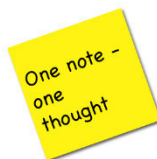
RULE #3

Start with any building block



RULE #4

Never use bullet points

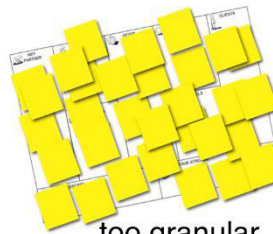


RULE #5

Avoid too much detail



too much info



too granular

RULE #6

Be precise for every building block



Best Practices

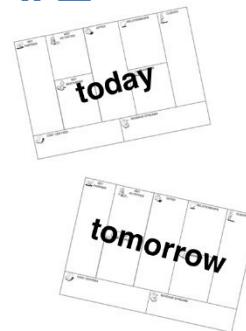
Practice #1

Use colour
to separate
segments



Practice #2

Separate
'as-is' and
'to-be'



Practice #3

Distinguish
between
fact and
assumption



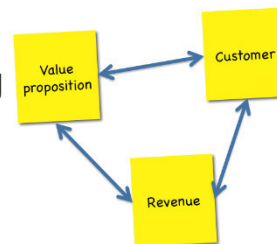
Practice #4

Design a
BM with a
story



Practice #5

Connect
the building
blocks

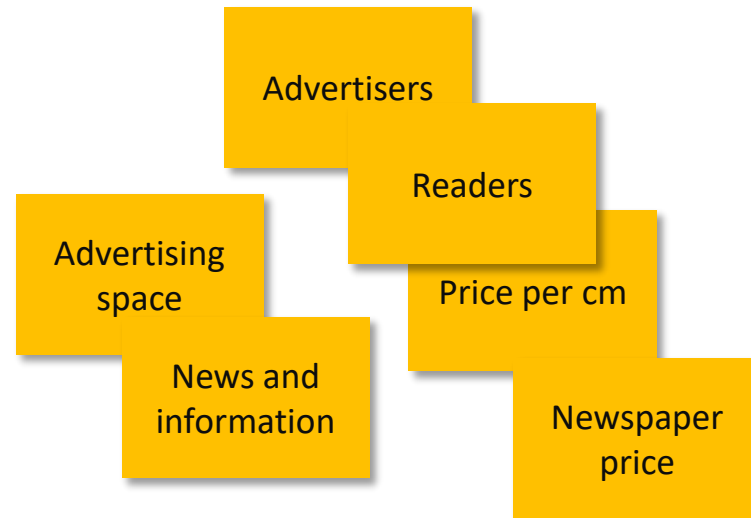


Practice #6

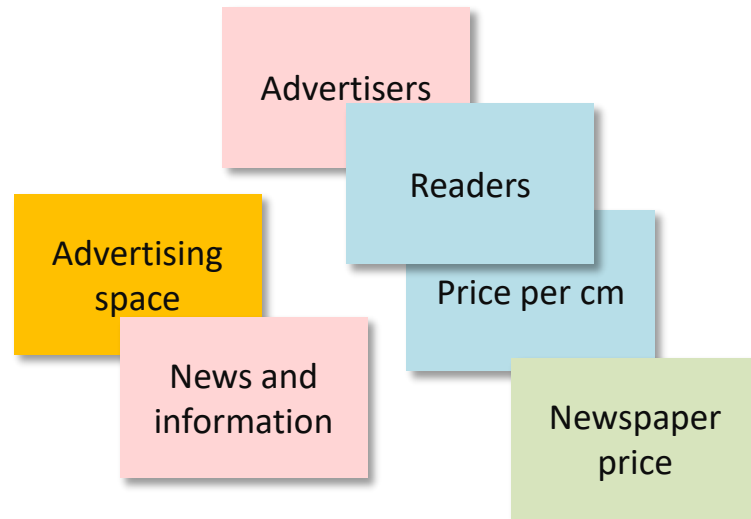
Different
ideas and
stories in
separate
canvases



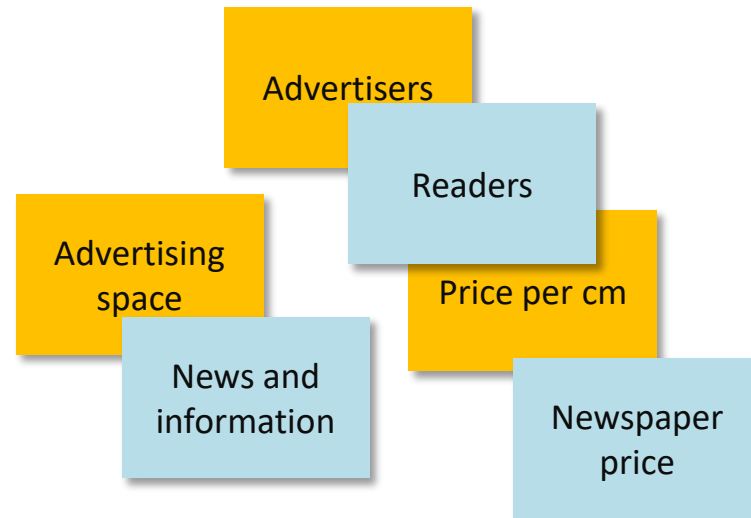
Color coding



Color coding



Color coding





Business model example



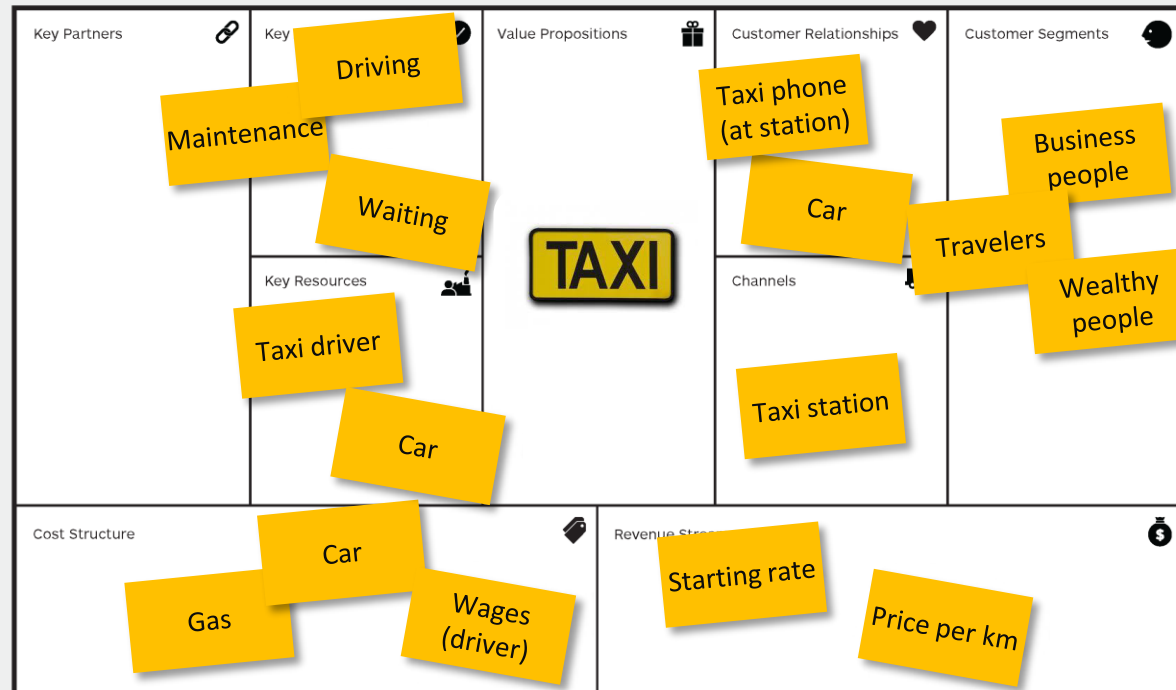
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



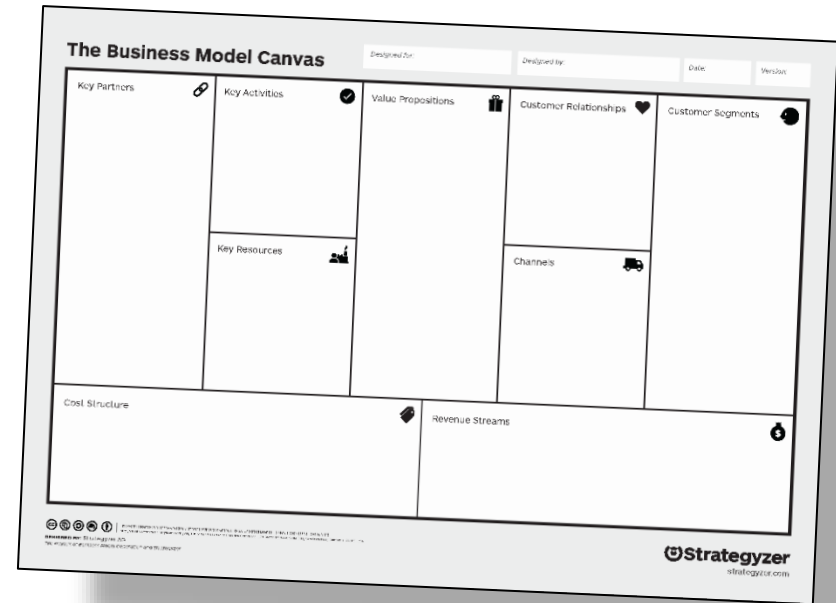
This work is licensed under the Creative Commons Attribution-ShareAlike 3.0 Unported License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-sa/3.0/> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.

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Strategyzer
strategyzer.com



Recreate existing business model



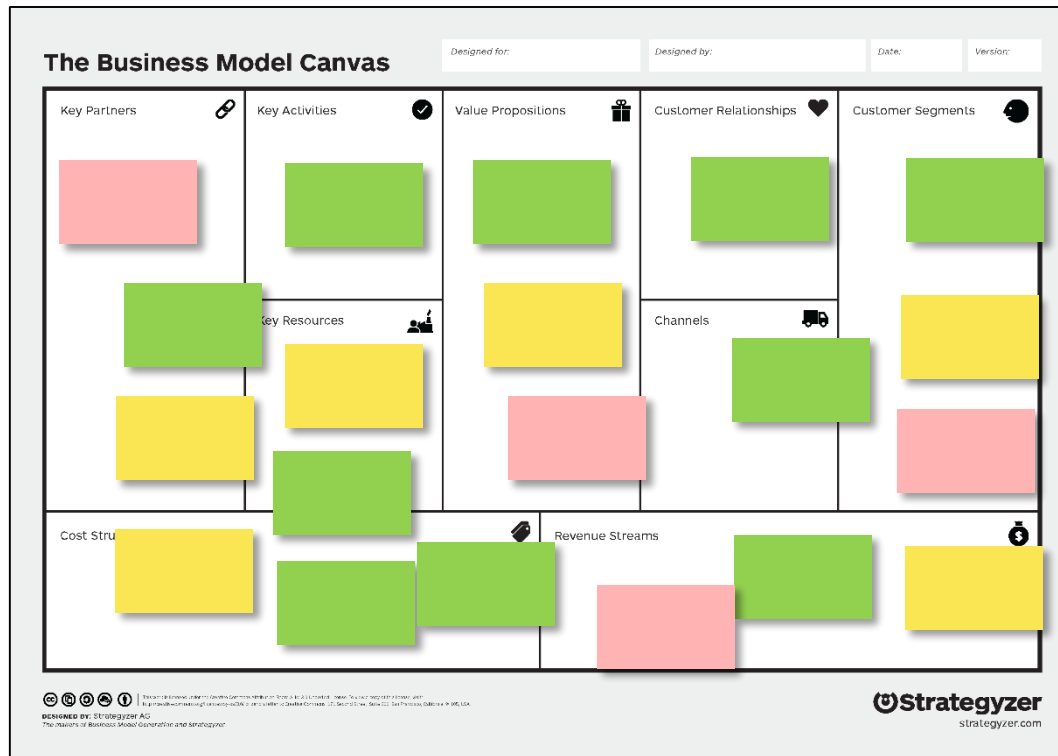
Level 1: Checklist

Use BMC as checklist for each BM key element





Present your restaurant BM





Best Practices

Traveling Oral Surgery

Key Partners



- Practice Administrators provide access to the Dental Clinics
- Dental Clinics provide access to the indigent population and the facilities to provide advanced oral care services
- Oral Surgeons provide the needed skills to perform the advanced oral care
- Dental Anesthesiologists are required to perform surgeries

Key Activities



- Performing oral surgeries and advanced oral care/ procedures
- Billing and submitting claims to Medicaid
- Staffing for performance of surgeries
- Scheduling of clinic visits and patient procedures

Value Propositions



- Medicaid benefits from the reduction of ongoing costs of oral hygiene by providing preventative care
- Dental Clinics are recipients of the services

Customer Relationships



- An arms length, very impersonal relationship with Medicaid
- A one-to-one personal relationship with dental clinics

Customer Segments



- Medicaid
- Dental Clinics
- Indigent Population
- Parents of Children w/ Dental Needs on Medicaid
- Children w/ Dental Needs



Cost Structure



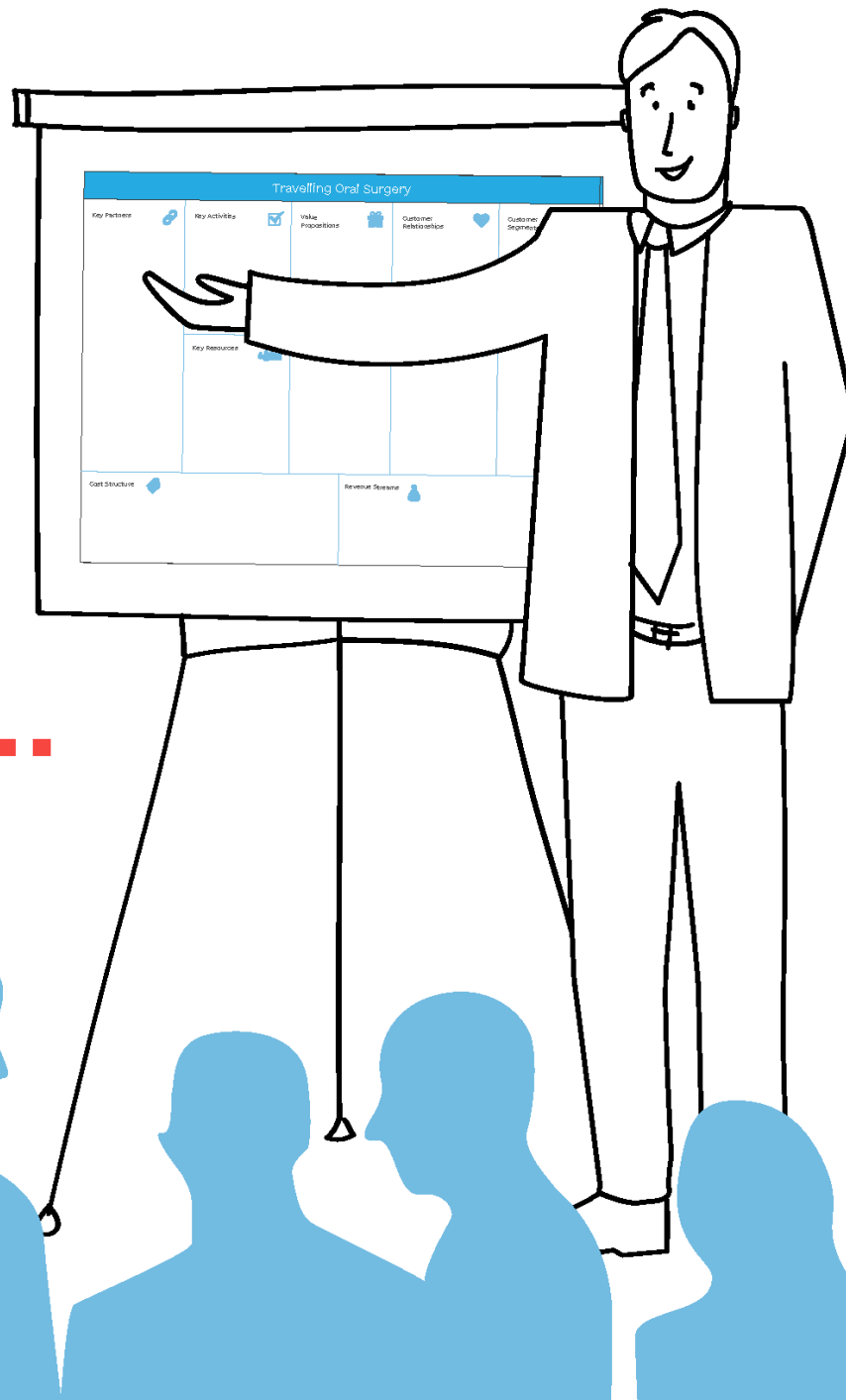
- Accreditation and compliance are ongoing costs
- Rental of clinical facilities in scheduled locations
- Personnel required for operations and procedures
- Dental supplies necessary for surgery and advance care procedures

Revenue Streams

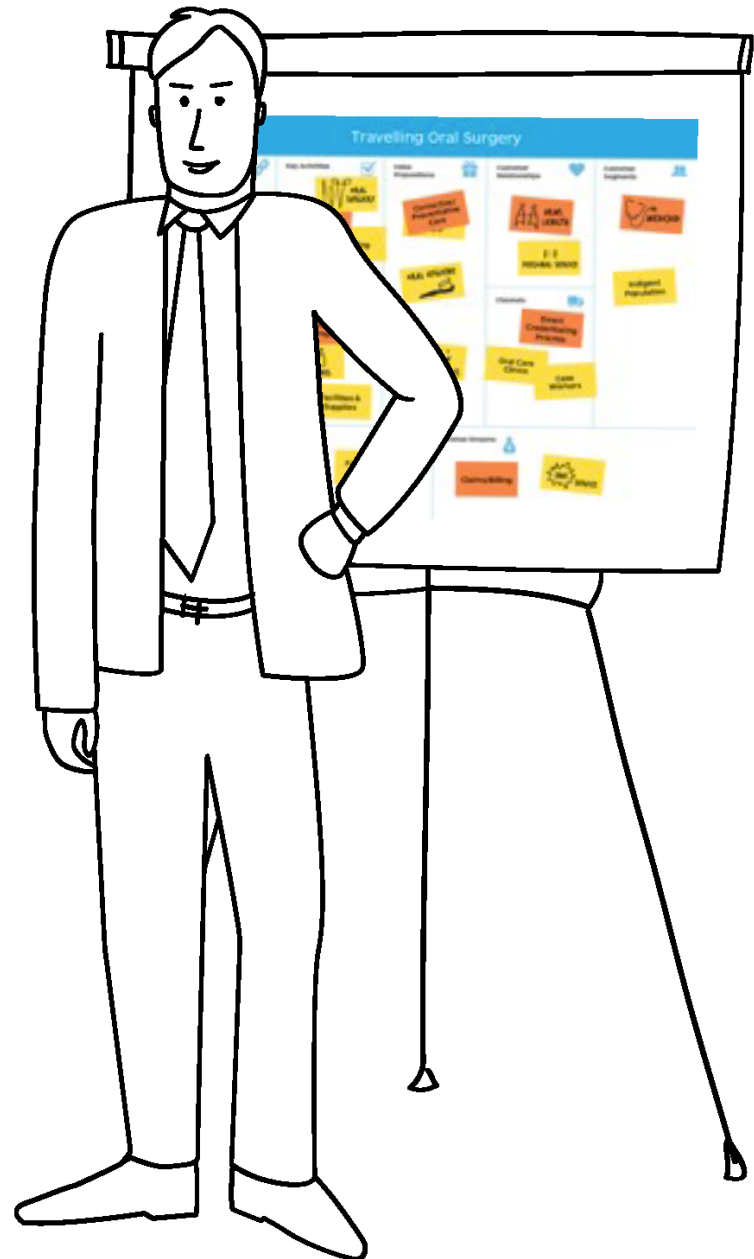
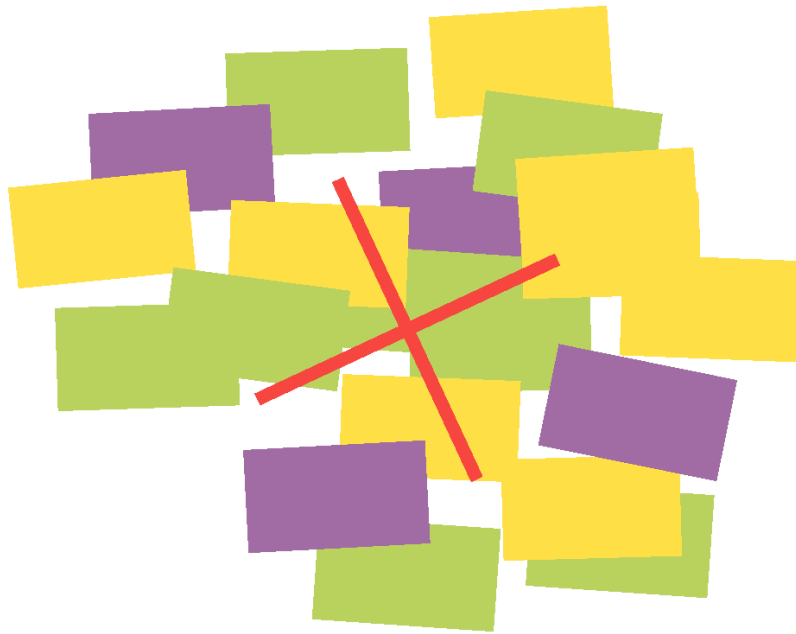


- We will make money by directly submitting claims and billing to Medicaid
- These will be fees for oral surgeon, the anesthesiologist, and the required facilities
- The dental clinics and the indigent population are not actual payers but are free beneficiaries of the model

tell a
story ...

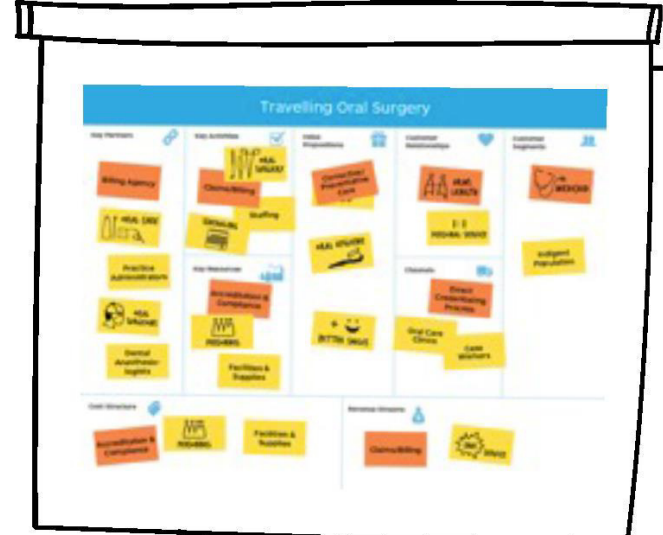


Be Concise!

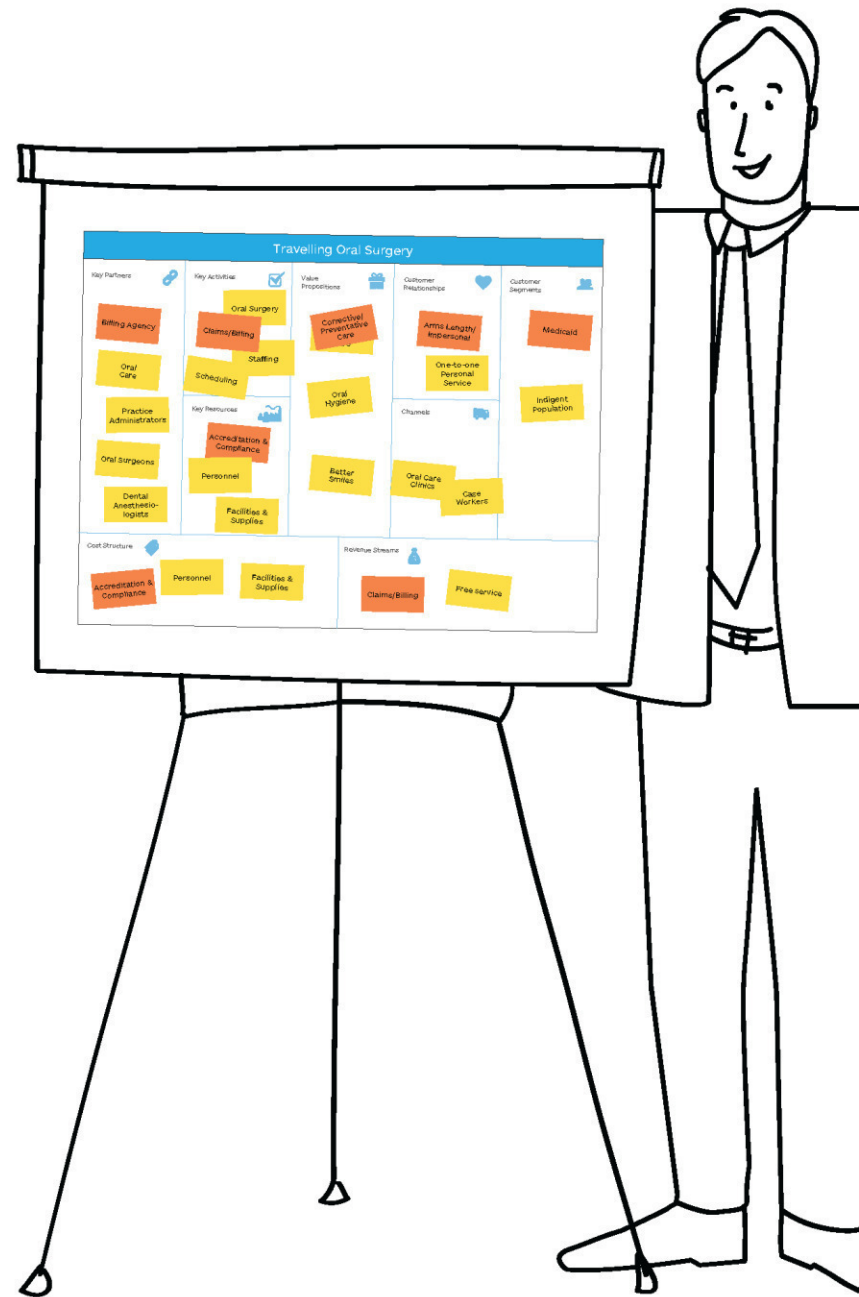


Better Smiles

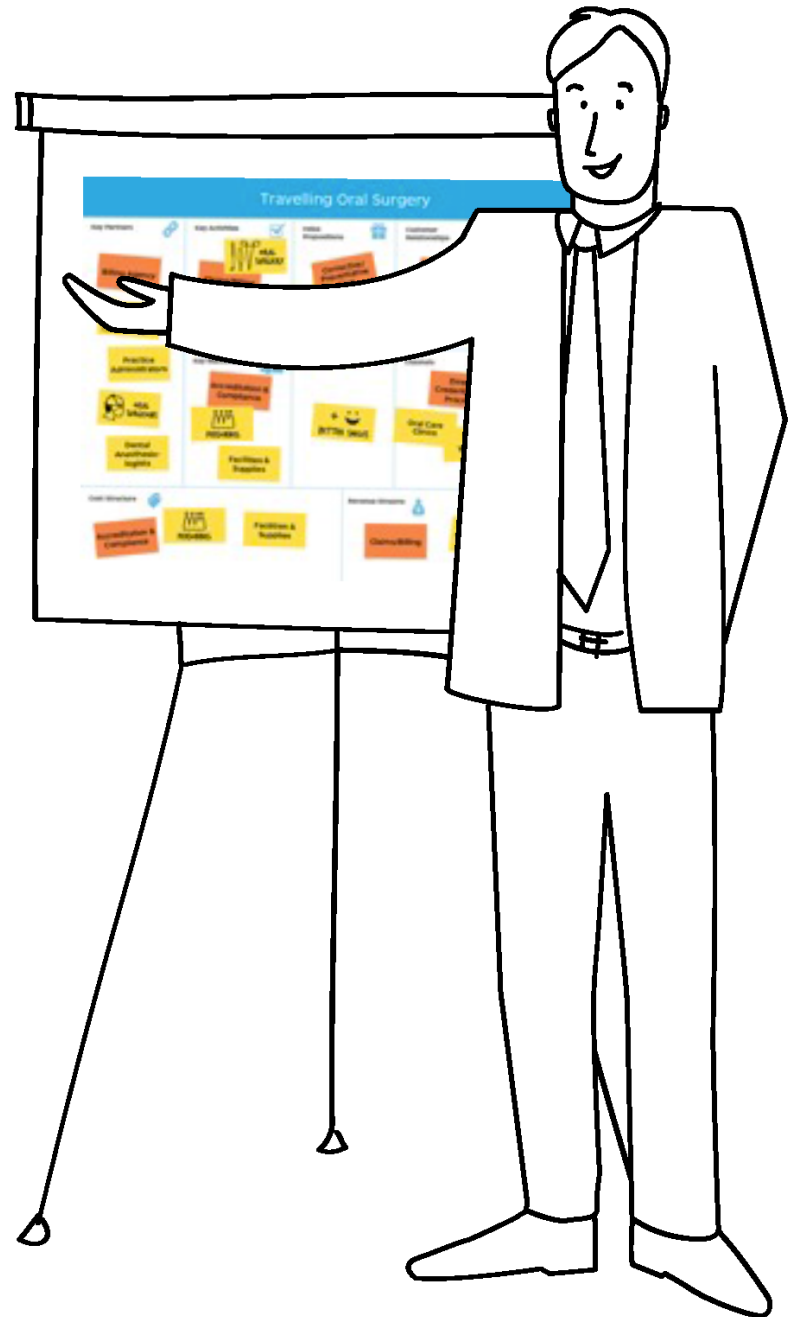
Better Smiles + 



Color Coding



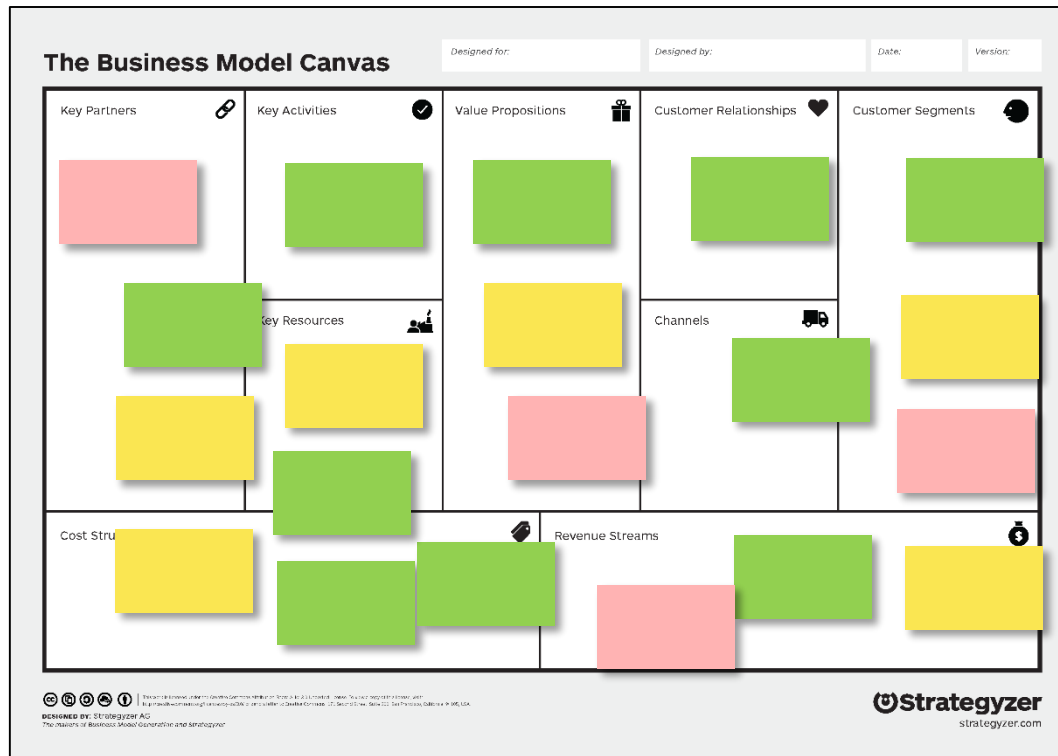
Add interest through the use of relevant multimedia







Present your restaurant BM





Present your restaurant BM



Designing Crystal Clear Business Model Canvases



Use this checklist to design great business models or assess your own:

- Does the level of granularity of your Canvas correspond to your objectives?**
 Your Canvas should only contain the most important building blocks when your objective is to explain the essence of your business model, also called the blueprint of your strategy. Your Canvas should have much more detail if its objective is to serve as a blueprint for implementation.
- Is every Building Block in your Canvas connected to one another?**
 Great Canvases have a story and flow where every building block relates to another. You should not have any "orphan" building blocks in your Canvas that don't connect to another building block. For example, a revenue stream always needs to come from a related customer segment for a related value proposition. Or a key partner always provides a key resource or activity that contributes to a value proposition. Or, there is no such thing as a customer segment with no specific value proposition.
- Is every Building Block in your Canvas precise enough?**
 Make sure every building business model block is self explanatory. For example, writing "products" in revenue streams is unclear. More precise would be "product sales" or "margins on product sales".
- Do you make smart use of both images and words to convey your message?**
 It takes our brain longer to process words than images, because every letter of a word is processed as an individual image. Hence, the use of images allows our brain to process a Canvas much quicker. To avoid ambiguity, the use of an image and a label for a building block is the most effective.
- Do you make good use of color-coding?**
 Using color-coding to explain specific aspects of your business model is a quick and easy way to clearly communicate even complex aspects of your business model. For example, you can use color-coding to highlight two very different segments with very different value propositions. Or you could use it to distinguish between your existing model and one you want to build.
- Does your Canvas distinguish between "as-is" and "to-be"?**
 Make sure you clearly distinguish between what exists in your business model the "as-is" state and what you want to or plan to build the "to-be" state. Color-coding can help achieve this distinction easily.
- Does your Canvas distinguish between "knowns/facts" and "unknowns/assumptions"?**
 When you are designing new business models, make sure you clearly distinguish between what you know (e.g. the demand for a specific value proposition) and what you don't know (e.g. which channels customers would prefer). You have facts to prove what you know (e.g. pre-orders), but only assumptions about the building blocks you think could work.

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Present your restaurant BM

Seven Questions to Assess Your Business Model Design

Assess your business model design. Circle how you perform on a scale from 0 to 10.

1. Switching Costs



0 ————— 10
Nothing holds my customers back from leaving me

My customers are locked in for several years

2. Recurring Revenues



0 ————— 10
100% of my sales are transactional

100% of my sales lead to automatically recurring revenues

3. Earning vs. Spending



0 ————— 10
I incur 100% of my costs of goods before earning revenues

I earn 100% of my revenues before incurring costs of goods & services sold (COGS)

4. Game-changing Cost Structure



0 ————— 10
My cost structure is at least 30% higher than my competitors

My cost structure is at least 30% lower than my competitors

5. Others Who Do the Work



0 ————— 10
I incur costs for all the value created in my business model

All the value created in my business model is created for free by external parties

6. Scalability



0 ————— 10
Growing my business model requires substantial resources and effort

My business model has virtually no limits to growth

7. Protection from Competition

My business model has no moats, and

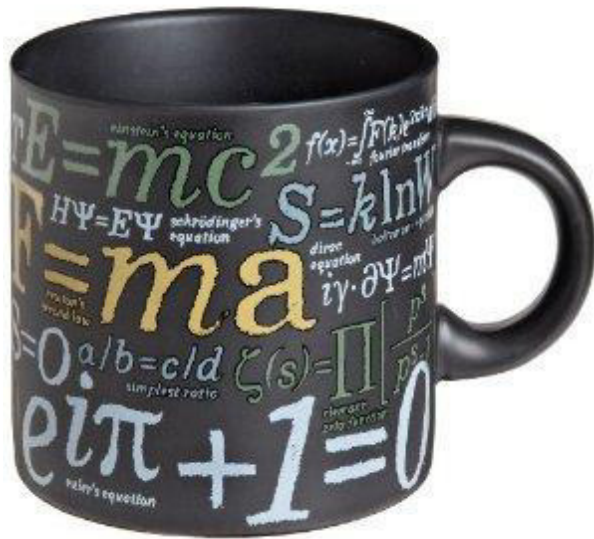
My business model provides substantial moats that are hard to overcome

Designing Crystal Clear Business Model Canvases



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- **Do you make smart use of both images and words to convey your message?**
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- **Do you have a good use of color-coding?**
Using color to explain specific aspects of your business model is a quick and easy way to clearly communicate complex aspects of your business model. For example, you can use color-coding to distinguish different segments with very different value propositions. Or you could use it to distinguish your existing model and one you want to build.
- **Can you distinguish between "as-is" and "to-be"?**
Distinguishing between what exists in your business model the "as-is" state and what you want to achieve the "to-be" state. Color-coding can help achieve this distinction easily.
- **Can you distinguish between "knowns/facts" and "unknowns/assumptions"?**
Business models make sure you clearly distinguish between what you know (e.g. which channels customer segments, what you don't know (e.g. which channels customer segments, but only assumptions about



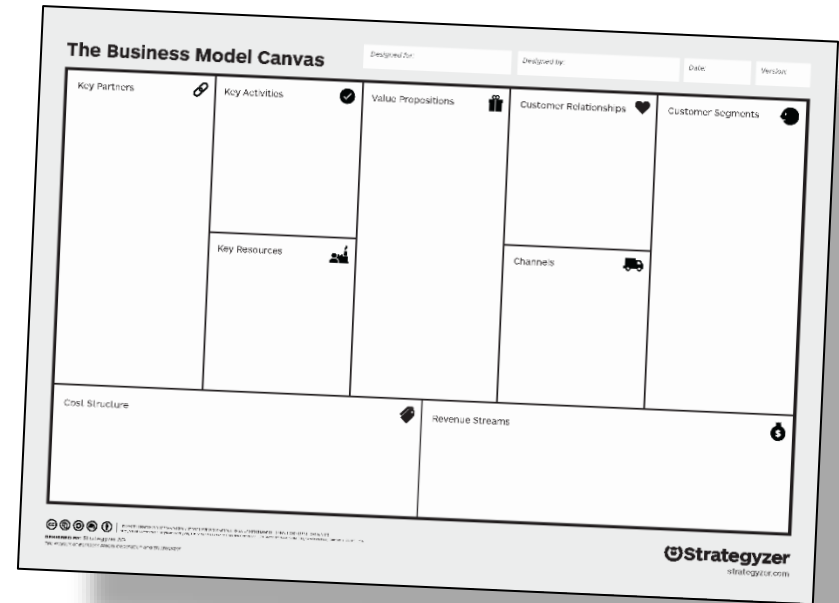
Short break

Want to solve
the real problem

...



Social/Mission driven BM



Today, more than
2.6 billion people
lack access to basic sanitation





Flying toilets





Peepoo is a personal, single-use, self-sanitising, fully **biodegradable toilet** that prevents faeces from contaminating the immediate area as well as the surrounding ecosystem. After use, Peepoo **turns into valuable fertiliser** that can improve livelihoods and increase food security



ICRC

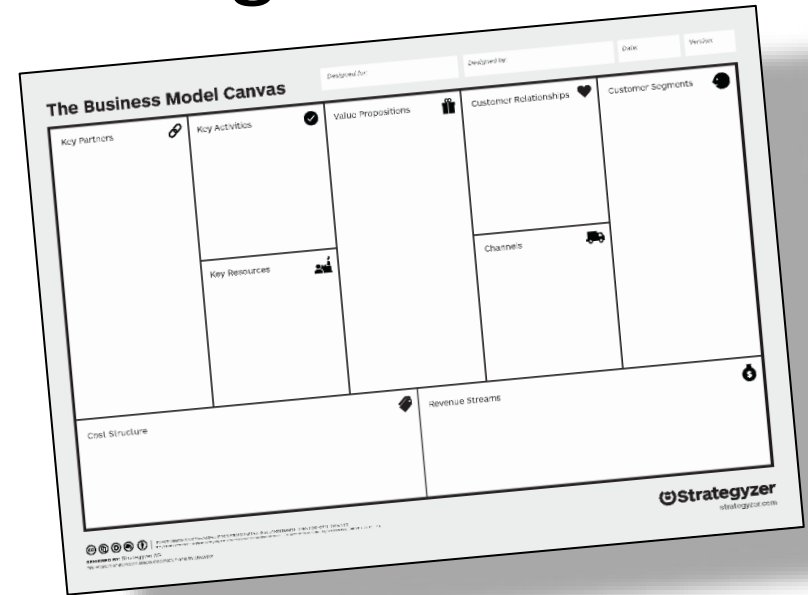
Independent, neutral organization ensuring humanitarian protection and assistance for **victims of armed conflict** and other situations of violence.



Inspired by Catholic faith, Caritas is the helping hand of the Church – reaching out to **the poor, vulnerable and excluded**, regardless of race or religion, to build a world based on justice and fraternal love.



Choose one and change the world



Task 1:

Value propositions & Customer Segments

Task 2:












Estimate Costs Drivers & Revenue streams



Define VP and CS, CS and RS

The Business Model Canvas

Designed for: _____ Designed by: _____ Date: _____ Version: _____

Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 		Revenue Streams 		

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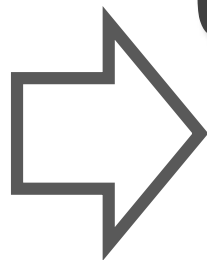
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Technology enabled BM evolution



TAXI



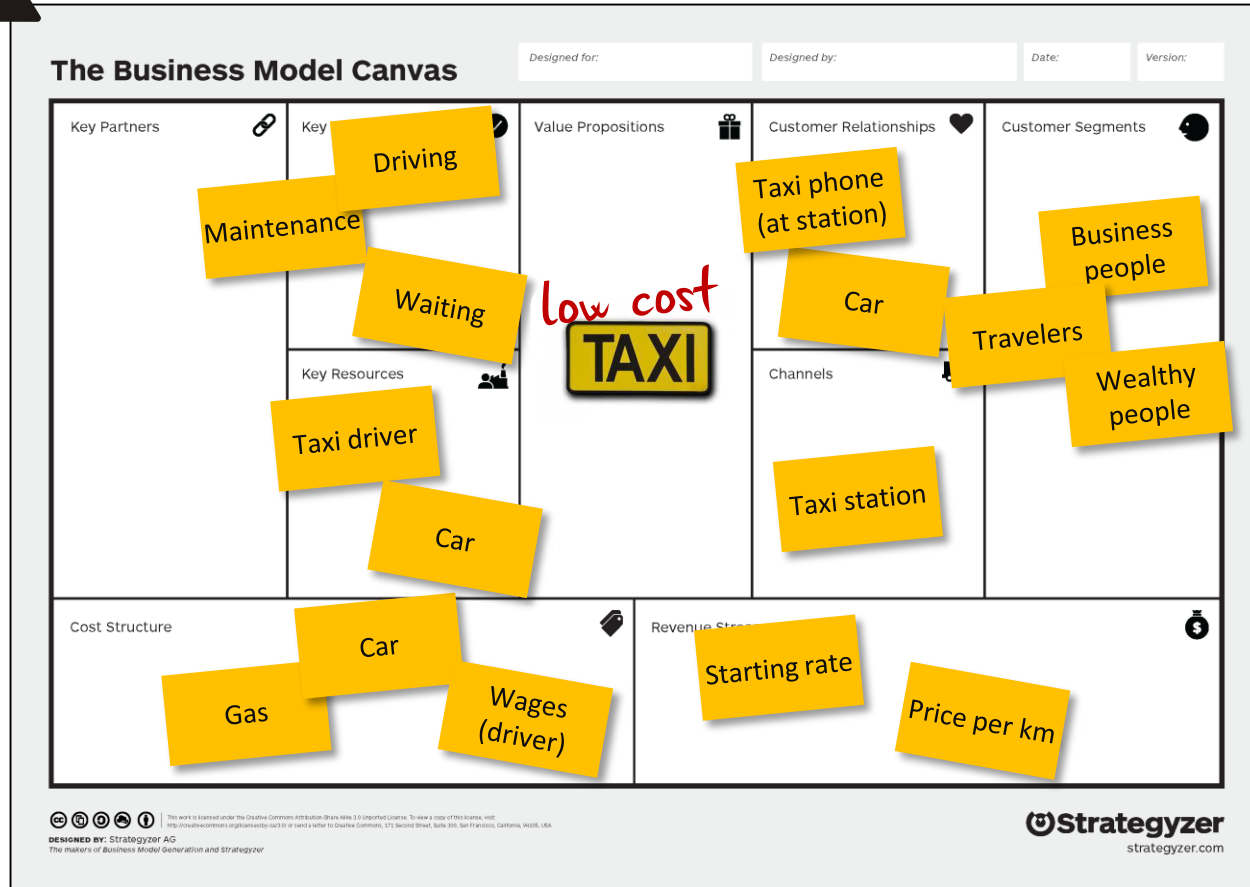
low cost

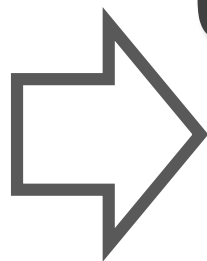
TAXI





GSM+call center+GPS fleet mgmt.





low cost



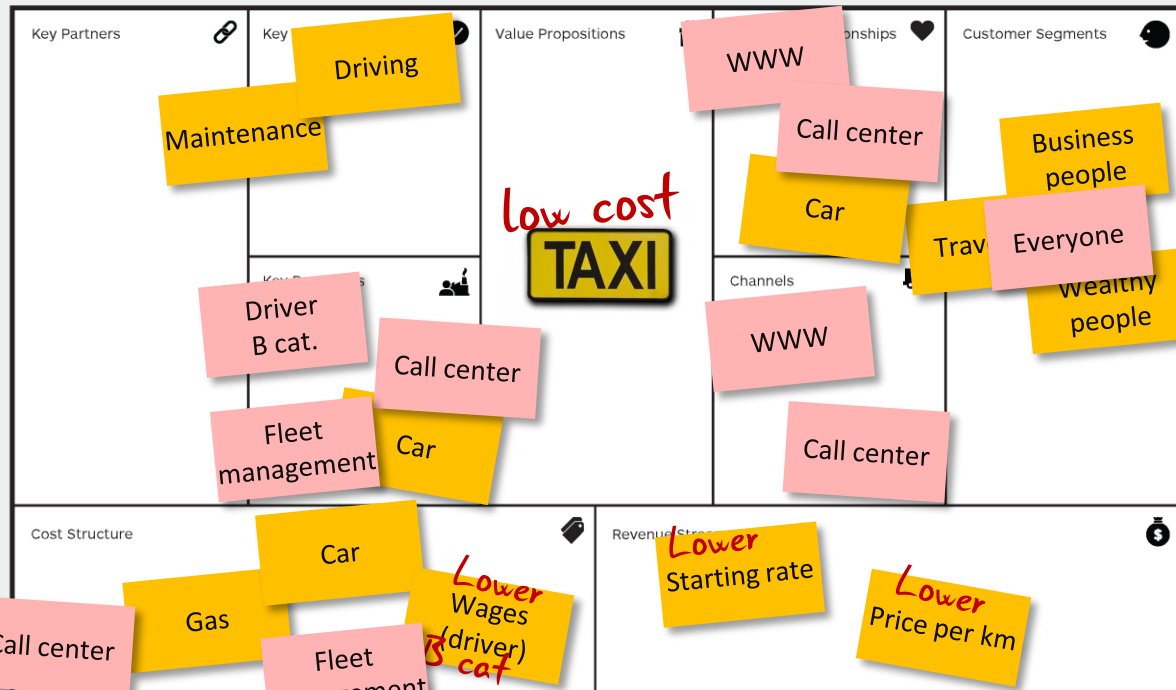
The Business Model Canvas

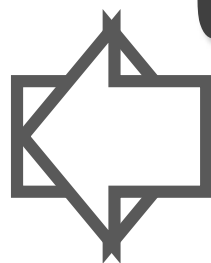
Designed for:

Designed by:

Date:

Version:





low cost



The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners



Key Activities



Value Propositions



Relationships



Customer Segments



Driver
B cat.

Key Resources



Passengers

WWW

Channels

Car

Travel

Business
people

Everyone

Wealthy
people

Driver
B cat.

Cost Structure



Revenue Streams



Lower
Starting rate
%

Lower
Price per km
%



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The Challenge!





Sustainable Playpark!

The Business Model Canvas		Designed for:	Designed by:	Date:	Version:
Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 	
	Key Resources 		Channels 		
Cost Structure 		Revenue Streams 			

CERlecon playpark

DESIGNED BY: Strategyzer AG
The makers of Business Model Generation and Strategyzer

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Strategyzer
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Remember?

Seven Questions to Assess Your Business Model Design

Great value propositions should be embedded in great business models. Some are better than others by design and will produce better financial results, will be more difficult to copy, and will outperform competitors.

Assess your business model design. Circle how you perform on a scale from 0 to 10



1. Switching Costs

Nothing holds my customers back from leaving me

Translate

My customers are locked in for several years



2. Recurring Revenues

100% of my sales are transactional

Translate

100% of my sales lead to automatically recurring revenues



3. Earning vs. Spending

I incur 100% of my costs of COGs before earning revenues

Translate

I earn 100% of my revenues before incurring costs of goods & services sold (COGS)



4. Game-changing Cost Structure

My cost structure is at least 30% higher than my competitors

Translate

My cost structure is at least 30% lower than my competitors



5. Others Who Do the Work

I incur costs for all the value created in my business model

Translate

All the value created in my business model is created for free by external parties



6. Scalability

Growing my business model requires substantial resources and effort

Translate

My business model has virtually no limits to growth



7. Protection from Competition

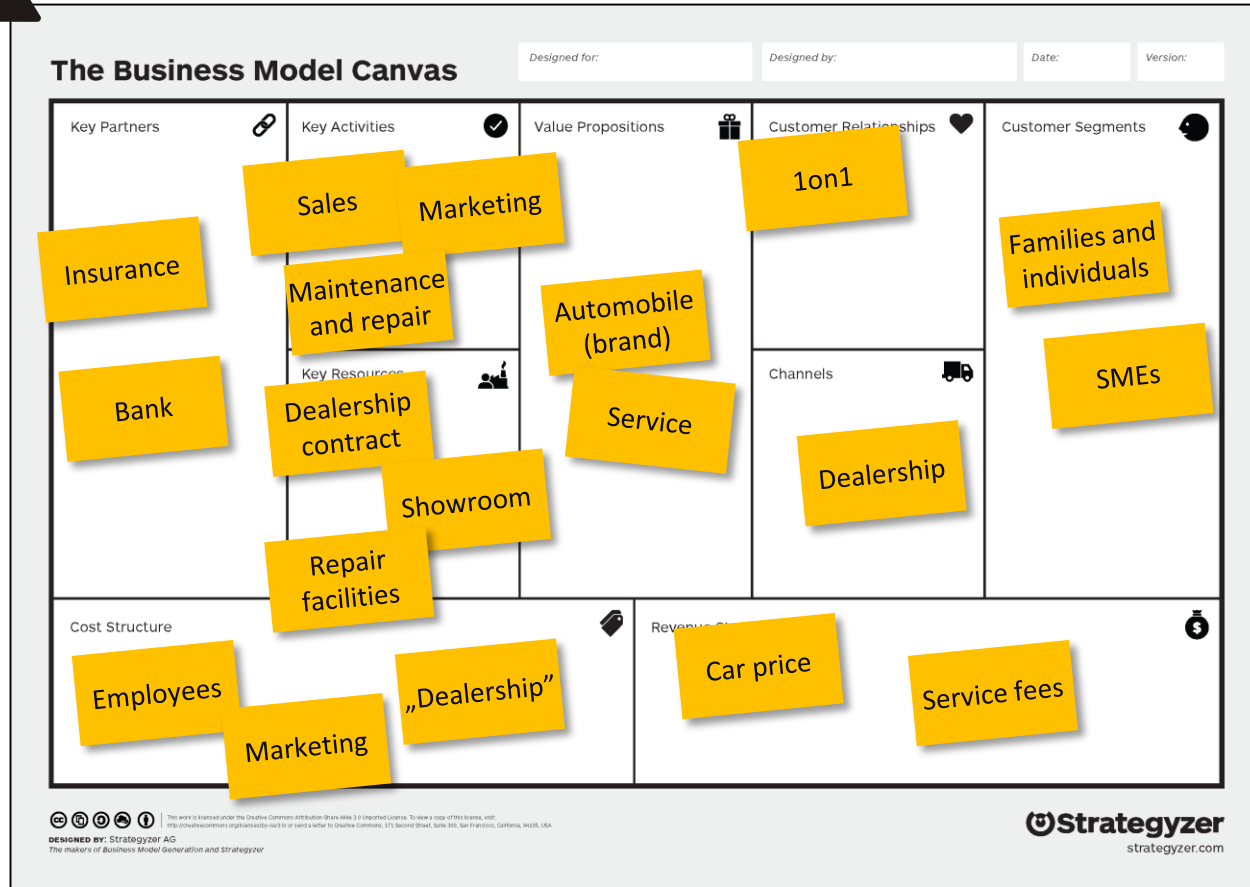
My business model has no moats, and I'm vulnerable to competition

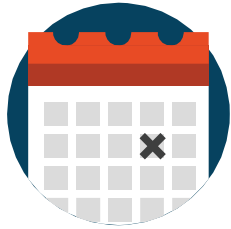
Translate

My business model provides substantial moats that are hard to overcome



Car dealership





Recurring Revenues



100% of my sales
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Development of the servitization methodology for SMEs.

Servitization - shift from selling product to selling product-service systems or pure services

SERVITIZATION EXAMPLES



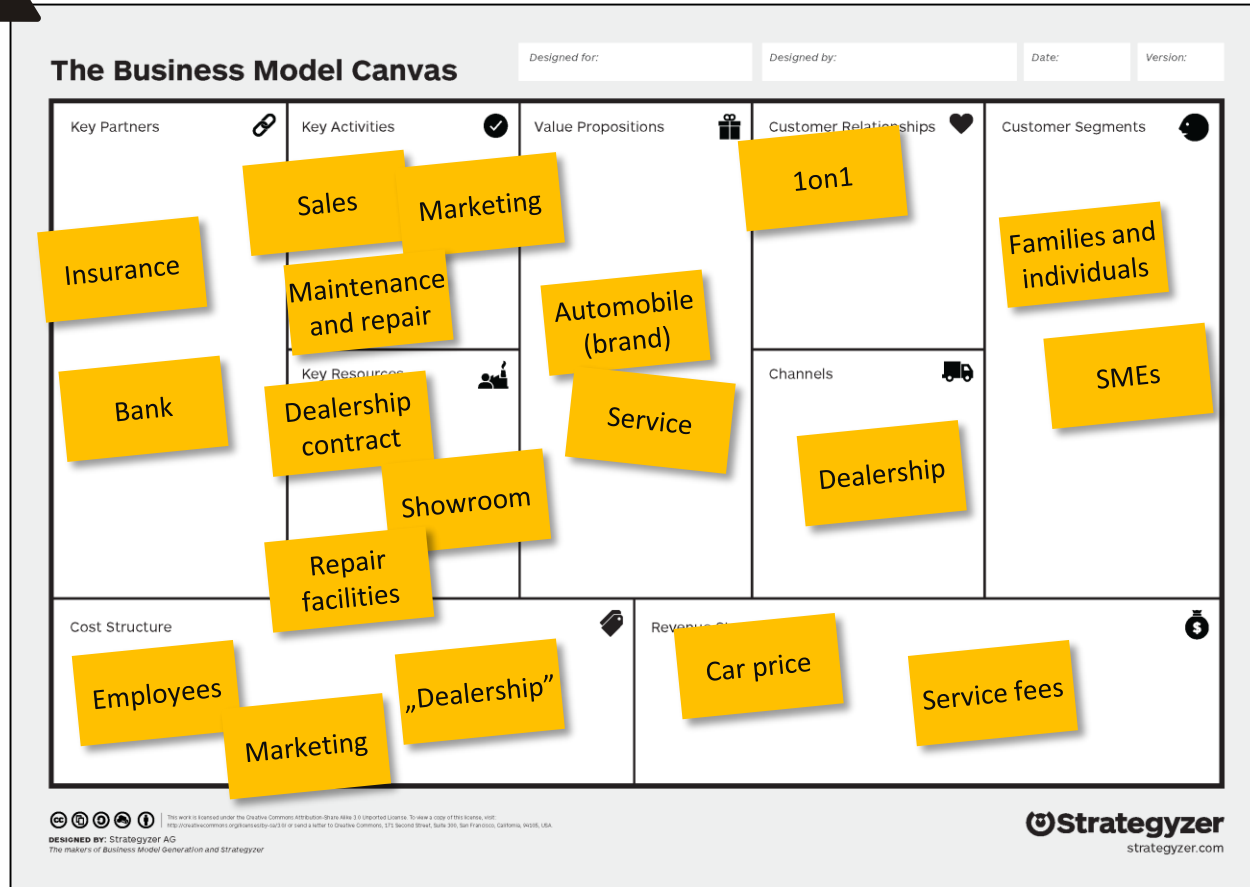
SERVITIZATION EXAMPLES





Rent a car

~~Car dealership~~





Questions?

THANK YOU!

CERlecon, PP10 STEP RI

Boris Golob

bgolob@uniri.hr



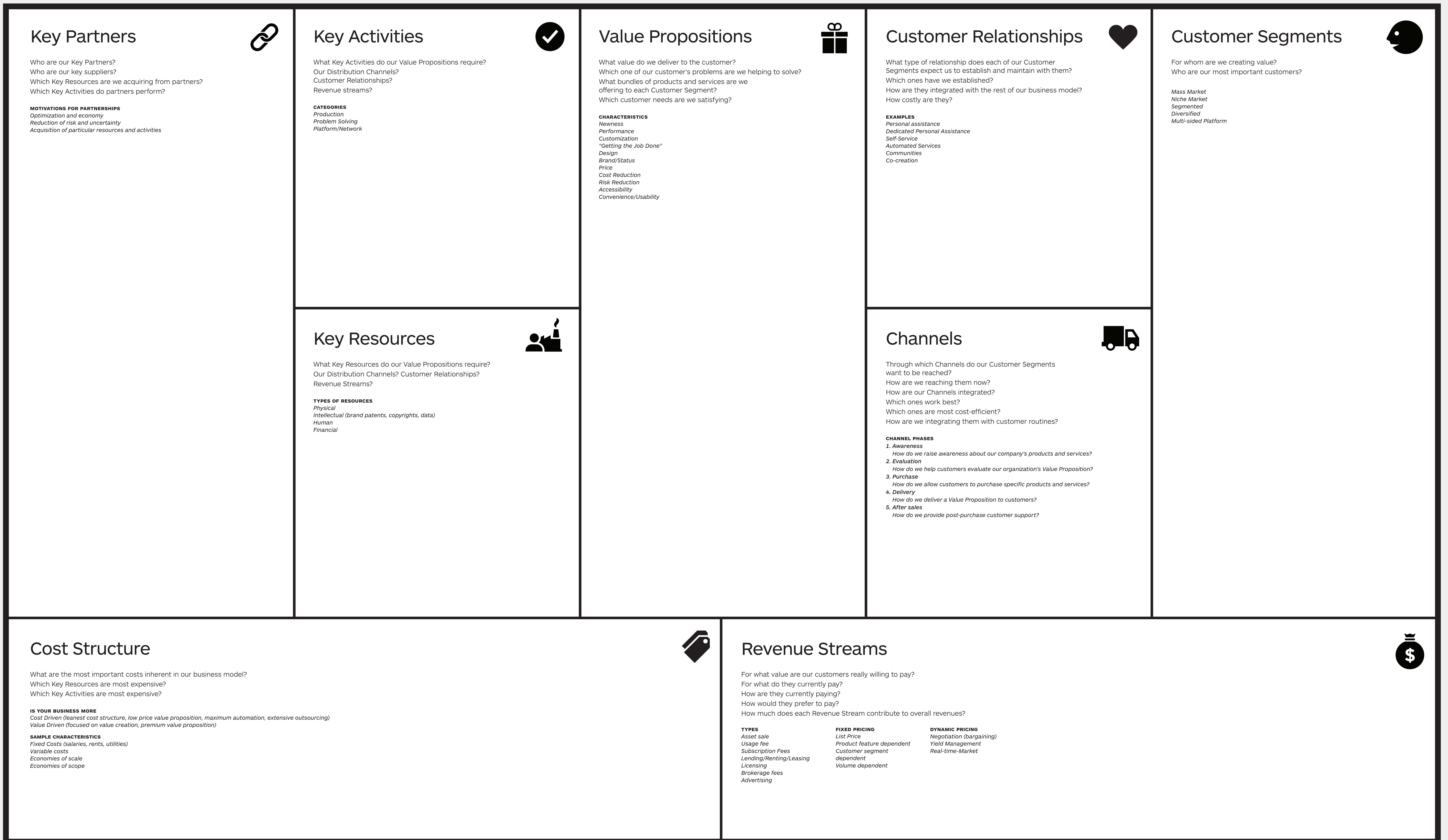
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Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
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Cost Structure 			Revenue Streams 	

Designing Crystal Clear Business Model Canvases



Use this checklist to design great business models or assess your own:

○ Does the level of granularity of your Canvas correspond to your objectives?

Your Canvas should only contain the most important building blocks when your objective is to explain the essence of your business model, also called the blueprint of your strategy. Your Canvas should have much more detail if its objective is to serve as a blueprint for implementation.

○ Is every Building Block in your Canvas connected to one another?

Great Canvases have a story and flow where every building block relates to another. You should not have any “orphan” building blocks in your Canvas that don’t connect to another building block.

For example, a revenue stream always needs to come from a related customer segment for a related value proposition. Or a key partner always provides a key resource or activity that contributes to a value proposition. Or, there is no such thing as a customer segment with no specific value proposition.

○ Is every Building Block in your Canvas precise enough?

Make sure every building business model block is self explanatory. For example, writing “products” in revenue streams is unclear. More precise would be “product sales” or “margins on product sales”.

○ Do you make smart use of both images and words to convey your message?

It takes our brain longer to process words than images, because every letter of a word is processed as an individual image. Hence, the use of images allows our brain to process a Canvas much quicker.

To avoid ambiguity, the use of an image and a label for a building block is the most effective.

○ Do you make good use of color-coding?

Using color-coding to explain specific aspects of your business model is a quick and easy way to clearly communicate even complex aspects of your business model. For example, you can use color-coding to highlight two very different segments with very different value propositions. Or you could use it to distinguish between your existing model and one you want to build.

○ Does your Canvas distinguish between “as-is” and “to-be”?

Make sure you clearly distinguish between what exists in your business model the “as-is” state and what you want to or plan to build the “to-be” state. Color-coding can help achieve this distinction easily.

○ Does your Canvas distinguish between “knowns/facts” and “unknowns/assumptions”?

When you are designing new business models, make sure you clearly distinguish between what you know (e.g. the demand for a specific value proposition) and what you don’t know (e.g. which channels customers would prefer). You have facts to prove what you know (e.g. pre-orders), but only assumptions about the building blocks you think could work.

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USING THE BUSINESS MODEL CANVAS FOR SOCIAL ENTERPRISE DESIGN

Ingrid Burkett
Knode

The story of this publication:

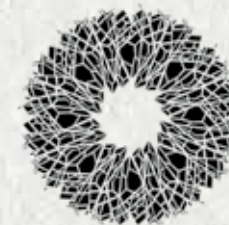
I have been using, testing, learning about the Business Model Canvas for a number of years now. I've attended a master class in the use of the Canvas, presented by one of the authors of the BMC book, Alex Osterwalder. My interest in BMC grew out the realisation that many social enterprises found it difficult to explain their business models, and that many started work on their business plans before understanding their business models thoroughly, which seemed like a topsy-turvy process to me!

When I first discovered the BMC and tried to apply it to social enterprises I believed, like many others, that social enterprises and not-for-profit organisations needed their own 'special' canvas. As I worked with the BMC in and around the social enterprise sector I came to realise that this was not the case - however, I also realised that there were some 'special' things about social enterprises that could easily be reflected in the BMC using a few simple adaptations. As I shared my learnings with others in the sector there were numbers of requests for me to provide some written materials. So, this is my attempt at documenting my learnings. I would welcome any comments or discussions about what I am sharing here! Please contact me: ingrid@knode.com.au

This paper is not a substitute for deeper materials on the Business Model Canvas nor for the Business Model Generation book written by Alex Osterwalder and Yves Pigneur and I would urge anyone using BMC in social enterprises to also access the book and web resources at www.businessmodelgeneration.com



The photo on the cover was taken at the Haley House Bakery Cafe in Roxbury Massachusetts when I visited there in 2008. I don't know who the artist is who painted this picture which hung in their front room, but it impressed me as a wonderful summary of the intention of many social enterprises - to nourish community and build economic independence. In their own words, "a model of social enterprise, Haley House Bakery Café promotes the physical, economic and social well-being of the community. Our programs provide on-the-job training for those seeking to become financially independent and introduce young people to the power of cooking from scratch and making other healthy life-style decisions". I was very impressed with their programs and their food - delicious! Check them out at: <http://www.haleyhouse.org/>



Knode

Ingrid Burkett ingrid@knode.com.au

What is a social enterprise?

Social Enterprises are organisations that¹:



Have an **economic, social, cultural or environmental mission** aligned to **public or community benefit**.



Trade to fulfill their mission.



Derive a **substantial portion of their income from trade**.



Reinvest the majority of their profit/surplus in the fulfillment of their **mission**.

There are different ways in which social enterprises organise themselves in achieving these goals:

they may directly support, train and employ people who are experiencing some form of exclusion and disadvantage (for example, a social enterprise cafe may employ people who have been homeless and unemployed);

they may provide services or products to directly meet a social need or achieve a social impact (for example, a community supported agriculture enterprise may make fresh, local produce available whilst also supporting smaller, local farmers); or

they may generate income for a charitable or social purpose (for example, an op shop may generate income to support a larger charity deliver other social purpose programs).

This booklet focusses particularly on the first two types of social enterprises, where the financial and social value coexist inside the same enterprise.

¹ This definition comes from FASES (2010), see: www.socialtraders.com.au

What is a business model?

A **business model** clearly articulates “the rationale of how an organisation creates, delivers and captures value”

(Osterwalder and Pigneur 2009;p14).

If we boiled down the idea of an enterprise or a business to its essence, we could say that it is all about the exchange of value. I create something inside my business that is of value to others, so they seek this out, and in exchange they give me something that I value (usually money!).

The differences between a business plan and a business model lie in purpose and substance.

The purpose of a **business model** is to help stakeholders understand and clearly articulate how a business is configured so that it creates, delivers and capture value. In the case of a social enterprise this would ultimately be about how the enterprise will generate both financial and social value, and what the relationship is between the two types of value in the enterprise. The business model should be able to be articulated in one page, and its substance focusses on how an organisation does business, how that business generates revenue, what value a business offers to whom, who the customers are, and why customers would keep coming back to us. It can help us understand how and why our business works, and it can help us to design and innovate our business.

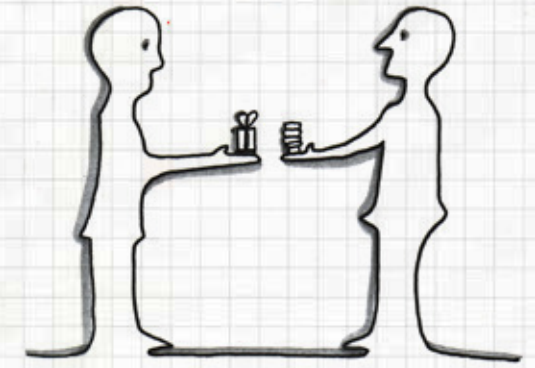


A **business model** helps us to design and articulate how a business could work, and how we can innovate inside the business.

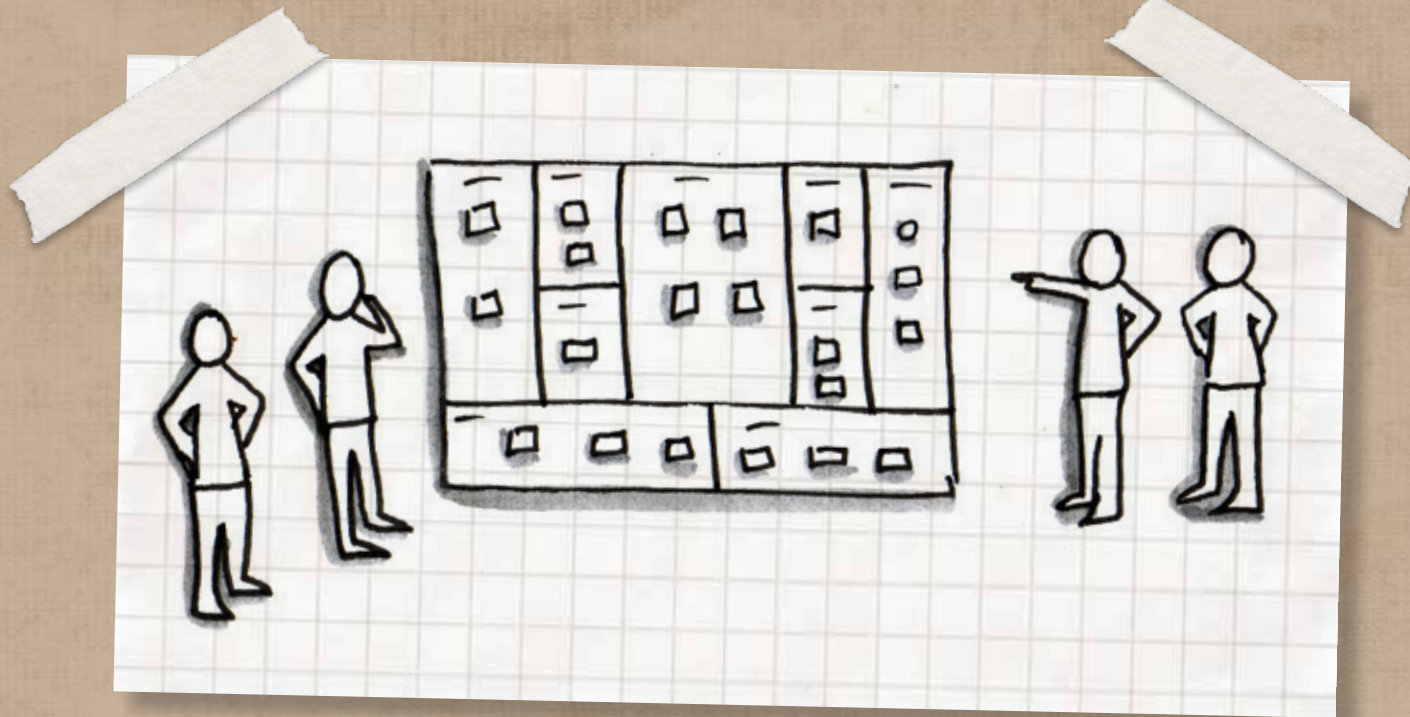
A **business plan** is a much more detailed, lengthier document that sets out in detail the goals of the business, how they will be attained and

what evidence there is that the methods employed will attain those goals. Business plans outline our mission, vision, goals, strategies, our financial assumptions and projections, and our marketing strategies. Business plans have dominated the business strategy landscape. However, increasingly there are suggestions in both practice and research that business plans are too static and cumbersome to help businesses survive complex and constantly changing environments. They may still be helpful in setting directions, or to access some forms of finance and investment, but they won't necessarily help us design and test business ideas, nor to innovate within a constantly changing environment.

A **business plan** is a detailed document setting out the goals of a business and how they are to be achieved.



Business models for social enterprise



Social enterprises are often started by people who are passionate about making a difference. Often it is not the actual 'business' that captures their imagination, but the impact it will have for the social or environmental issues they are seeking to address.

Understanding the business model of a social enterprise can have two key benefits:

1. It can help us to understand, design, articulate and discuss the 'nuts and bolts' of our business concept;
2. It can help us to test, and develop prototypes so that we can see if what we passionately believe about our impact and our business actually 'stacks up' in practice.

Over the last decade I have met many social enterprise managers and stakeholders, and have helped to start up a number of social enterprises myself. Working with social enterprises I have come to appreciate the value of clear business models. I believe that if more social enterprises learnt to use and develop their business models, many of their challenges could be more easily identified early on in their evolution, and we would then have greater opportunities to work to design solutions to these challenges. It is sad to see social enterprises close down or fail - because in this case it is not only the business that we lose, but its potential or actual social impact.

Understanding business models and their potential in terms of designing social enterprises could help us to avoid some of the pitfalls and increase the likelihood that more social enterprises become viable and sustainable both financially and in terms of their social impact.

What is the Business Model Canvas?

The Business Model Canvas (BMC) was developed by Alex Osterwalder and Yves Pigneur, and co-created with an array of 470 practitioners from around the world. It offers a simple, visual, one-page canvas on which we can design, innovate and dialogue about our business models. It is not the only framework that has been developed to articulate business models. Like many of the frameworks this one was built out of careful research, but unlike many others, it has also been tested and enhanced through the input of many practitioners. In addition, the BMC itself sits inside a very innovative business model, including licencing under Creative Commons and a commitment to co-creative innovation within the methods around the BMC (see www.businessmodelgeneration.com).

I have used the BMC to work in the social enterprise sector and have found the canvas to be very helpful, particularly in early exploratory stages of development and in relation to growth and innovation stages. In using the BMC inside social enterprises I have found a few additions and adaptations helpful, and it is these that I want to focus on in the remainder of this paper.

What's special about social enterprise?

Managing a social enterprise is not about just adding business skills to the realm of social impact and stirring! Balancing a social (or environmental, cultural or economic) mission WITH an intention to trade and manage a business requires a blending of skills which is greater than the sum of each set of skills alone.



Furthermore, addressing a social impact inside a business operation is not necessarily cost neutral – so both the skills needed to deliver on a social impact and the costs involved in doing so need to be considered in designing a viable and sustainable business model. So, for example, if you are focussed on employment outcomes amongst people who have previously experienced long-term unemployment, then you need to be fully aware of the business model implications of supporting and training people who may not have worked for some time. There may be cost implications, in addition to challenges in relation to key activities, customer relationships and key resources. Further, you may need to explore options for accessing non-trade income to pay for additional supports that are needed to ensure that employees can sustainably participate in the workforce over time. Profits from the business may not actually cover the wages needed to pay for support workers. However that doesn't mean that a viable business model cannot be developed! It is just that we need to recognise that social enterprises have business models that can be a little different from an ordinary business – indeed social enterprises are EXTRAORDINARY BUSINESSES!

It is not that we need totally different business model canvasses nor that there are wildly more complex business characteristics. It is just that somehow we need to build into the canvas a clear picture of the social objectives (or the mission) of the enterprise, in addition to all the vanilla dimensions of the actual business of the social enterprise.

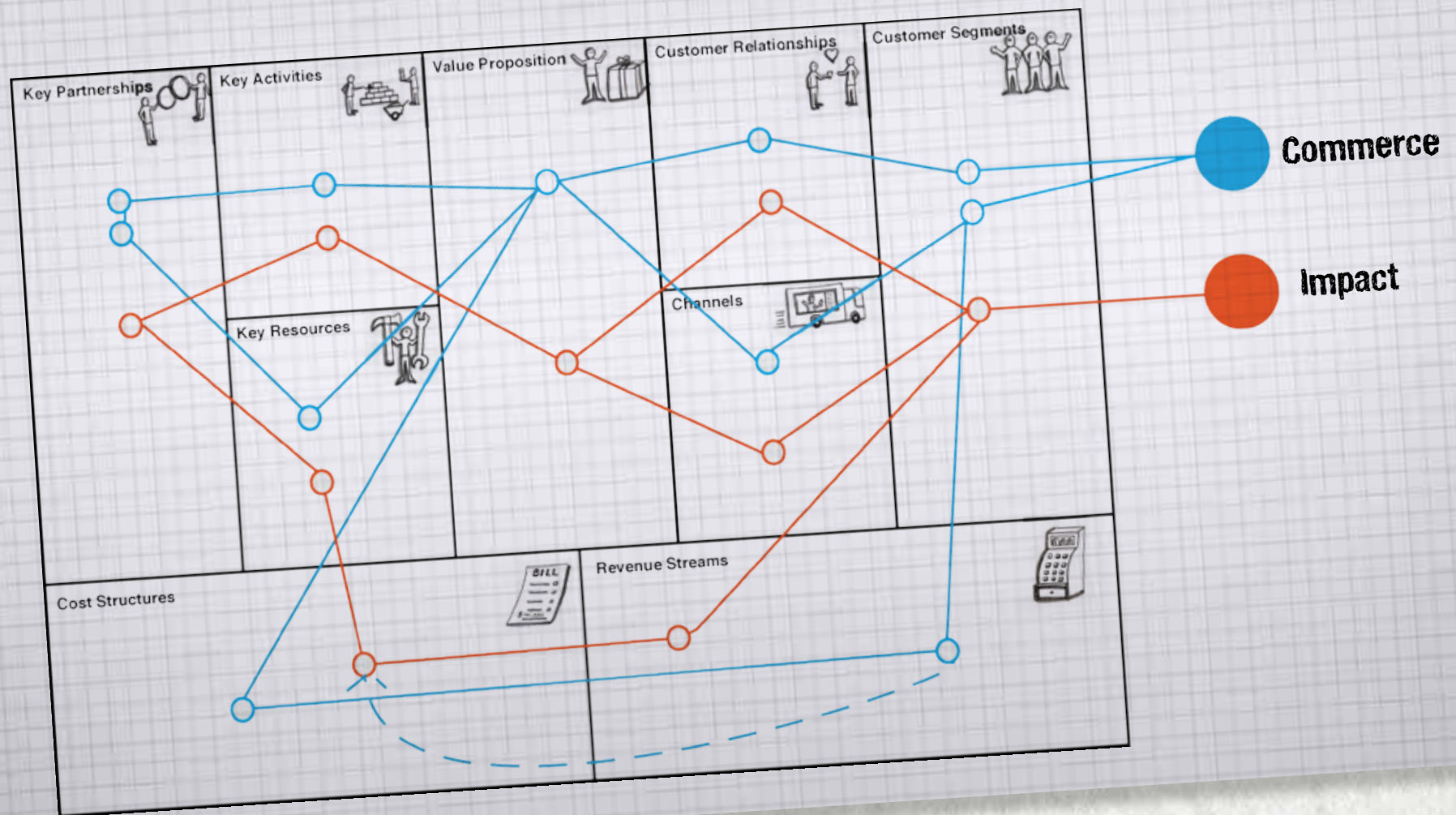
For social enterprises, the business model canvas should provide an opportunity to see not just the BUSINESS, but also to identify the SOCIAL IMPACT they are trying to achieve. And importantly, to see clearly how the two interact - how they are symbiotic, how they compete, what opportunities there are to bring them into alignment and what tensions exist in between them. Understanding this can be

immensely helpful to social enterprises and can lead to a greater capacity to effectively manage for viability and sustainability. The reality for social enterprises is that they cannot work if the business model does not work financially (then there is no business). But they also cannot work if the social objectives are not realised within the business (then there is no social enterprise, just a business). Business models that achieve both a social and financial value are by no means impossible - they are very possible and they are very special!

It can be helpful to see this separation between 'commerce' and 'impact' as a variation of what is called a 'double-sided platform' in business modelling. This is where a business services two different customer groups, and in the case of a commercial business, the aim is to facilitate interaction between these different customer segments. In social enterprises, the aim may not be to facilitate interaction between these groups, but rather, to facilitate a connection that enables the delivery of sustainable social impact within a viable business model. In this way the social enterprise becomes an intermediary between impact and commerce.

The way to represent this on the Business Model Canvas is to differentiate between that side (or sides) of the social enterprise that is directed to impact, and that side directed to commerce. By separating and visualising both sides on the canvas we can begin to see how they interact and what the story of the social enterprise is in relation to both commerce and impact. In a social enterprise neither the commercial nor the impact story is sufficient in and of itself - the important part of telling a business model story is for there to be a coherent and sensible relationship between commerce and impact.





The key to using the BMC in social enterprise is to separate out our commercial and impact models, but then to integrate them inside the story of the business model.

Being able to visually and concisely tell the story of how commerce and impact are linked inside a social enterprise business model is a critical part of designing an effective and sustainable enterprise. If a social enterprise manager is expecting to be able to fund a significant and complex social issue using a flimsy and unrealistic commercial model, this will be obvious to an astute observer as soon as the elements and the relationships are mapped out on a business model canvas. If, on the other hand, the commercial model is robust, but the impact is weak or

meaningless, using the canvas will help all involved to develop a shared understanding of this and potentially open dialogue to deepen and strengthen the impact through business model innovation.

Mapping both impact and commerce models on the one canvas helps us to understand and innovate around not just each element alone, but about how they interact and support each other. This is an essential part of social enterprise design.

Key Partnerships



The **network of suppliers and partners** that **make the enterprise work**

Key Activities



The **most important things that** need to be done to **make the enterprise work**

Value Proposition



The **products and services that create value** for specific customer segments - **what keeps customers returning to your enterprise.**

Customer Relationships



The types of **relationships** an enterprise establishes with specific **customer segments**

Customer Segments



The **different groups of people or organisations** an enterprise aims to **reach and serve**

Key Resources



The **most important assets and resources** (physical, intellectual, human, financial) **required to make an enterprise work.**

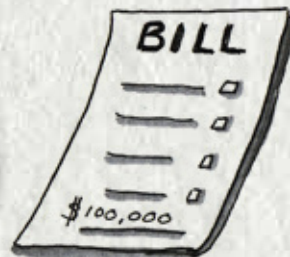
Channels



How an enterprise **communicates with** and **reaches its customer segments** to deliver a value proposition.

Cost Structure

All the costs incurred to **operate an enterprise**



Revenue Streams

The cash an **enterprise generates** from each customer segment (subtracting costs from revenues to create earnings)



How are 'social impact' and 'commerce' related?

One of the first decisions that need to be made when you establish a social enterprise and you start to look at the potential business models is the decision about what your social mission means for you (and the stakeholders) and for the business of the enterprise. How often have we heard of the 'great idea' of starting a social enterprise cafe that employs people who have experienced long-term unemployment? Unless there is some remarkable business model design innovation it is unlikely that such a business will generate the sorts of profits needed to ensure that trade alone will be able to subsidise the costs of generating the social impact. HOWEVER, this does not mean that an effective business model for this sort of a social enterprise cannot be generated - it just means that we need to go into the business model design process with our eyes wide open that we can actually make it work on both a commercial and an impact basis!

High levels of social impact and commerce can be balanced

This is a dream business model design for a social enterprise! It does, however need some careful thought at the design stage! It means that we are looking for a business model that can generate sufficient revenue from operations to ensure viability for an enterprise (more likely if the business itself is one that has potential for viability even before the 'social' impact dimension...many social enterprises begin with a business that is marginal at best and then when you add the intention to generate social impact, becomes financially non-viable without other types of support such as funding). Business model design can still be valuable for a social enterprise such as this because it can help aid discussion about potential innovations and opportunities for growth.

When social impact is paramount

For some social enterprises, the social mission is paramount, and the business something of a sideline - it's great as a source of revenue, but there are bigger things at stake than the bottom line. For these social enterprises the business model needs to ensure that revenue flows from sources other than trade so that if push comes to shove, the enterprise can continue to operate even if costs exceed revenue generated from trade. It may be, for example, that a not-for-profit organisation sets up a social enterprise to offer employment to its constituents. They are fully aware that the cost of operations for the business exceeds the trade revenue it generates, but the social impact of maintaining the business is so great that they are able to find grant revenue to subsidise the costs. There is nothing wrong with this as a business model, except that it requires focussed attention on ensuring that the impact generated is, in turn, able to generate ongoing revenue. The big challenge in this type of model, however, is not to let the impact focus result in commercial complacency - even if the social impact is paramount, this should not be an excuse for poor commercial management!

When it seems the 'social' is diminished

The BMC can help to explore the potential for strengthening the social impact dimension of a social enterprise. It can help to generate honest and open conversations about the links between financial viability and impact, and it can help us to make some design decisions as to how we could strengthen impact.

When it is time to rethink and redesign

Finally, the BMC can help us to visualise and understand when it's time to reassess whether there will ever be real social impact or opportunities for financial viability, and to either decide to redesign or to walk away.

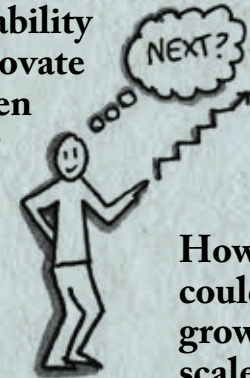
high

How can we innovate to increase the social impact?



Are we really a social enterprise?

How can we continue to build sustainability and innovate to deepen impact?



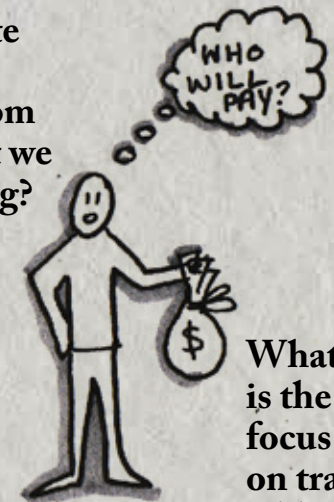
How could we grow or scale?

financial viability

Should we rethink this whole thing or innovate / redesign the enterprise



How can we generate sustained income from the impact we are creating?



What is the focus on trade adding?

low

social impact

high

Value Proposition

When exploring the business model of social enterprises we start with the question, 'what value are we creating?'. When we use the BMC in commercial businesses we often start with the customers - because ultimately they are at the heart of the business. Of course this is the case for social enterprises as well, however, most social enterprises begin with a quest to generate some kind of 'social value' alongside or indeed through a commercial value proposition. Social value is defined as the social outcomes and benefits that are generated through the enterprise - it's what makes the enterprise a 'social enterprise'!

Articulating the social value that we are seeking to generate inside our social enterprises is a critical first step in designing a social enterprise. However, a social enterprise cannot exist through generating social value alone! As an 'enterprise' it also needs to generate 'commercial value' - the goods or services that you are wanting to sell in the marketplace. So, a social enterprise often has two value propositions - the impact value proposition (the social value you are seeking to deliver, and what makes it attractive to customers) and the commercial value proposition (the goods and services you are producing and selling, and what makes these attractive to customers).

At the early stages of designing a social enterprise in particular it can help to separate out the commercial value proposition and impact value proposition. They are ultimately linked, but separating them out for discussion can help us to see how each relates to our different customer segments.

It is likely that the commercial and impact value propositions will be interdependent, but one may be more important to particular customer groups than the other. If government funders or philanthropists are our **customers**, then they may be much more interested in our impact value proposition than in our commercial value proposition. On the other hand, if we are operating a retail business, our retail customers may or may not be interested in our impact value proposition. Ultimately, if the business of the social enterprise is to be successful from a financial perspective, then our commercial value proposition has to hold up whether or not we have a parallel impact value proposition. Doing good will not suffice if the service or product is done badly.

Questions to ask about the value proposition of a social enterprise

- What value do you provide your customers? Why would they keep coming back?
- What is the relationship between your commercial value proposition and your impact value proposition?
- How visible or prominent is your impact value proposition? Who values and would pay for your impact value proposition? Who understands it?
- How do you account for / measure your value proposition (both commercial and impact)?



Commercial Value Proposition Examples



Catering

Quality, affordable catering using local produce



Garden maintenance

Careful, chemical free and knowledgeable garden maintenance just the way you want it.



Retail

Clothes with a difference, flair and style made in Australia



Impact Value Proposition Examples



Employment

Sustainable and meaningful jobs for people with disabilities



Local Economic Development

Revitalising the local economy of this rural town



Fair Trade

Quality coffee that ensures quality of life for producers

For some social enterprises the commercial value proposition is taken for granted - we imagine that because we are 'doing good' that our customers will automatically be lining up for our products and services. Unfortunately this is a misguided assumption. There are only so many times I will buy a bad coffee or pay for a badly mown lawn - no matter how much good you are doing. And there's only so many times I'll believe that you're doing good if I can't see any evidence that that's the case.

For example, I run a small business. I try to purchase from social enterprises whenever possible. However, if the social enterprise I purchase from consistently delivers products that are sub-standard, or the timeframes always blow out, or they are radically more expensive than other options, then it won't be long before I have to seriously reconsider the arrangement. I am a supporter of social enterprise, so I may give them one or two chances. Others are not so generous - it's often one strike and you're out.

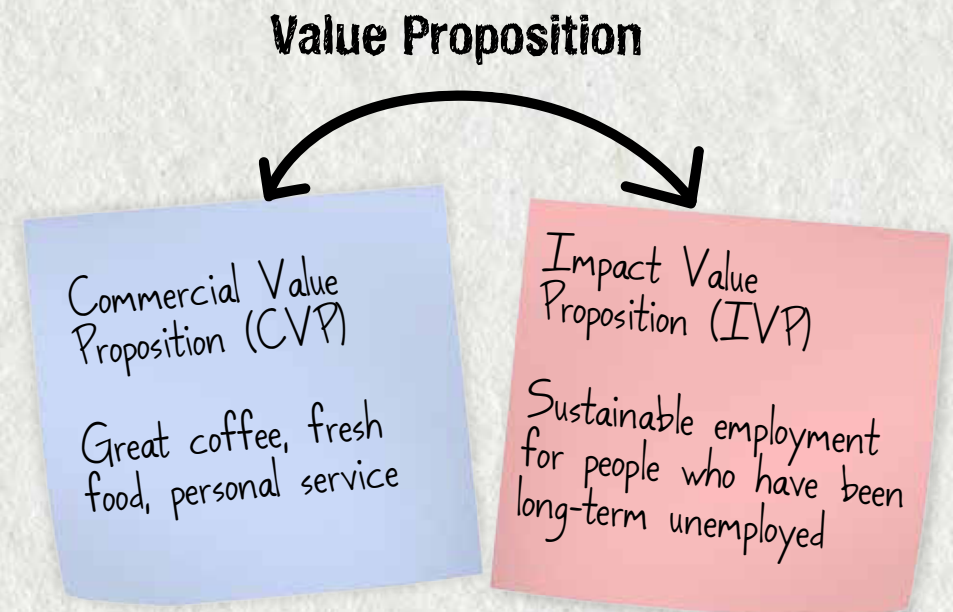
In other words, no matter how laudable and ethical your impact value proposition, if the business value proposition doesn't add up for your customers then you may as well be running a not-for-profit organisation! A social enterprise can't run on an impact value proposition alone!

It is also important for social enterprises to work out how they will present their value propositions to customers. For some it may be the case that the only visible part of the enterprise is the 'business value proposition' - the impact value proposition is inherent inside the enterprise but it is not what is visible to customers and it is not the reason why customers engage with the enterprise. For others the impact value proposition may be very visible, and it may be important to present it in a way that will draw customers in.

The way a social enterprise communicates its impact value proposition is an important design decision, and requires a deep understanding of customers and of the nature of the impact itself. If your impact value proposition is centred, for example, on generating

sustainable employment options for people who have experienced long-term joblessness, then articulating your impact value proposition to customers may involve sharing some employment success stories. However, sometimes customers want more detail about the impact before they 'buy' your impact value proposition. This may mean that you need to think through how to present the impact to customers - how will you measure the impact and how will you share the data on the impact with actual or potential customers. Many social enterprises in Australia are presenting information in the form of 'Social Returns on Investment' (SROI) measures, but there are many other ways in which such information can be shared with customers.

Making decisions about what and how to share impact measures with customers can be an important part of making sure that your impact value proposition is a part of purchasing decisions by your customers. Do you share stories that illustrate your impact as part of your marketing? Do you share impact evaluation reports? Do you rely only on your commercial value proposition to promote your enterprise, leaving the impact value proposition implicit?

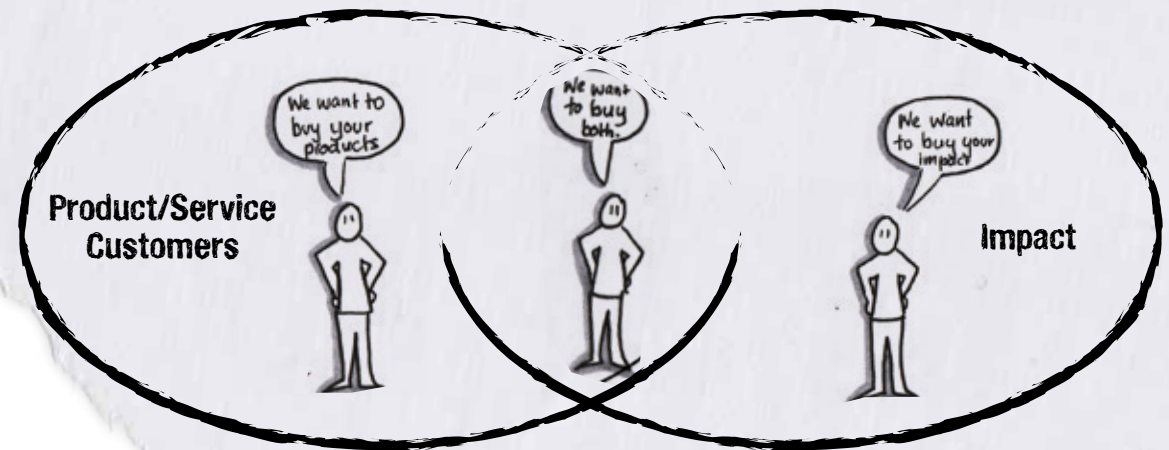


Customer Segments

Given that social enterprises are in the business of trading for the purpose of generating social impact, they can have at least two different (though potentially overlapping) categories of customers - the customers who are wanting to purchase their goods and services (ie. the commercial customers) and the 'customers' who are wanting to support the social impact that they generate and/or potentially benefit from this impact (ie. the impact customers). Understanding these two key customer segments (which could potentially be segmented down further within these categories) is critical to understanding a social enterprise business model.

When social enterprises use the BMC for discussion and design purposes it can be helpful to distinguish business and impact customers for number of key reasons.

- 1 Some social enterprises don't see their 'impact' as potentially having 'customers', or don't *see the full range of possibilities* that could occur under this scenario. So, for example, some social enterprises might see funders as 'partners' rather than customers (and that's fine!). But this may make invisible the potential that there may actually be people/organisations/corporations out there who are willing to 'pay' for your impact services. If you are having a significant impact, for example, on crime rates in a local area, are there potential 'customers' who may benefit from this (eg. insurance companies) and who may indeed see a logic in paying for this service in some way?
- 2 Sometimes social enterprises can make *assumptions* about how important their 'social impact' is in the eyes of their customers. Exploring how much our customers value our impact and our products/services can yield some interesting design insights for social enterprises.
- 3 Understanding the different customer segments and whether they value your products/services and/or impact can help business *design innovation*. For example, if your 'impact customers' are currently all government and philanthropic funders, can you explore additional opportunities for growing the interest of these 'customers' in your products and services (eg. procuring your cleaning services



through a contract)? Or if you have regular corporate customers purchasing your services, are they also interested in exploring potential opportunities in relation to the impacts that you generate (eg. could they encourage their employees to give to your enterprise through an internal gifting program)?

Operating a social enterprise involves a few more complexities than operating a traditional commercial business because social impacts are not necessarily cost-neutral, and sometimes our customers don't necessarily understand exactly what they are buying (ie. that their purchase of the service/product results in the impact). Of course in some instances it is not necessary for customers to understand or even know about the impact (especially if the product/service speaks for itself). But in other social enterprises it can be important to 'sell' the impact and thereby ensure that the impact costs can be covered by revenue beyond the earnings from trade. Understanding the customer segments and their connection to and valuing of products/services and impact can provide some great food for thought in using the business model canvas for enterprise design.

For social enterprises, understanding your customer segments is critical. In addition, it is vitally important to understand the balance within the customer segments. If an enterprise is consistently disappointing its core business customers and is increasingly relying on 'selling' its impact, then work needs to be done to understand the implications of this.

Constituents as 'customers'

For some social enterprises it is important that 'clients', 'beneficiaries' or 'constituents' are co-creators of solutions. In this case it is important to think through whether it is helpful for 'constituents' to be seen as a distinct customer segment, and whether a value proposition needs to be co-created between the social enterprise and the 'constituent'.

In some instances, particularly when 'constituents' have individualised support packages of funding, they are actually key customer in the business. For social enterprises exploring their way into the Disability Care (NDIS) environment, for example, having a clear value proposition for constituent customers is critical. It is also going to be important that this value proposition is co-created with 'constituents' to ensure that support packages and services are actually meeting their needs.

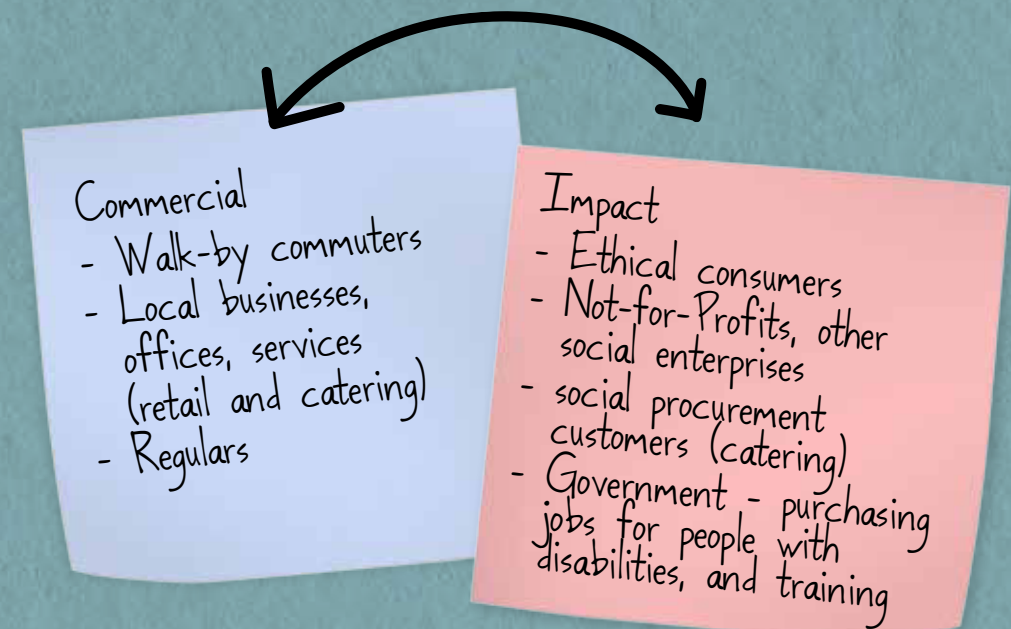
When are 'funders' really 'customers'?

Understanding where government funders and philanthropists fit into the business model of a social enterprise can help us to understand their role in relation to our business model. If they are customers then we will need to be clear about the value proposition we are putting forward to them, and to build a relationship with them that ensures their ongoing custom. If they are partners, then we may want to find ways to rely less on them as a source of revenue but to explore what other value they could add to our business model.

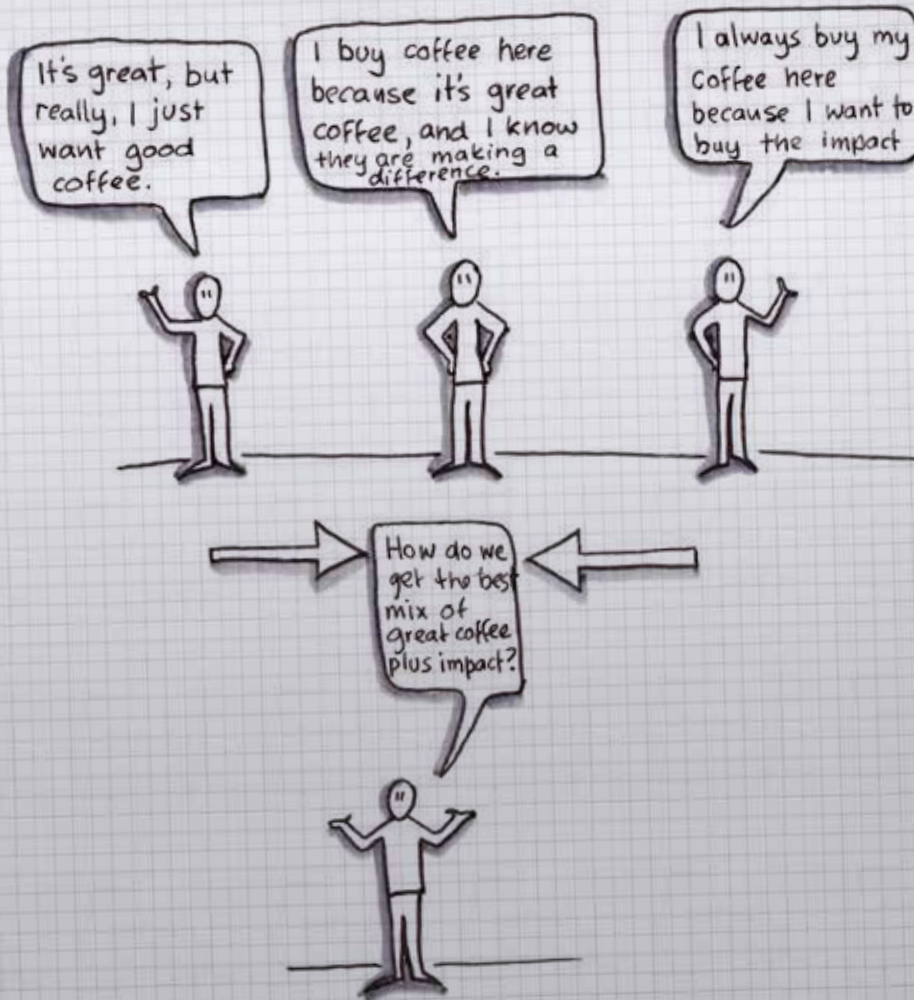
Growing repeat customers

In both customer segments (commercial and impact) we need to look at ways to convert one-off customers to repeat customers. If we need impact customers to support our impact in an ongoing way, then we want these customers to commit to more than a one-off grant. Effectively we need to frame our value proposition to them in ways that help them to commit to becoming repeat impact customers, and more than this, help them to explore opportunities to join our commercial customer base.

Customer Segments



Questions to ask about customer segments in a social enterprise



- For whom are we creating value - and what kind of value are we creating for them?
- Who are our commercial customers and why will they continue to be our customers? Who are our impact customers and what value are they seeking from us (and how much are they willing to pay for this)?
- How important is the linkage between our products / services and our impact to our customers? Are they prepared to pay more for the impact? Who else would / could pay for the impact?
- Are our constituents customers? co-creators? partners?
- Are our funders customers or partners, or both?
- What kind of value proposition will keep customers coming back over the long term?

Channels

Working out how to reach and communicate with customers and help them to evaluate a value proposition is a key part of opening business opportunities in social enterprises. For social enterprises it may not only be about helping customers to evaluate business value propositions - some

customers may also need to understand our impact value proposition.

Osterwalder and Pigneur (2009) outline five phases that are important in designing and nurturing effective channels inside businesses. They are equally important for social enterprises, and a few other questions are raised in the process!

Commercial

- Retail - high traffic near public transport station
- Word of mouth
- www

Impact

- Social enterprise networks and directories
- Social procurement directories



Awareness

Questions raised by Osterwalder and Pigneur (2009;p.27)

How do we raise awareness about our company's products and services?

Additional questions for social enterprises

How does this social enterprise stand out in a crowded market? Do we raise awareness of products/services AND impact? If so, how? Particularly if we are wanting to raise awareness of our impact, how do we do this in a way which highlights our business, not just our cause?

Examples of where this can be important

There is a growing interest in social procurement - but many procurement officers are not aware of social enterprises. How could this change?



Evaluation

How do we help customers evaluate our organisation's Value Proposition?

How do we help our customers evaluate our organisation's impact value proposition? What evidence and stories can we / should we share? Why should customers buy from us as a social enterprise? Do we compete directly with mainstream businesses? If so, why would customers choose to buy from us?

Many corporate and government customers are interested in the value proposition of social enterprises but are looking for evidence. How could this happen?



Purchase

How do we enable customers to purchase specific products and services?

How do customers find and access us? Are direct sales through retail outlets the only way customers can purchase from us? How can we extend the ways customers can find and purchase our goods/services? Who can we partner with to extend our sales reach?

It can be difficult to build financial sustainability into retail focussed social enterprises. How could you address this challenge?



Delivery

How do we deliver a Value Proposition to customers?

Can we extend our range of delivery mechanisms? Are there more efficient, effective or innovative ways we can deliver our goods/services and/or impact? How can we connect our customers more effectively through our delivery mechanisms?

Some social enterprises turn their 'customers' into their 'communities'. How could you connect your customers more directly?



After Sales

How do we provide post-purchase customer support?

Do we follow-up our customers to ensure that they will be repeat customers? What after sales support or information do they need or want about our products/services and/or impact? How can we ensure that they will champion social enterprise?

Dissatisfaction can have a flow-on effect not just for repeat custom in this enterprise, but for purchasing from other social enterprises. How do we ensure satisfaction?

Customer Relationships

In social enterprises customer relationships are critical. Customers may be attracted to our value proposition just from a purely business perspective, and we should aim to retain their custom on this basis. However, some may 'fall in love' with us as social enterprises once they learn of the 'added value' our social impact brings to the exchange.

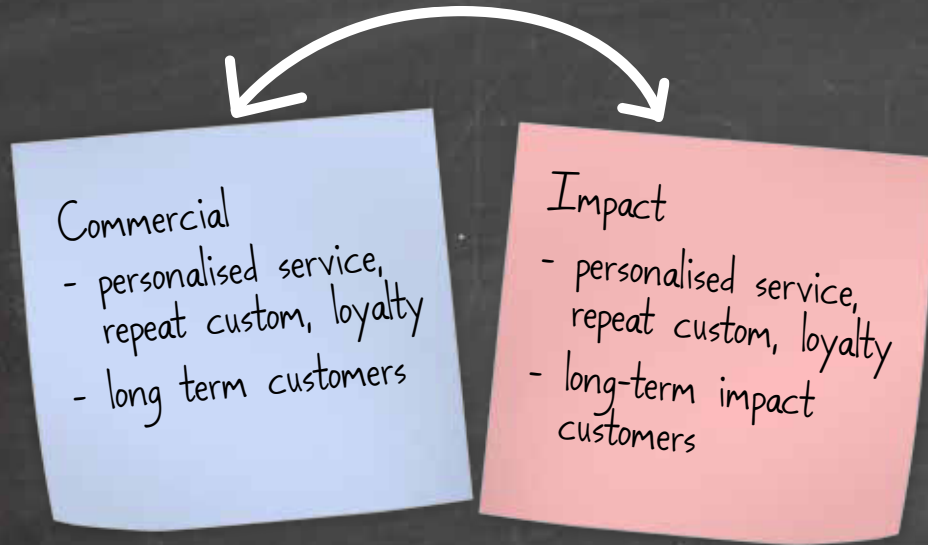
On a recent overseas trip I stayed in a hotel that is a social enterprise. They did not advertise it as such and there was no mention of it during my stay. In their relationship with me as their customer their primary concern was that I was happy with their service. They chose not to use their impact value proposition or their 'mission' in any of the information or advertising of the business and so most customers did not know of this when they chose to stay there or chose to come back on the next trip. This decision related partly to their commitment to offer their employees a job that did not stereotype or identify their personal circumstances. This meant that they embedded in to their business model a high degree of confidence in their employees and a belief that that the 'business' would speak for itself. However, knowing that they were a social enterprise employing people with mental illness meant that I was prepared to pay slightly more than I would usually pay for a hotel stay.

This story illustrates the importance of thinking through what role your 'impact' should play in the relationship you have with your customers. Sometimes it is important for the impact to be very present in the relationship (your customers may LOVE you for it!) and in other circumstances it would be inappropriate for your mission to form any part of the relationship. As I have mentioned before, if 'mission' is the only thing you are offering to your customers, and if the products/ services you offer are inferior, exaggerate the value proposition, or if they are not delivered on time and on budget, then it is likely that no matter how much your customers love your mission, they will eventually decide that, unfortunately, they are not able to continue as your customers.

For social enterprises it can be interesting to push out what we would consider 'traditional' customer relationships with a business, and explore how customers could become our 'community' or how they could co-create or co-produce the business with us. For example, Food Connect has established a network of customers referred to as 'City Cousins' who are willing to take on a role of distribution hub in their local communities (see: www.foodconnect.com.au). When customers become active in your social enterprise they can also take on roles associated with deepening or scaling your social impact. They can become champions of your cause; they could volunteer; donate; become your network or your partners. There is so much more to customer relationships than consumption in a social enterprise!

Another interesting way to approach customer relationships from the perspective of social enterprises centres on the idea of building customer loyalty, and in turn, exploring what customer loyalty can build in terms of social impact. For many social enterprises, growing their customer base means that they also grow their potential to deliver on their social mission. So 'customer loyalty programs' may look different in social enterprises...they may focus on what can be co-created or what difference can be made together rather than what rewards individual customers could receive. Loyalty programs in social enterprises could thus be seen as potentially the base for an impact movement. There's exciting design possibilities up for exploration here and opportunities to reposition customers as change agents for your cause!

Customer Relationships



Of course it may well be the case that your customers only love you for the value you can produce for them and in that case we need to accept this or at least see it as the foundation for our business. As in any relationship, it takes two to tango, and there is no point trying to force an impact value proposition based on love into a relationship that is plutonic and focussed on commerce! In designing social enterprise business models it is all about what is appropriate for the particular circumstance, and what will drive the business engine so that ultimately you are able to achieve your social mission.



Questions to ask about customer relationships in a social enterprise

- What kind of relationships do our customers want? Are they or could they be interested in our social impact?
- What could happen if customers fell in love with our impact? What other roles would they be willing to play if they did?
- What do we need to be mindful of to ensure that we retain our customers?
- Are the relationships with 'impact customers' different?
- What do they expect when they 'purchase' impact from us? How can we ensure that they fall in love with our products/ services too?

Revenue Streams

For just about all social enterprises I have worked or talked with, revenue streams are top of mind most of the time. Revenue streams are what enables social enterprises both to run the business and generate the impact - but they can also be the source of much debate and tension. The contention comes predominantly from different interpretations of the mix of revenue that flows into social enterprises. Sometimes the contentions stem from ideology rather than practical reality. Some people argue that social enterprises should avoid any revenue other than trade or earned revenue. In an ideal world this would be great! However in reality, this assumes that there is no difference between running a social enterprise and running a commercial business, and we know this is not the case. If we cut out the ideology and adopt a completely pragmatic perspective, we would see that the source of revenue is only part of the picture - and to make sense of a social enterprise the source of revenue needs to be linked to: its purpose and application inside the enterprise, the social benefits it can generate; and its contribution towards building viability and sustainability over time.

By definition, a social enterprise derives a majority of its revenue from trade. This is what makes it a social ENTERPRISE. However, it also needs to deliver a social impact, which is what makes it a SOCIAL enterprise. In many ways, understanding revenue inside a social enterprise requires some consideration of the costs of mixing together social purpose and commercial realities - ingredients that are sometimes like oil and water.

If we look at the revenues that are generated from trade. In designing social enterprises it is critical that we explore the business models of analogous commercial businesses. So, if we are wanting to set up a social enterprise cafe, then what do we know about the commercial realities of running a cafe? How much revenue is possible from operating a single, independent cafe? How much profit can we expect to generate? Understanding the commercial realities of a business can be very helpful if we are designing a social enterprise that

wants to generate profits and IN ADDITION, deliver impacts. If a commercial business in a particular sector and location has little potential to deliver profit, then a social enterprise operating in that sector and location will have no chance of generating a profit sufficient to cover its impact costs! It is a never-ending source of fascination to me that social enterprises continue to pop up in business sectors or industries that struggle or are marginal in a purely commercial context. Expecting to operate a successful social enterprise in such a sector without significant non-trade revenue sources or substantially innovative business models is living in fantasy worlds.

Equally fantastical, however, is assuming that all social enterprises can get to a position where the impact they deliver can either be cost neutral, or that it can be cross subsidised from within commercial operations. As we will explore in the 'cost structure' section, impact is never or only very rarely, cost neutral. And given this, not only do we need to know the potential revenues that can be generated by any given business (to know if cross subsidy is even possible), but more importantly still, the costs need to be assessed in relation to the social value that is generated. It is ideological tom-foolery to assume that we can have a raft of completely commercial social enterprises across all impact fields that are independent of any kind of funding or donation revenue.



Different revenue streams can have different functions in a social enterprise. The trick is to find the best fit between form and function of revenue in the model, and this will vary according to the impact, the industry, and the business model itself. But as a broad proposition, using grant or philanthropic funding to cover up an inherently inefficient or failing business is not effective use of such monies, and neither is it helpful, in the long run, to delivering sustainable social impact.

In some ways it is important to understand the impact and commerce inside a social enterprise as two separate but symbiotic systems. The commercial business around which a social enterprise is structured needs to operate as such - it needs to be able to get to a stage where it is viable, and hopefully sustainable, generating sufficient revenue from its trading activities to not only cover operating costs, but to generate a profit.

At the same time, the impact system needs to be understood in terms of the social value it is generating. We need to be able to honestly and openly assess whether this social value is actually 'saleable' - whether our commercial customers, or impact customers will pay for this social value and thereby generate revenue. If the social value can be articulated in

terms that it can attract revenue in its own right, then a social enterprise may get to a point where there could be independent revenue streams flowing into the enterprise around the impact value proposition. However, it may not be 'saleable' - in which case, the costs of generating this impact either need to be covered internally, or you could look at the 'key partners' part of the business model and develop partnerships around the social value in order to ensure that even if there are no direct revenue streams, the costs incurred in the process of generating the impact will be covered.

Problems arise when the symbiotic relationship between the two systems is not being worked on. When, for example, an unviable commercial model is being propped up by a temporarily funded impact system. Or, when an impact model is designed that doesn't deliver real or needed impacts, even when the commercial model is powering along!

What is important in a social enterprise is that there is a focus on **RIGHT REVENUE** - that is, a mix of revenue that is appropriate for the particular impact being delivered, and where there is a real probability that the business of the enterprise will generate profits and become commercially viable.



Revenue Streams

Commercial

- Retail sales
- Catering sales

Impact

- Participation and support funding
- Training funding
- Donations








Questions to ask about revenue in a social enterprise

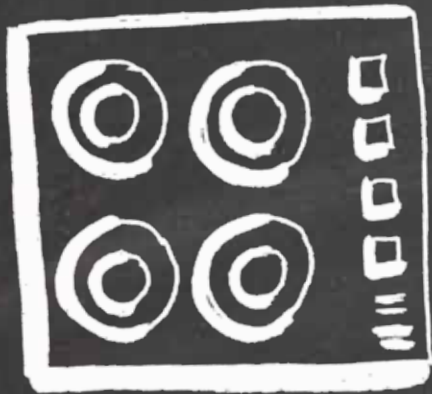
- can we unpack and unpick the revenues that are generated through the commercial activities of the business from the revenues generated through the impact? This effectively means knowing what revenue is derived from and driving what part of the business.
- have we examined analogous commercial business models to explore potential revenue streams from our chosen business sector, which can help us to predict, to a certain extent, the potential for profits to cover impact costs;
- What ongoing sources of revenue could be generated in relation to impact delivery, and how are we 'valuing' this?

Key Resources

Key resources are the assets, tangible and intangible, that make your business model work - and in the case of social enterprise, this refers to the resources that drive your commercial model AND the resources that drive your impacts. The table below outlines both the commercial resources that may be needed by social enterprises (based on Osterwalder and Pigneur, 2009) and the impact resources. Decisions need to be made within social enterprises about whether these resources are needed inside the enterprise, or whether key partnerships can be developed to ensure that these resources are accessible to the enterprise.

Of course when social enterprises start-up they, like many start-up businesses, may not have all the resources in place to scale up their businesses or their impact. This can be a work in progress. However, for social enterprises it is imperative to understand how critical it is to ensure access to the key resources needed to drive both the commercial business and the impact, and to plan ahead for how such resources can be developed and maintained. Further, it is important to think through the best ways to access the necessary resources and the sorts of capital and networks that may be needed in the process.

	Commercial		Impact
	Physical Resources Facilities, infrastructure, buildings, vehicles, systems, distribution networks	+	Special equipment and infrastructure, systems, accessible buildings.
	Intellectual Resources Brands, knowledge, contact management systems, partners, business knowledge and skills	+	Impact knowledge and skills, pro-bono support partners
	Human Resources People, staff, partners	+	Champions, support staff, brokers, powerful allies, support networks
	Financial Resources Cash, lines of credit, access to finance	+	Access to funds to cover impact costs
	Impact Resources		Methods and networks to assess and evaluate impact, all other assets needed to ensure impact delivery



WHAT REVENUES CAN WE
COOK UP?

WHAT WILL OUR COOKER
COST US?

For example, many new social enterprises are bootstrapped - they rely on whatever resources are readily available at the time. Sometimes these are borrowed, or the founder's personal resources are used. If you're running a gardening and landscaping social enterprise using the founder's ute and lawnmower, it should be a priority to acquire commercial equipment as soon as possible. If you're running a social enterprise restaurant with a three-burner stove, then the limitations of this resource will be reflected in your bottom line, which in turn will limit your potential impact. Resources are the tools for driving your business and delivering your impact. If the resources are lacking, then your business bottom line and your impact will suffer as a result.

Commercial

- kitchen / coffee equipment
- Shop (asset)
- Location
- Brand
- Staff

Impact

- Support expertise
- Support staff
- Impact brand

Questions to ask about resources in a social enterprise

- What physical, intellectual, human, and financial resources are needed for your commercial operations?
- What physical, intellectual, human, financial and impact resources are needed to ensure you deliver on your impact objectives?
- How could lack of commercial resources impact on the achievement of impact objectives? And vice versa?
- Do all the resources need to be located inside the social enterprise, or can some of them be located with and accessed through partnerships?

Key Activities

The key activities of your social enterprise encompasses the things you must do to deliver value to your customers - so, to ensure both commercial and social value.

Key activities across the commerce and impact of social enterprise may be:

- **complementary** - that is, the business activities are complemented by and/or complement the impact activities. So, for example, in the cafe, having a range of activities in food preparation, customer service and cleaning, may offer an array of potential jobs suitable for staff needing support and having different interests. Complementary activities may be leveraged for greater efficiencies across the delivery of commercial and impact value.
- **opposing** - there may be activities where it is difficult to balance commerce and impact value delivery. For example, if the cafe regularly has times when there are long queues and the pressure to serve customers quickly and efficiently is very high, then these commercial imperatives and the activities needed to meet them may be in conflict with activities associated with supporting workers who may not have experience or capacity to cope easily with high stress customer service. In this case problem solving is needed so that commercial and impact imperatives are balanced or at least can co-exist!

Being specific about what activities are critical to support and deliver your impacts is helpful not only in understanding what needs to be done on a daily basis to maintain your impact focus, but also to costing your impact. Unpacking your impact activities is an important part of understanding your business model as a social enterprise. Your impact customers and partners may also benefit from understanding just what it takes to achieve your impacts.

Commercial

- Baristaring
- cooking / catering
- customer service
- Front of shop and backroom management

Impact

- support and participation activities

Activities needed to deliver commercial value



Activities needed to deliver impact value



Questions to ask about activities in a social enterprise

- What are the key activities that we undertake to deliver our commercial value propositions to customers?
- What are the key activities that are needed to deliver our impact value proposition?
- What overlaps are there between the two sets of activities?
- What are the complementary activities? Are there ways we can build efficiencies into these complementary activities?
- What oppositional activities are there? How can we address these so that they are more balanced?

Key Partnerships

Partnerships refer to the network of suppliers, allies, supporters, co-creators and champions that are needed to ensure that a social enterprise can deliver on both impact and commercial objectives.

Partnerships can support and enhance both the commercial and the impact objectives of a social enterprise. The enterprise may have an active network of supporters who promote products and services or who are vital as a distribution network. Equally, the enterprise may have a network of partners who offer value-adds to your impact - they may support the participation of employees who have been unemployed, or they might help a social enterprise to scale its impact through social franchising mechanisms.

There may be different motivations for engaging in partnerships according to whether the partnership is centred on commerce, impact or both.

Questions to ask about partnerships in a social enterprise

- What partnerships are critical to helping us achieve our commercial objectives?
- What partnerships can help us deliver, strengthen or scale our impact objectives?
- What motivations underpin our partnerships?
- How do we structure our partnerships?
How do we demonstrate the value of our partnerships to each other and externally?

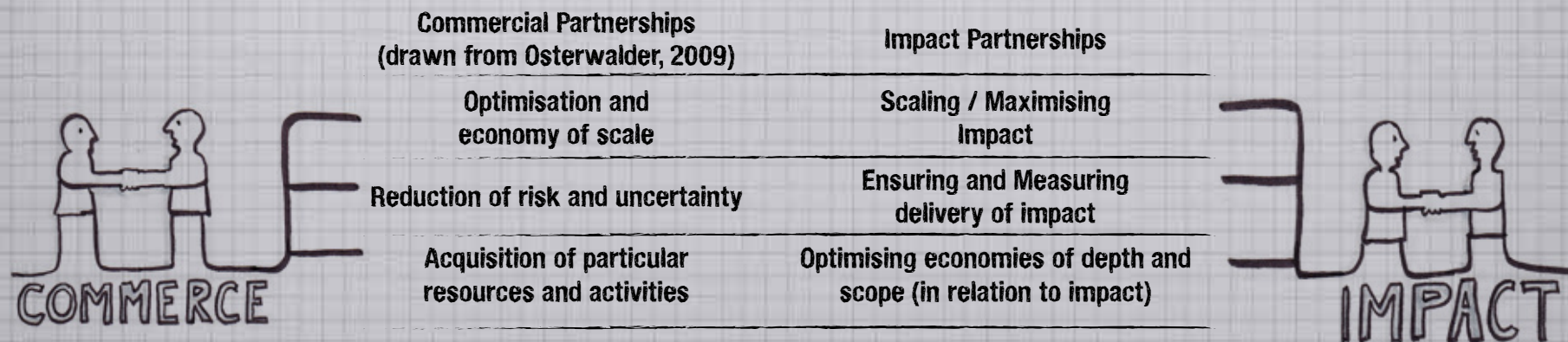
Commercial

- Coffee distributor
- Drink distributor
- Local chamber of commerce

Impact

- Not-for-profit partner supporting people with a disability
- Social Enterprise Alliance
- Social Investor

Potential Motivations for Partnerships in a Social Enterprise



Cost Structure

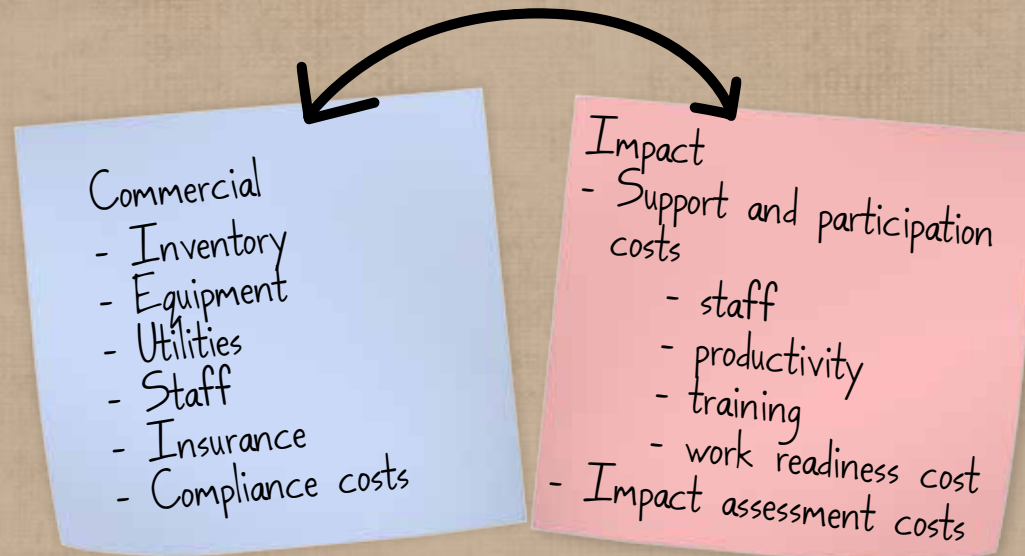
Like other parts of a social enterprise business model, the cost structure needs to take account of both the commercial operating and production costs AND the costs involved in delivering an impact. For most social enterprises this means understanding the costs involved in keeping the 'business' going, and unpacking what extra costs are needed to actually deliver on the impact of the enterprise. Impact is rarely, if ever, cost neutral - if it was, then every business would be a social enterprise! If you are employing people who have experienced long-term unemployment, this can cost you in terms of extra training, support, reduced productivity, poor performance. These are costs that are incurred above and beyond the commercial costs of operating your business. And of course, they are costs you are willing to incur in order to achieve your impact objectives!

Similarly, if you are operating a social enterprise that aims to ensure the long-term survival of local farms and farmers by running a community supported agriculture model, then you need to think about the costs that

are involved in achieving this impact by asking what costs you incur that most commercial operators are not willing to incur? In other words, what costs are stopping commercial operators from purchasing from the local farms and farmers that you are building your business around?

Understanding and articulating your impact is critical to being able to unpack its cost structure. If your impact is vague or ill-defined, costing it will be equally imprecise.

Next it is important to articulate what activities are undertaken and what resources are needed to deliver your social impact. This can be done visually by mapping the business process, all the activities that are undertaken in the course of delivering value to your customers, and then exploring the 'impact costs' associated with each of these activities. The resources needed to undertake these activities can then be added to the map, alongside additional resources needed to deliver on the impact.



Typical Business Operation Costs

Inventory
Premises
Wages/salaries
Equipment, machinery and tools
Utilities
Communication and postage
Insurances
Printing and Stationary
Advertising /marketing
Bank charges and interest
Vehicles / transport
Accountancy and other professional fees
Tax
Depreciation
License and compliance costs
Training



Impact Costs

Support and participation costs (extra staff costs for people to support workers)
Work readiness costs (licences, permits, uniforms etc. for disadvantaged workers)
Provision costs (for non-attendance, extra sick leave etc)
Impact training (eg. training for support staff)
Opportunity costs (eg. reduced productivity, costs of recruiting and training new staff constantly if you are an intermediate labour market social enterprise)
Fundraising costs
Impact assessment costs
Ethics costs
(eg. premiums for fair trade goods)



Three Critical Questions to ask about Costs in a Social Enterprise

What is the impact you are seeking to achieve in the social enterprise (and what is the difference between your ideal and real impact!)?

What activities do you have to undertake to achieve this impact?
Which of these activities would not be undertaken if this was a typical commercial business?
What costs do these activities incur?

What resources are needed to achieve this impact?
Which of these resources would not be needed if this was a typical commercial business?
What costs do these resources incur?

Key Partnerships

Commercial

- Coffee distributor
- Drink distributor
- Local chamber of commerce

Impact

- Not-for-profit partner supporting people with a disability
- Social Enterprise Alliance
- Social Investor

Key Activities

Commercial

- Baristaring
- cooking / catering
- customer service
- Front of shop and backroom management

Impact

- support and participation activities
- support

Key Resources

Commercial

- kitchen / coffee equipment
- Shop (asset)
- Location
- Brand
- Staff

Impact

- Support expertise
- Support staff
- Impact brand

Value Proposition

Commercial Value Proposition (CVP)

Great coffee, fresh food, personal service

Impact Value Proposition (IVP)

Sustainable employment for people who have been long-term unemployed

Customer Relationships

Commercial

- personalised service, repeat custom, loyalty
- long term customers

Impact

- personalised service, repeat custom, loyalty
- long-term impact customers

Channels

Commercial

- Retail - high traffic near public transport station
- Word of mouth
- www

Impact

- Social enterprise networks and directories
- Social procurement directories

Customer Segments

Commercial

- Walk-by commuters
- Local businesses, offices, services (retail and catering)
- Regulars

Impact

- Ethical consumers
- Not-for-Profits, other social enterprises
- social procurement customers (catering)
- Government - purchasing jobs for people with disabilities, and training

Cost Structures

Commercial

- Inventory
- Equipment
- Utilities
- Staff
- Insurance
- Compliance costs

Impact

- Support and participation costs
 - staff
 - productivity
 - training
 - work
- readiness cost
- Impact assessment costs

Commercial

- Retail sales
- Catering sales

Impact

- Participation and support funding
- Training funding
- Donations

Revenue Streams

Insight Name

Date of Learning

Person Responsible

STEP 1: HYPOTHESIS

We believed that

Translation

STEP 2: OBSERVATION

We observed

Translation

Data Reliability:



STEP 3: LEARNINGS AND INSIGHTS

From that we learned that

Translation

Action Required:



STEP 4: DECISIONS AND ACTIONS

Therefore, we will

Translation

Test Card

Test Name

Deadline

Assigned to

Duration

STEP 1: HYPOTHESIS

We believe that

Translation

Critical:



STEP 2: TEST

To verify that, we will

Translation

Test Cost:



Data Reliability:



STEP 3: METRIC

And measure

Translation

Time Required:



STEP 4: CRITERIA

We are right if

Translation

Interreg

CENTRAL EUROPE

CERlecon



European Union
European Regional
Development Fund

TAKING
COOPERATION
FORWARD

📍 Augmented joint trans. training - Brno (D.T2.6.2), 14-15th of March 2018

💬 **Business Planning**

👤 CERlecon, PP10 STEP RI, Neven Tamarut, ntamarut@uniri.hr

Day one

- Introduction (use of BP & terms)
- Preparation guidelines for BP
- Workshop (working on case)

Day two

- Workshop (finishing)
- Writing executive summary
- Conclusion of the workshop



1.

INTRODUCTION



WHAT IS IT?



WHY IS NEEDED?

- Better planning of resources
- Important for investment decisions
- In time execution of activities
- Can have corrective influence on management decisions
- It helps stakeholders to make their decisions



WHO NEEDS IT?

Internally

owners

management

employees

Externally

buyers

suppliers

investors

banks

others



WHEN IS NEEDED?



IN THE BEGINNING OF EACH PHASE OF BUSINESS DEVELOPMENT



BEFORE WE START, WE HAVE TO DECIDE...

START-UPS?

ESTABLISHED COMPANIES

A Business Case....

A Business Plan...

**Is
organized
around...**

A single action or single decision and its alternatives.

An organization or the whole enterprise. The plan may cover a single product or product line or the whole organization.



2.

PREPARATION



BECOME FAMILIAR WITH



ECONOMIC TERMS



RELEVANT DATA SOURCES



TOOLS FOR ANALYSIS OF DATA



BUSINESS MODEL GENERATION METHOD



STRUCTURE OF BP



FINANCIAL CALCULATIONS



TERMS

Assets - anything with monetary value that a business owns

Liabilities (debts)- money your business owes and has to pay back

Capital - Assets less Liabilities

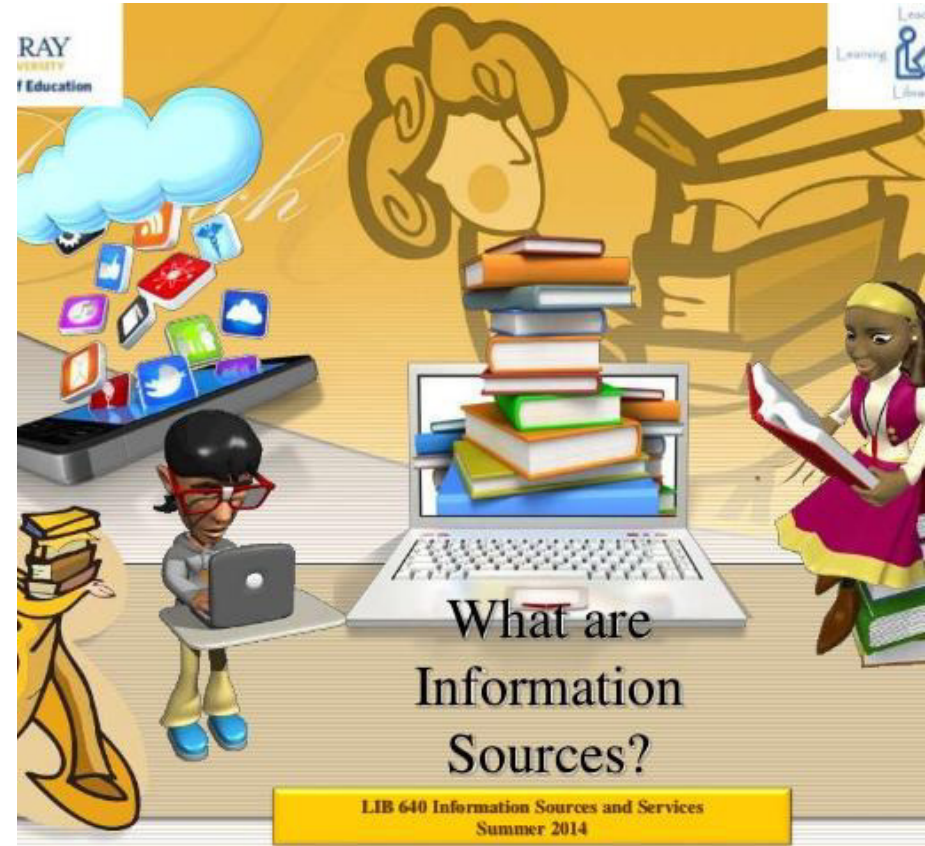
Direct costs (COGS, unit costs, cost of sales) - Cost of goods sold OR raw materials and labor costs to manufacture or assemble finished goods

CAGR - mean annual growth rate over a specified period of time longer than one year



TYPE OF SOURCES

- Information can come from virtually anywhere (personal experiences, books, articles, expert opinions, encyclopedias, the Web)
- Primary: our own collection of information
- Secondary & Tertiary: when we use other's information (already published) or cited from others



RELEVANT DATA SOURCES

For established companies with track record:

- Planning based on historical data (past 2-3 years)
- External sources reporting trends in industry

For startup project (bottom - up):

- Planning based on assumptions & industry data
- with regards to liquidity and capacity planning



WHAT ARE WE LOOKING FOR?

Information on:

- Market size and trends
- Customer segmentation
- Key producers on the market
- Key vendors
- Similar product or services
- Prices
- Anything relevant that describes the market (marketing expenditure, relevant financial reports in public domain,...)

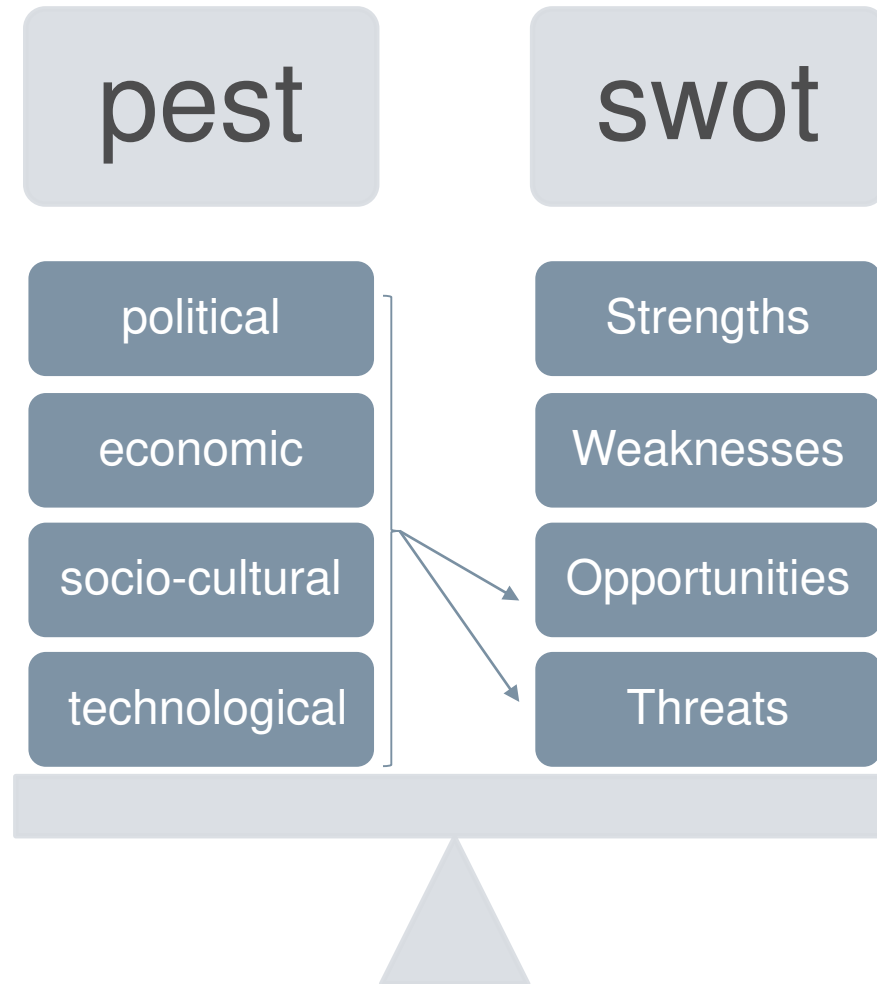


TOOLS FOR ANALYSIS

Porter's five forces



PEST & SWOT analysis

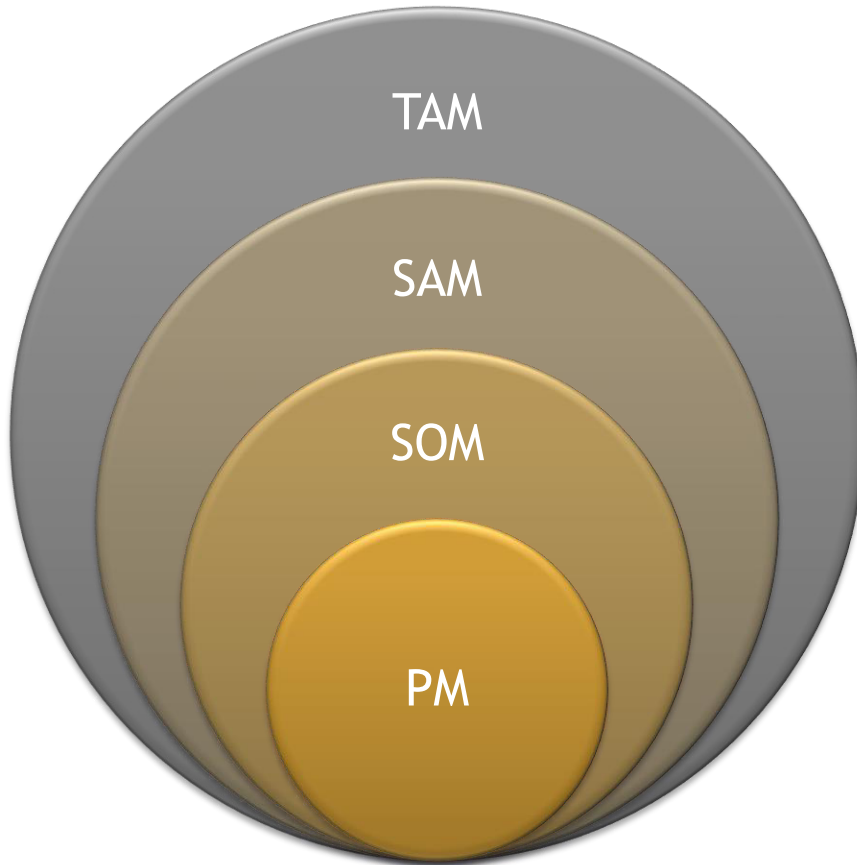


COMPETITIVE ANALYSIS

FACTOR	STRENGTH	WEAKNESS	COMPETITOR 1	COMPETITOR 2	COMPETITOR 3
Product/ service					
Price					
Distribution					
Quality					
Availability					
Functionality					



ADDRESSABLE MARKET SEGMENTS



TAM or Total Available Market - total market demand for a product or service.

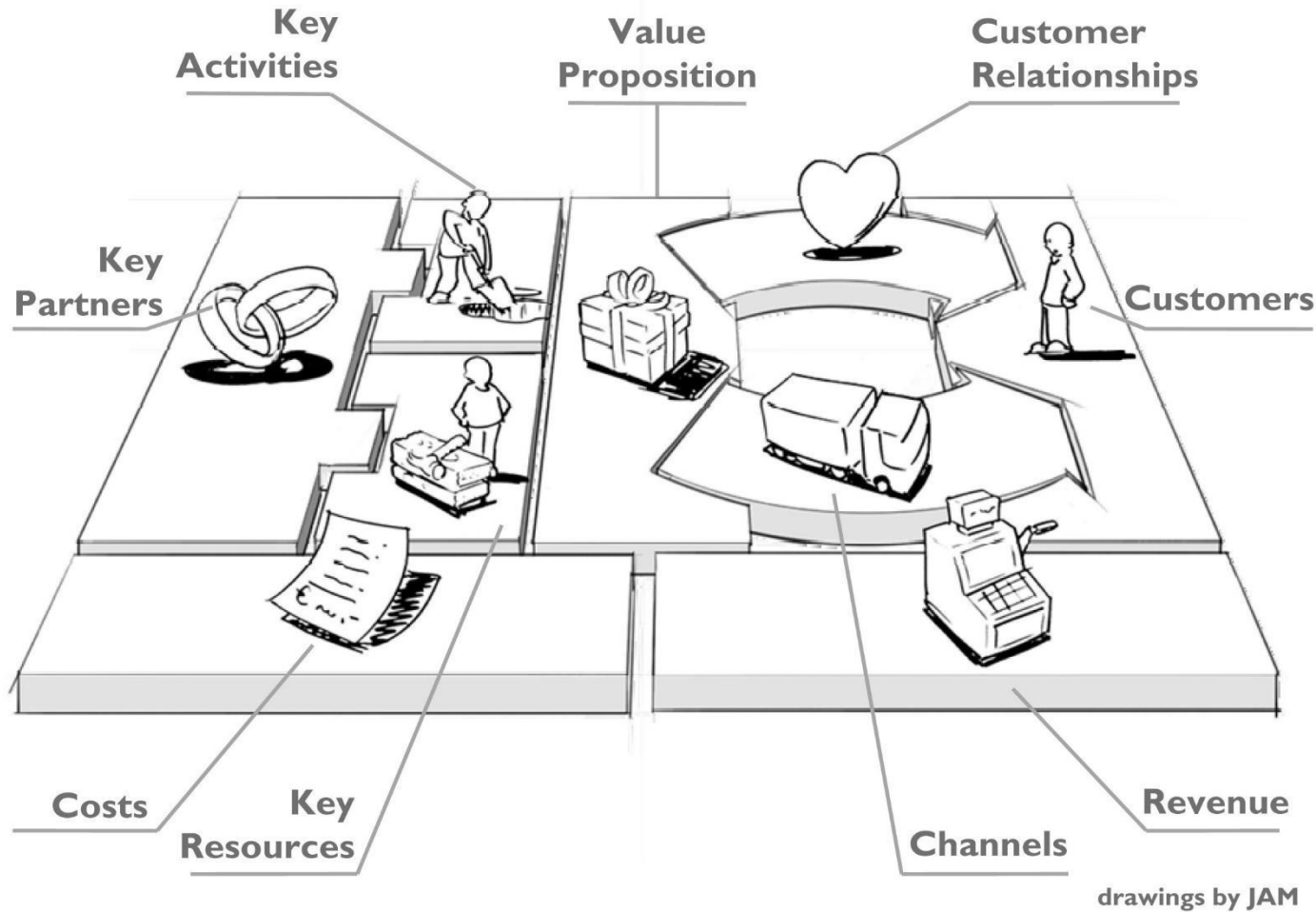
SAM or Serviceable Available Market - segment of the TAM targeted by your products and services which is within your geographical reach.

SOM or Serviceable Obtainable Market - portion of SAM that you can capture

PM or Penetrated Market - your current customers



BUSINESS MODEL GENERATION



3.

WRITING PROCESS

<Company Name>

<Insert Logo>

Business Plan

Date: _____

Control Copy Number: 00X

Issued to: _____

Contact:

Email:

Tel:

The <Company> Business Plan is confidential and contains proprietary information including trade secrets. Neither the Plan nor any of the information contained in the Plan may be reproduced or disclosed to any person under any circumstances without expressed written permission.

Strictly Private and Confidential
©<Company Name> <Year>

Page 1 of 12



STRUCTURE OF BP (EXAMPLE)

1. Executive Summary
2. Business Summary
 - 2.1 Company Summary
 - 2.2 Management Summary
 - 2.3 Products and Services
3. Market overview
 - 3.1 Industry background
 - 3.2 Market Analysis
 - 3.2.1 *Demand point of view*
 - 3.2.2 *Supply point of view*
 - 3.2.3 *Legal framework*
 - 3.3 SWOT Analysis
4. Marketing Plan
5. Operational Plan
6. Financial Plan
 - 6.1 Assumptions
 - 6.2 Profits and losses forecast
 - 6.3 Cashflow statements
 - 6.4 Balance sheet
 - 6.5 Break-even analysis
 - 6.6 Risk analysis
7. Conclusion



- Write this section last.
- Include everything from BP that you think is important to someone who have never heard about your business to get a first picture.



- Details about the company (name, registration, legal form of ownership, etc.)
- Mission Statement, Vision, Company Goals and Objectives...
- Explain your business in short.



- Problem and solution perspective
- Describe your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in Appendices).
- What are the pricing, fee, or leasing structures of your products or services?



- Analysis of industry (key players: vendors, producers, competitors, ...trends etc.). What is the total size of the market and SOM ?
- Use primary and secondary sources of data.
- Use SWOT and PEST analysis, Competitive analysis, Porter's 5 forces...
- Statistics, numbers, and sources are needed.



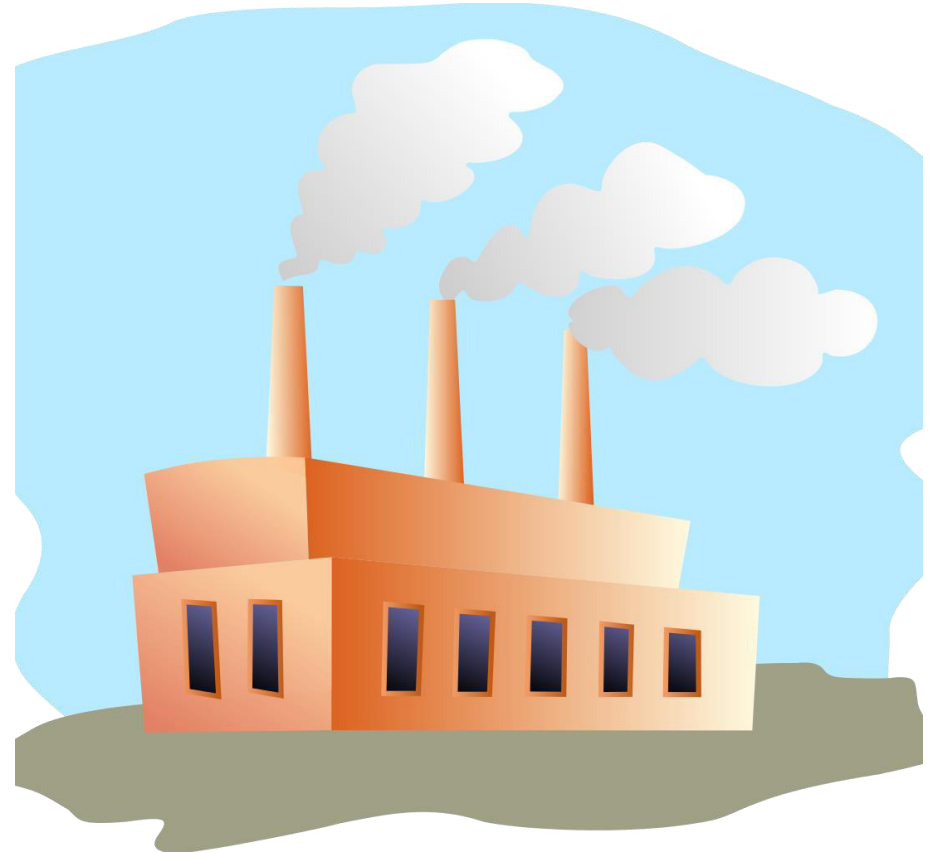


- How you plan to reach your customers?
- Put your promotional budget herein
- Pricing (Explain your method of setting prices)



OPERATIONAL PLAN

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.



Explain your major assumptions.

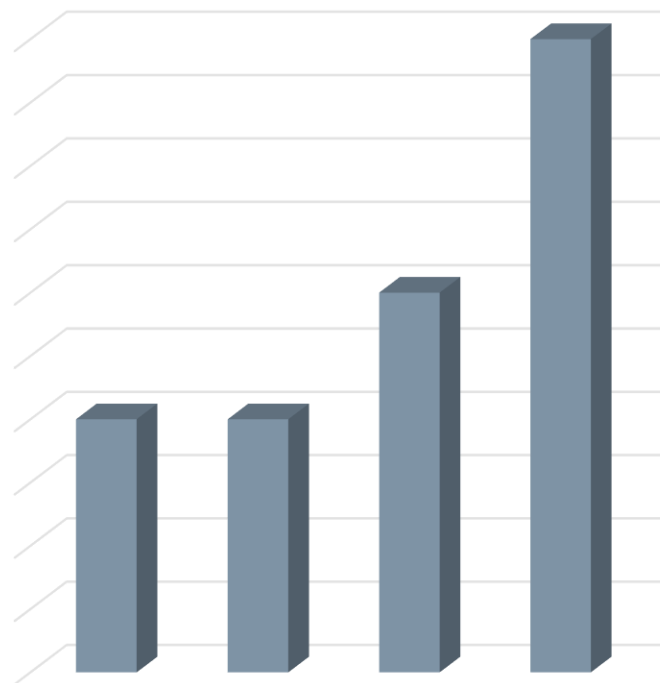
The financial plan consists of:

- profit and loss projection,
- cash-flow projection,
- projected balance sheet,
- break-even calculation.



INCOME STATEMENT / P&L STATEMENT

Sales/Revenue
- Cost of Goods Sold
= Gross Profit
- Operating Expenses
- Depreciation
= Operating Earnings (EBIT)
- Interest Expense
- Tax expense
= NET INCOME



CASH FLOW (INDIRECT METHOD)

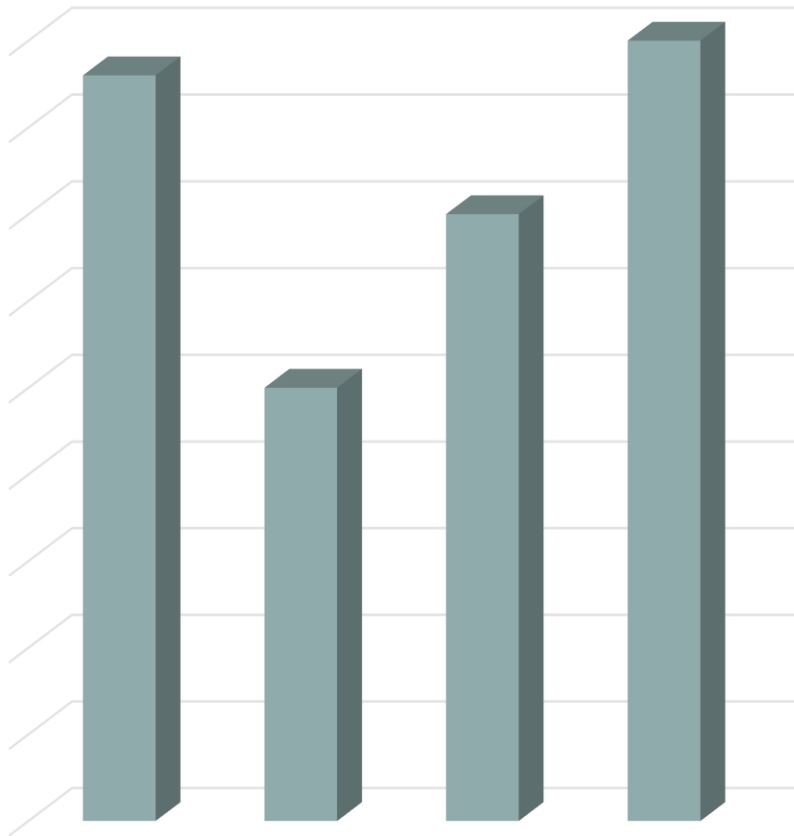
Operating CF:

Net income

- + Depreciation & amortization
- + Deferred taxes
- Increase in account receivable
- Decrease in accounts payable
- + Increase in accrued interest payable
- Gain on sale of Property
- = Total Operating Cash Flow



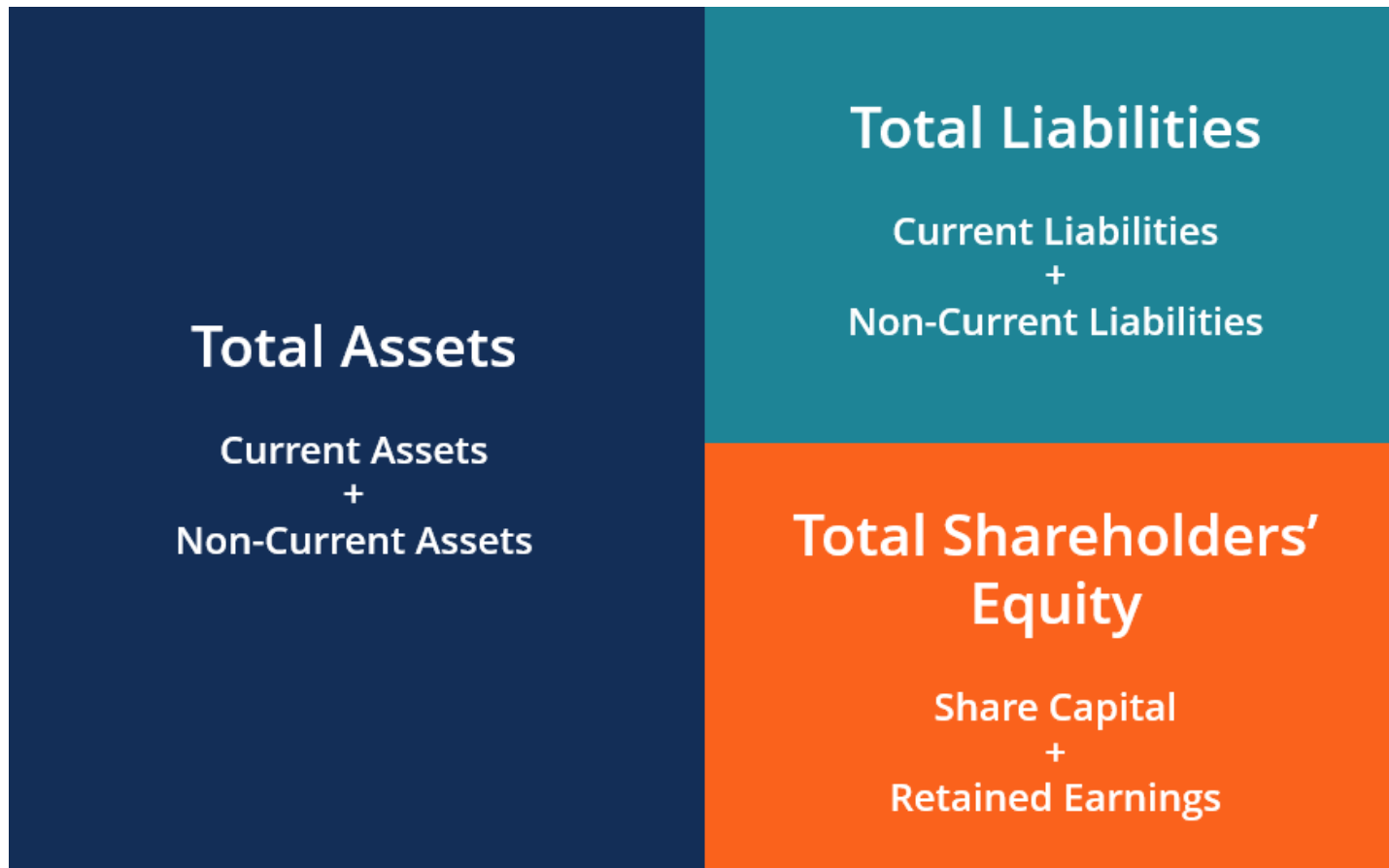
CASH FLOW (DIRECT METHOD)



Cash on Hand
+ Total cash receipts
= Total Cash Available
- Total Cash Paid Out
= Cash Position
(end of month)



BALANCE SHEET



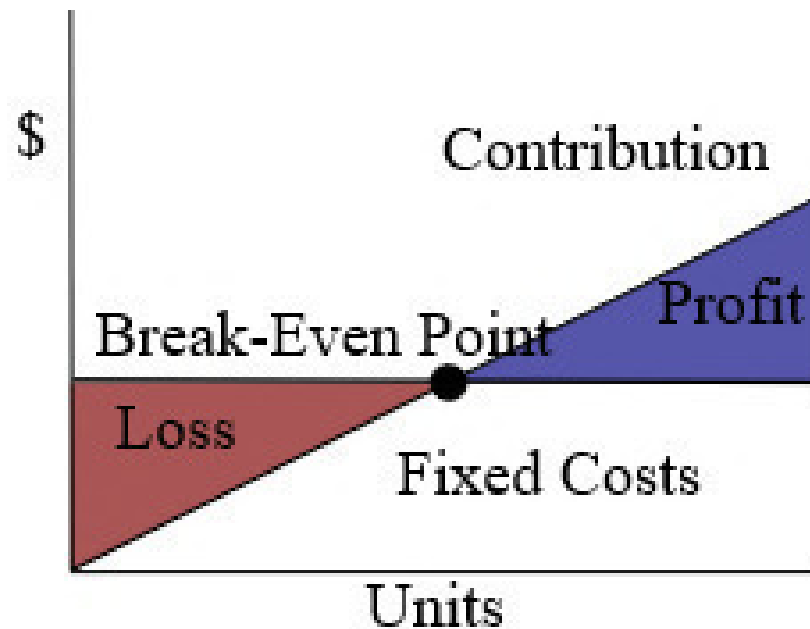
Source: <https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/>



BREAK-EVEN POINT

The **break-even point (BEP)** - the point at which total cost and total revenue are equal. After solving equation...

$$Q = \text{total fixed costs} / (\text{unit sale price} \times \text{unit variable cost})$$



Identify **RISKS**
and your plan how to
manage it.

Financial,
Human,
Technology,...



4.

RECOMMENDATIONS



- Executive summary - the most important part usually first to be read (sometimes the only one!)
- It should contain the most important information from document
- It should be: Clear and consistent
Up to 10% of total BP pages (up to 2.5 pages)



- In total up to 20-25 pages (for start-ups, does not include appendices)
- Number of writers: 1 person
- Financial projections with assumptions around 2,5 pages (for 5 years projection plan)
- Include KPI and Financial ratios



CONCLUSION - BP SHOULD BE...

- Simple- easy to read
- Precise - based on numbers and calculations
- Real - based on market research and competences
- Consistent -conflict-free regarding statements or chosen expressions



- Inclusive - including or covering important thematic fields
- Structured - according to content plan
- Informative - provide information important for making decisions



THANK YOU!

PP10 STEP RI

Neven Tamarut
ntamarut@uniri.hr





BUSINESS PLAN



Business Plan

OWNER(S)

Your Business Name

Address Line 1

Address Line 2

City, Street, ZIP Code

Telephone

Fax

E-Mail



Contents

Business Plan	2
1. Executive Summary	4
2. General Company Description	4
3. Management and Organization	4
4. Products and Services	4
5. Market overview	5
6. Marketing Plan	5
7. Sales Plan.....	5
8. Operational Plan	5
9. Expenses and Capitalization	6
10. Financial Plan.....	6
11. Risk and contingency measures	6
12. Conclusion	6
13. Appendices	6



1. Executive Summary

Write this section last.

Include everything from the BP that you think is important to someone who has never heard about your business to get a first picture.

Try to make it in two pages or fewer.

2. General Company Description

Details about the company (name, registration, legal form of ownership, etc.)

Mission Statement, Vision, Company Goals and Objectives...

Explain your business in short.

3. Management and Organization

Who are the managers in the company? What experience does that person have? Special or distinctive skills?

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees, resumes of owners and key employees (in Appendices).

Existence of Professional and/or Advisory Support?

4. Products and Services

Describe your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in Appendices).

What are the pricing, fee, or leasing structures of your products or services?



5. Market overview

Analysis of industry (key players: vendors, producers, competitors, ...trends etc.).

What is the total size of the market?

Use primary and secondary sources of data.

Use SWOT and PEST analysis, Competitive analysis, Porter's 5 forces...

Statistics, numbers, and sources are needed.

6. Marketing Plan

How you plan to reach your customers?

Advertising: What media, why, and how often?

Identify low-cost methods to get the most out of your promotional budget.

Will you use methods other than paid advertising, such as trade shows, catalogs, dealer incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?

Put your promotional budget herein.

Pricing (Explain your method of setting prices)

7. Sales Plan

Use a sales forecast spreadsheet to prepare your projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available.

Keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan.

8. Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes and surrounding environment.



9. Expenses and Capitalization

Explain the logic behind the forecasts of expenses. Give sources, amounts, and terms of proposed loans. How much will be contributed by each investor and what percent of ownership will they have each.

Depreciation calculations can be also done here.

10. Financial Plan

Explain your major assumptions.

The financial plan consists of profit and loss projection, a cash-flow projection, a projected balance sheet, and a break-even calculation.

Business ratios can also be included here or as a separate section.

11. Risk and contingency measures

Identify all associated risks that could jeopardize your BP and how you plan to manage these risks.

12. Conclusion

This section has to be related the content of the document with focus on future results. It should be concise, preferably not more than one page of text.

13. Appendices

Put here important supporting documents such as resumes, product or service description and other.

PEST Analysis Template

Situation being analysed: _____

PEST analysis (political, economical, social, technological) assesses a market, including competitors, from the standpoint of a particular proposition or a business.

criteria examples ecological/environmental current legislation future legislation international legislation regulatory bodies and processes government policies government term and change trading policies funding, grants and initiatives home market pressure- groups international pressure- groups wars and conflicts	political	economical	criteria examples home economy economy trends overseas economies general taxation taxation specific to product/services seasonality issues market/trade cycles specific industry factors market routes trends distribution trends customer/end-user drivers interest/ exchange rates international trade and monetary issues
criteria examples lifestyle trends demographics consumer attitudes and opinions media views law changes affecting social factors brand, company, technology image consumer buying patterns fashion and role models major events and influences buying access and trends ethnic/religious factors advertising and publicity ethical issues	social	technological	criteria examples competing technology development research funding associated/dependent technologies replacement technology/solutions maturity of technology manufacturing maturity and capacity information and communications consumer buying mechanisms/technology technology legislation innovation potential technology access, licencing, patents intellectual property issues global communications

SWOT analysis explanation and templates are at www.businessballs.com/swotanalysisfreetemplate.htm

© Businessballs 2009. A free PDF version of this tool and information about PEST analysis methods are available at www.businessballs.com/pestanalysisfreetemplate.htm A free resource from www.businessballs.com

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SWOT Analysis Template

State what you are assessing here _____

(This particular example is for a new business opportunity. Many criteria can apply to more than one quadrant. Identify criteria appropriate to your own SWOT situation.)

criteria examples

Advantages of proposition?
Capabilities?
Competitive advantages?
USP's (unique selling points)?
Resources, Assets, People?
Experience, knowledge, data?
Financial reserves, likely returns?
Marketing - reach, distribution, awareness?
Innovative aspects?
Location and geographical?
Price, value, quality?
Accreditations, qualifications, certifications?
Processes, systems, IT, communications?
Cultural, attitudinal, behavioural?
Management cover, succession?
Philosophy and values?

strengths

weaknesses

criteria examples

Disadvantages of proposition?
Gaps in capabilities?
Lack of competitive strength?
Reputation, presence and reach?
Financials?
Own known vulnerabilities?
Timescales, deadlines and pressures?
Cashflow, start-up cash-drain?
Continuity, supply chain robustness?
Effects on core activities, distraction?
Reliability of data, plan predictability?
Morale, commitment, leadership?
Accreditations, etc?
Processes and systems, etc?
Management cover, succession?

criteria examples

Market developments?
Competitors' vulnerabilities?
Industry or lifestyle trends?
Technology development and innovation?
Global influences?
New markets, vertical, horizontal?
Niche target markets?
Geographical, export, import?
New USP's?
Tactics: eg, surprise, major contracts?
Business and product development?
Information and research?
Partnerships, agencies, distribution?
Volumes, production, economies?
Seasonal, weather, fashion influences?

opportunities

threats

criteria examples

Political effects?
Legislative effects?
Environmental effects?
IT developments?
Competitor intentions - various?
Market demand?
New technologies, services, ideas?
Vital contracts and partners?
Sustaining internal capabilities?
Obstacles faced?
Insurmountable weaknesses?
Loss of key staff?
Sustainable financial backing?
Economy - home, abroad?
Seasonality, weather effects?

Porter's five forces analysis

Buyers' power:

Threat of new entrants:

Intensity of rivalry:

Threat of substitutes:

Suppliers' power:

COMPETITIVE ANALYSIS

FACTOR	STRENGHT	WEAKNESS	COMPETITOR 1	COMPETITOR 2	COMPETITOR 3
Product/service					
Price					
Distribution					
Quality					
Availability					
Functionality					

[illegible]

Balance Sheet

For training purposes only.
Do not distribute.

	FY-[YEAR]	FY-[YEAR]
Current Assets		
Cash		
Investments		
Inventories		
Accounts receivable		
Pre-paid expenses		
Other		
Total	0	0
Fixed Assets		
Property and equipment		
Leasehold improvements		
Equity and other investments		
Less accumulated depreciation (Negative Value)		
Total	0	0
Other Assets		
Charity		
Total	0	0
Total Assets	0	0
Current Liabilities		
Accounts payable		
Accrued wages		
Accrued compensation		
Income taxes payable		
Unearned revenue		
Other		
Total	0	0
Long-term Liabilities		
Mortgage payable		
Total	0	0
Owner Equity		
Investment capital		
Accumulated retained earnings		
Total	0	0
Total Liabilities & Stockholder Equity	0	0

[EUR millions]

[EUR millions]

[EUR millions]

Do not distribute!

[illegible]

[Company Name] Profit and Loss (P&L) Statement [EUR millions]			© Corporate Finance Institute For training purposes only. Do not distribute!		
	2014	2015	2016	2017	2018
Revenue stream 1		-	-	-	-
Revenue stream 2		-	-	-	-
Returns, Refunds, Discounts		-	-	-	-
Total Net Revenue	-	-	-	-	-
Cost of Goods Sold	-	-	-	-	-
Gross Profit	-	-	-	-	-
Expenses					
Advertising & Promotion	-	-	-	-	-
Depreciation & Amortization	-	-	-	-	-
Insurance	-	-	-	-	-
Maintenance	-	-	-	-	-
Office Supplies	-	-	-	-	-
Rent	-	-	-	-	-
Salaries, Benefits & Wages	-	-	-	-	-
Telecommunication	-	-	-	-	-
Travel	-	-	-	-	-
Utilities	-	-	-	-	-
Other Expense 1	-	-	-	-	-
Other Expense 2	-	-	-	-	-
Total Expenses	-	-	-	-	-
Earnings Before Interest & Taxes	-	-	-	-	-
Interest Expense	-	-	-	-	-
Earnings Before Taxes	-	-	-	-	-
Income Taxes	-	-	-	-	-
Net Earnings	-	-	-	-	-

For training purposes only. Do not distribute.

Twelve-month cash flow

Enter Company Name Here

Fiscal Year Begins: sij.05

[illegible]

CASH RECEIPTS

[illegible]

CASH PAID OUT

[illegible]

TAKING
COOPERATION
FORWARD



DT2.6.1 Augmented joint training Brno 13.-16.3.2018.



Easy Startup! Presentation and Training Material



CERlecon, PP06 Stuttgart Media University, Dr Hartmut Rösch, roesch@hdm-Stuttgart.de

REQUIREMENTS

Seminar room

Movable tables and chairs

Participants: 10 – 40

Teams: 2 - 10

Facilitators: 1- 2 (depending on the number of groups)

Pinboards: 1/team

Calculator

Sticky notes

Camera

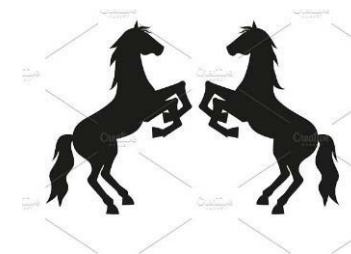


1st day

- Easy Startup! Web - Introduction
- Business planning
- Get ready for the market

2nd day

- Simulation P1 – P4



SCHEDULE

Introduction (Day 1)	13.00 – 13.30
Teambuilding	13.30 – 13.45
Getting to know Santa Beach	13.45 – 14.30
Business Planning	15.00 – 16.00
Investor's pitch	16.00 – 16.30
Period 1 (trial)	16.30 – 17.00
Analysis of P1 trial (Day 2)	9.00 – 9.30
Competition P1, P2, P3, P4	9.30 – 11.30
Wrap-up	11.30 - End



How the seminar works

easy
Startup!
Web

Business
planning

Business
activity





Business Plan Recipients

- Venture capital sponsors
- Chambers and business associations
- Your own company







- Management Concept / Business Idea / Executive Summary
- **Market Structure / Competitors**
- **Purchasing / Production / Investments**
- **Staff Costs / Leasing Fee / Other expenses**
- **Financial Planning**
- Debt Service Calculation
- Profit and Loss Account Plan
- Budgeted Balance Sheet
- Company Value
- Entrepreneur Team - Personal Data and Qualifications



Description

1. Description of Business Idea / Management Concept / Exec. Summary

Company Name:    

Corporate Draft

Description of Product or Service

Target Group

Advantages / Benefits for the Clients

Current Situation of the Competition

Competitive Advantages

Corporate Strategy

Executive Summary

Planned Turnover

Period	1	2	3	4	5	6
In I	80.000	123.760	100.360	133.840	114.400	182.120

Prospective Staff Requirement

Period	1	2	3	4	5	6
No. of Staff	4	4,5	4	4,5	4,5	5,5

Expected Net Profits (before taxes)

Period	1	2	3	4	5	6
In I	-2.210	27.200	9.460	33.492	13.366	54.452

Required Equity

In I

Company Value

	Founders	Investors
In I	<input type="text"/>	<input type="text"/>
Equivalent	<input type="text"/>	<input type="text"/>
Subscribed Capital	20.000	<input type="text"/>

Market Structure/Competitors

2. Market Structure / Competitors

Sales

Estimated Total Market Volume

Period	1	2	3	4	5	6
in units	400	480	420	520	440	560
Changes in comparison to previous period		20,00%	-12,50%	23,81%	-15,38%	27,27%

Expected Market Share per Period

Period	1	2	3	4	5	6
in %	40,0%	46,0%	46,0%	46,0%	50,0%	56,0%
Hence sales in units	160	221	193	239	220	314

Estimated Average Price in €

Period	1	2	3	4	5	6
	500	560	520	560	520	580

Expected Turnover in €

Period	1	2	3	4	5	6
	80.000	123.760	100.360	133.840	114.400	182.120

Expected Incoming Payments in the Current Period

as % of Turnover: 80%

Marketing

Planned Expenses for Communication (Print Advertising, Sales Promotion)

Period	1	2	3	4	5	6
in €	5.000	6.000	4.000	4.000	3.500	3.000
Expenses in % of the Planned Turnover	6,3%	4,8%	4,0%	3,0%	3,1%	1,6%

Strategy Definition of the Marketing Mix

Product Policy

Price Policy

Distribution Policy

☒ Location-Option A
☐ Location-Option B
☐ Location-Option C

Promotion Policy

Description	m2	Rent/period	overhead
Rental property A: Business property directly on beach; top location - easily accessible; shop and production room with several electrical points.	250	9,250 €	750 €
Rental property B: versatile business property with production and selling space. Location: city centre between beach and stadium; good customer connections at reasonable prices; 4 rooms in total plus large workshop.	250	6,500 €	900 €
Rental property C: Business space near stadium (industrial estate) at top prices; generous production rooms and workshops with integrated shop. Location: industrial estate near stadium (Santa Beach - East)	250	3,800 €	700 €

Purchasing / Production / Investment

Planned Production Volume (in units)

Period	1	2	3	4	5	6
Surfboards	160	220	180	240	240	320

Stock of Finished Products

Stock of Surfboards		-1	-14	-13	7	13
Stock Costs per Board	10 €	10 €	10 €	12 €	12 €	12 €

Required Input Materials / Operating Supplies are (units)

1 - Fiberglass	160	220	180	240	240	320
2 - Hard Foam	160	220	180	240	240	320
Operating Supplies	160	220	180	240	240	320

Estimated Purchase Prices (in € per unit)

Period	1	2	3	4	5	6
1 - Fiberglass	60 €	60 €	65 €	65 €	70 €	70 €
2 - Hard Foam	15 €	15 €	15 €	15 €	20 €	20 €
Operating Supplies	20 €	20 €	20 €	20 €	25 €	25 €

=> Results:

Outpayments for Inputs and Operating Supplies in €

(Dependent on the purchased batch)

1 - Fiberglass	9.600 €	13.200 €	11.700 €	15.600 €	16.800 €	22.400 €
2 - Hard Foam	2.400 €	3.300 €	2.700 €	3.600 €	4.800 €	6.400 €
Operating Supplies	3.200 €	4.400 €	3.600 €	4.800 €	6.000 €	8.000 €
Total	15.200 €	20.900 €	18.000 €	24.000 €	27.600 €	36.800 €

Production Capacity Planning: Required Capacity per Period...

Required Capacity (*)	160	220	180	240	240	320
Capacity of Prod. Lines (**)	180	180	180	180	180	180
Productivity / per employee	90,00	90,00	90,00	90,00	90,00	90,00
Number of Employees	1,78	2,44	2,00	2,67	2,67	3,56

(*) As a result of the production planning

(**) As a result of the number of production lines

Investments at Startup:

Purchase of Production Lines (PL) (in €)	7.500 €	Hence number of PL	1
Purchase of Office Equipment (OE) (in €)	5.000 €		

Planned Investments

Period	1	2	3	4	5	6
Number of New PL						
Purchase of New PL						
Depreciation PL	750	750	750	750	750	750
Depreciation OE	500	500	500	500	500	500
RBV Production Lines	6.750	6.000	5.250	4.500	3.750	3.000
RBV Office Equipment	4.500	4.000	3.500	3.000	2.500	2.000



Staff / Leasing Fee / R&D /Others

4. Staff Costs / Leasing Fee / Other Expenses

Employees at Startup

		Salary per. emp. per term (in €)
Total No. of Employees	3,5	
Purchas. / Admin.	0,5	9.000
Sales	1	9.000
Production	2	9.000

Expected Costs per Hire/Dismissal (approx. in €) **500**

Future Personnel Planning

	Period 1	2	3	4	5	6
Total No. of Employees	3,5	4	3,5	4	4	5
Purchas. / Admin.	0,5	0,5	0,5	0,5	0,5	0,5
Sales	1	1	1	1	1	1
Production	2	2,5	2	2,5	2,5	3,5
Required Staff for "Production" (out of production planning)	1,78	2,44	2,00	2,67	2,67	3,56

Development of Staff Costs

	Period 1	2	3	4	5	6
Future Wage Trend (in%)		3,0	3,0	3,0	3,0	3,0
Hiring / Dismissal Costs		500	500	500		500

Expected Staff Costs in €

	Period 1	2	3	4	5	6
Salaries	31.500	37.080	33.390	39.240	40.320	51.750
Non-salary Staff Costs 21%	6.615	7.787	7.012	8.240	8.467	10.868
Hirings / Dismissals		500	500	500		500
Total in €	38.115	45.367	40.902	47.980	48.787	63.118

Expected Leasing Expenses

	Period 1	2	3	4	5	6
Lease (incl. add. charges)	7.400	7.400	8.000	8.000	8.800	8.800

Further Expenses per Period in €

	Period 1	2	3	4	5	6
External Expense for R&D	8.000	8.000	8.000	8.000	8.000	8.000
Maintenance in Production	500	500	500	500	500	500
Fixed Production Costs	500	500	500	500	500	500
Stock Costs		-10	-140	-156	84	156
Further Admin. Costs	300	300	300	300	300	300
Total in €	9.300	9.290	9.160	9.144	9.384	9.456

Further Expenditure for Startup and Expansion (ESE)

Startup Costs **5.000** in Period 0 (can be depreciated over 10 periods)
(Management consultant, market studies, hiring costs, etc.)

Financial Planning

5. Financial Planning

Equity of the Founders

20.000



Period	Startup	1	2	3	4	5	6
Opening Cash Balance	20.000	2.500	2.515	26.723	50.132	72.323	88.701
Cash Inflows							
Inflows from Current Period		64.000	99.008	80.288	107.072	91.520	145.696
Inflows from Previous Period			16.000	24.752	20.072	26.768	22.880
Inpayments of Venture Capital							
Subscribed Capital							
Capital Reserves							
Sale of Securities							
Yield on Securities							
Loans		12.000	20.000	23.000	23.000	25.000	12.000
Application for Subsidy Loans							
Subsidies							
Cash Outflows							
Purch. (Input & Oper. Supplies)		15.200	20.900	18.000	24.000	27.600	36.800
Personnel Expenses		38.115	45.367	40.902	47.980	48.787	63.118
Other Expenses							
Specific Startup Costs	5.000						
Lease		7.400	7.400	8.000	8.000	8.800	8.800
Advertising		5.000	6.000	4.000	4.000	3.500	3.000
Further Expenses		9.300	9.290	9.160	9.144	9.384	9.456
Repayment of Loans			12.000	20.000	23.000	23.000	25.000
Interests Paid on Loans							
Purchase of Production Lines	7.500						
Purchase of Office Equipment	5.000						
Purchase of Securities							
Taxes		971	9.843	4.570	11.828	5.839	18.214
Closing Cash Balance	2.500	2.515	26.723	50.132	72.323	88.701	104.889
Expected Average Interest Rates (per term)							
Loans							
Subsidy Loans							
Securities							



6. Debt Service Calculation



Period	Startup	1	2	3	4	5	6
Taking out / Repaying Loans		12.000	8.000	3.000		2.000	-13.000
Interest Charge							
Total Liabilities		12.000	20.000	23.000	23.000	25.000	12.000
Debt-Equity Ratio		35,0%	30,7%	29,2%	21,6%	20,5%	7,9%

Return on Assets	6,6%	35,2%	13,5%	25,9%	11,2%	28,0%
Return on Equity	10,2%	50,8%	19,1%	33,1%	14,0%	30,4%

Negotiations with the Executive Consultant of your Bank:

In order to have the loans you planned approved by a bank, good collateral is necessary.

Here you should therefore clearly explain what collateral you have for your loan in your case!

(e.g. by outstanding Accounts Receivable)



Profit and Loss Statement

7. Profit and Loss Account Plan

	←	↺	↻	→		
Period	1	2	3	4	5	6
Net Turnover	80.000	123.760	100.360	133.840	114.400	182.120
+/- Changes in Stock		-245	-3.316	461	4.885	1.518
- Input Materials/Oper. Supplies	15.200	20.900	18.000	24.000	27.600	36.800
- Personnel Expenses						
Wages and Salaries	31.500	37.080	33.390	39.240	40.320	51.750
Non-salary Staff Costs	6.615	7.787	7.012	8.240	8.467	10.868
Hirings / Dismissals		500	500	500		500
- Depreciation ESE	500	500	500	500	500	500
- Depreciation	1.250	1.250	1.250	1.250	1.250	1.250
- Other Expenses	21.700	22.690	21.160	21.144	21.684	21.256
Lease	7.400	7.400	8.000	8.000	8.800	8.800
Advertising	5.000	6.000	4.000	4.000	3.500	3.000
Further Expenses	9.300	9.290	9.160	9.144	9.384	9.456
= Operating Result	3.235	32.809	15.232	39.427	19.464	60.714
+ Income from Securities						
- Interest Expenses						
= Result from reg. Bus. Ope.	3.235	32.809	15.232	39.427	19.464	60.714
- Taxes	971	9.843	4.570	11.828	5.839	18.214
= Net Profit / Loss for Period	2.265	22.966	10.662	27.599	13.625	42.500
Expected Tax Rate	30%	30%	30%	30%	30%	30%

Changes in Inventory (per unit in €)

Period	1	2	3	4	5	6
Input Materials / Parts	75 €	75 €	80 €	80 €	90 €	90 €
+ Operating Supplies	20 €	20 €	20 €	20 €	25 €	25 €
= Direct Material Costs (I)	95 €	95 €	100 €	100 €	115 €	115 €
Direct Production Costs (*)	136 €	124 €	121 €	113 €	113 €	119 €
+ Indirect Production Costs (**)	36 €	26 €	33 €	25 €	27 €	20 €
= Production Costs (II)	172 €	150 €	154 €	138 €	140 €	139 €
= Costs of Goods Manu. (I+II)	267 €	245 €	254 €	238 €	255 €	254 €

(*) Wages / Salaries + Non-salary Staff Costs

(**) See above!

Overwrite Indirect Production Costs?

per unit (!) in €

8. Budgeted Balance Sheet

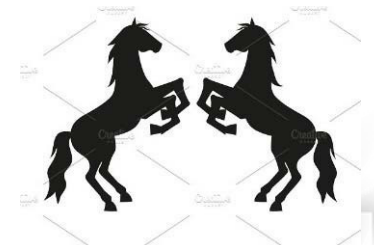
	Period	Startup	1	2	3	4	5	6
ASSETS								
Startup Expenses		5.000	4.500	4.000	3.500	3.000	2.500	2.000
FIXED ASSETS								
Tangible Assets								
Machinery		7.500	6.750	6.000	5.250	4.500	3.750	3.000
Office Equipment		5.000	4.500	4.000	3.500	3.000	2.500	2.000
CURRENT ASSETS								
Stock								
Materials								
Finished Products			-245	-3.561	-3.100	1.786	3.303	
Accounts Receivable		16.000	24.752	20.072	26.768	22.880	36.424	
Securities								
Cash		2.500	2.515	26.723	50.132	72.323	88.701	104.889
TOTAL BALANCE		20.000	34.265	65.230	78.893	106.492	122.117	151.616
LIABILITIES								
EQUITY								
Subscribed Capital		20.000	22.265	45.230	55.893	83.492	97.117	139.616
Capital Reserves		20.000	20.000	20.000	20.000	20.000	20.000	20.000
Retained Earnings				2.265	25.230	35.893	63.492	77.117
Profit / Loss carried forward								
Net Profit / Loss for Period			2.265	22.966	10.662	27.599	13.625	42.500
LIABILITIES								
Liability to Banks			12.000	20.000	23.000	23.000	25.000	12.000
TOTAL BALANCE		20.000	34.265	65.230	78.893	106.492	122.117	151.616



What is a management simulation?



Compare it to a flight simulator for pilots;
a cockpit for managers



What is a management simulation?

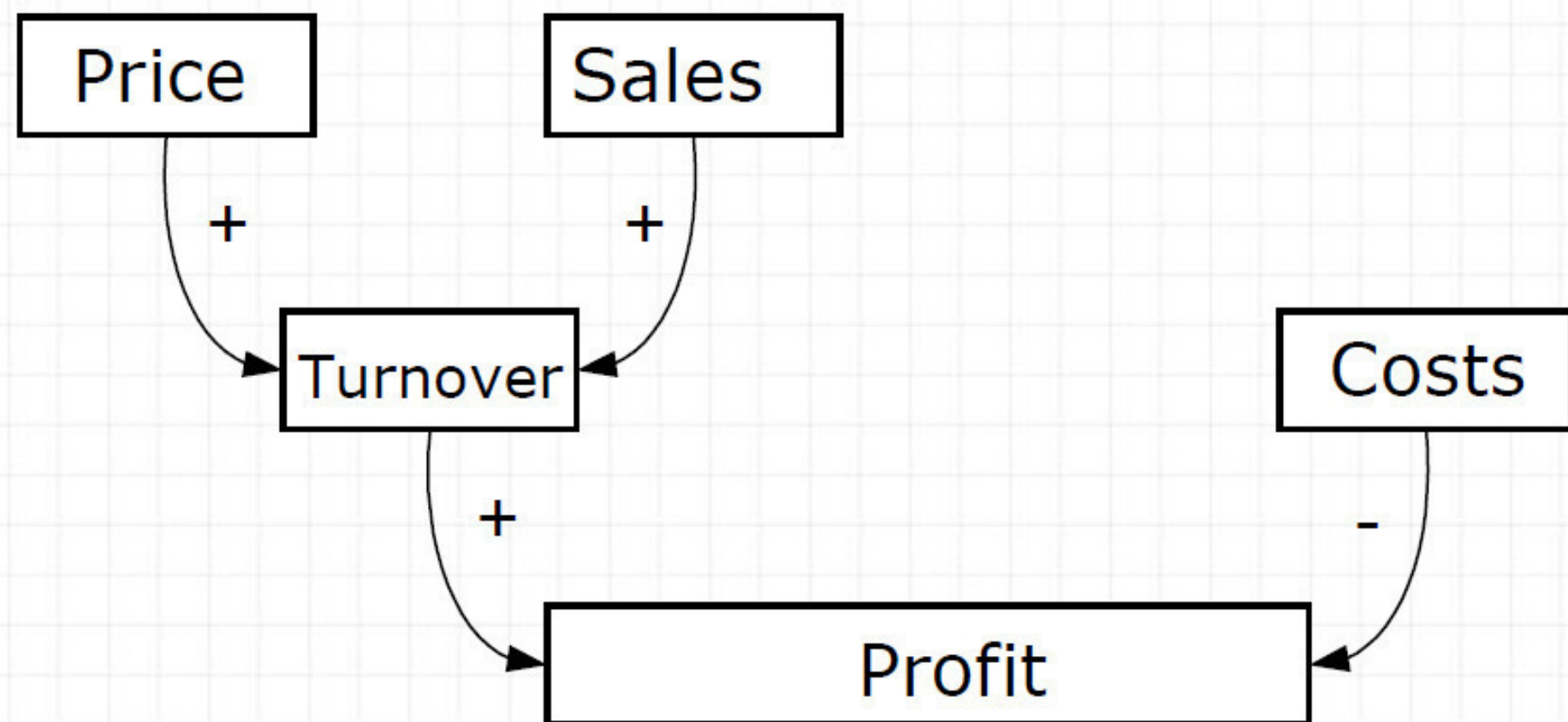
Management simulations are

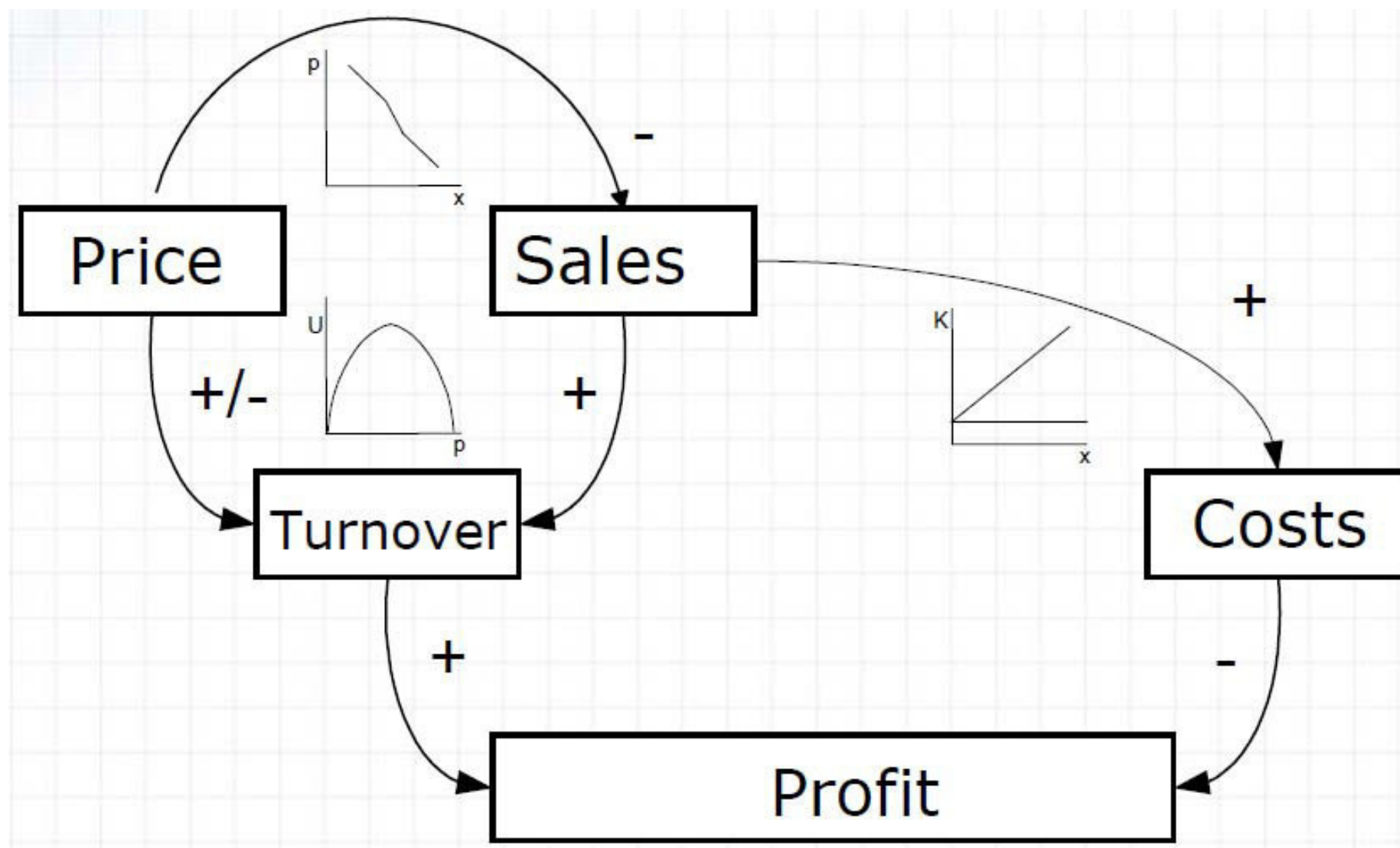
- models reproducing company structures and business processes (functions).

Management simulations promote

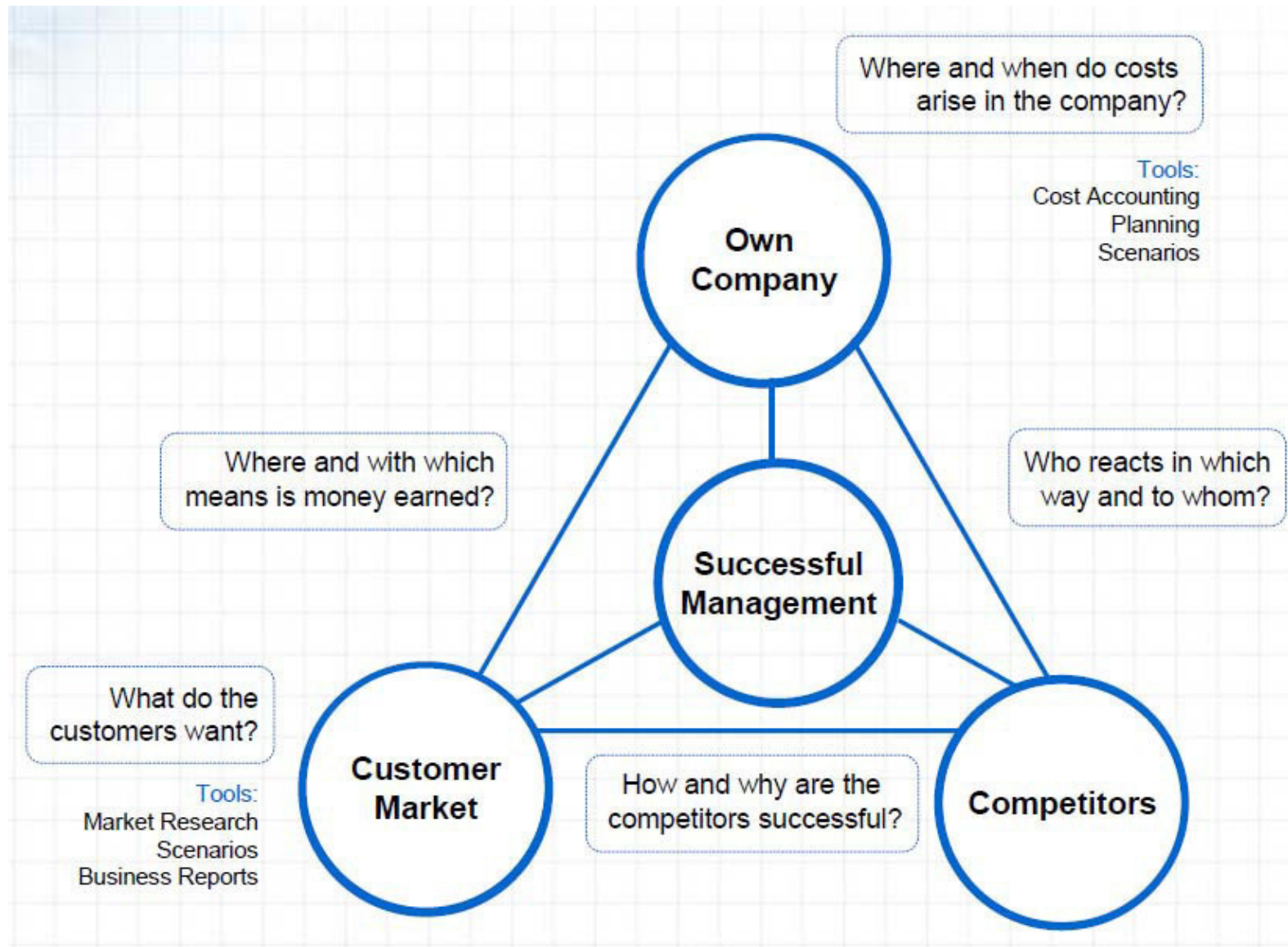
- thinking and acting like a business(women) and then putting these abilities into practice.
- fast, risk-free, practical experience in business with long-lasting effects.







Successful management



DECISION FORM STARTING SITUATION

Decision Form

Company : ☐

Startup

Sales	Number of employees (final workforce)	
-------	---------------------------------------	--

Production		Machines
	Purchase (quantity)	

Location	Lease property	Alternative no. 1	<input type="radio"/>
		Alternative no. 2	<input type="radio"/>
		Alternative no. 3	<input type="radio"/>

Staff in Production	Hirings (quantity)	
---------------------	--------------------	--

Finances (Euro)	Short-term loan	
	Long-term subsidy loan (only after conferring with instructor; not allocated automatically)	
	Application for venture capital (only after conferring with instructor; not allocated automatically)	
	Fixed-term deposits/securities	



News++++Business News++++Business News++++Business News++++Bu

Period 1

April to September of Year 01

The **favorable economic forecast for almost all the EU countries** has a positive effect on private consumption and therefore on tourism. Growth of 2.8% in Gross Domestic Product is expected for the whole year.

Positive reports in a surfing magazine are especially attracting amateur surfers. Several holiday clubs are also offering surfing courses amongst their activities. Some people on holiday decide to buy surfboards as soon as they have finished a course. Realistically, 600 to 1,800 surfboards could be sold to surfing schools, surfboard rental firms, and holiday travelers in Santa Beach, depending on the price and the number of competitors. However, it is important to inform these customers about offers. Advertising and sales promotion therefore have a palpable influence on total sales.

Remember that you have to develop your surfboard first before starting production. Be prepared to spend about 15,000 Euro to offer a product with technological features comparable to similar products available on the market.

Good news concerning personnel recruitment: Several surfing fanatics and people on extended leave are interested in working for your company. This means that you can do without the usual mechanisms (job postings, interviews, etc.) for hiring employees. There are no costs for hiring workers. However, you should include costs for dismissals in your calculations for this period and the next in case you wish to reduce personnel. These costs amount to 1,000 Euro.



DECISION FORM STARTING SITUATION

Decision Form

Company :

Period : **1**

Sales	Product	Surfboard
	Retail price (Euro/Item)	
	Print advertising (Euro)	
	Sales promotion (Euro)	
	Sales personnel	

R&D	External expenses	
-----	-------------------	--

Production	Machines		
	Purchase (quantity)		Disinvestment (line number)
Staff in Production	Hirings (quantity)		
	Dismissals (quantity)		
Production volume (Surfboards)			

Finances (Euro)	Short-term loan	
	Fixed-term deposits/securities	
	Long-term subsidy loan (only after conferring with instructor; not allocated automatically)	
	Application for additional equity (only after conferring with instructor; not allocated automatically)	

Target values	Product	Surfboard
	Turnover (Euro)	

Please consider the decisions you have already made with Your startup decisions!

TAKING COOPERATION FORWARD

24



PARTICIPANTS' REPORT

1. Sales

Your sales of finished products (Surfboard) on the regular market were 125 units. This corresponds to a market share of 49 %. Your potential sales of 125 units were equals the actual sales. Your price diverged from the average industry price by 20.00 EUR.

Your finished product (Surfboard) has a technology index of 0.98. The industry fluctuation margin is between 0.98 and 0.98.

You can find further information on sales in the market research report.

2. Internal processes

Your production costs for finished products (Surfboard) were 267.74 EUR per unit. This differs from the average industry price by 0.02 EUR.

In this period you have produced 160 finished products (Surfboard). One worker can produce 80 finished products (Surfboard) per period.

The utilisation of your 2 production workers was 100.00 %. You needed 0 temporary workers.

Your production costs per piece for the finished product (Surfboard) were 136.12 EUR. This is a difference of 0.00 EUR compared to the industry average.

The direct material costs for the finished product (Surfboard) were 95.00 EUR per manufactured product. This is a difference of 0.00 EUR compared to the industry average.

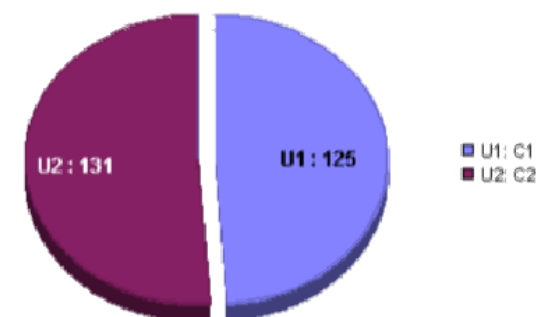
You have had to take individual orders to the value of 12000 EUR.

The accumulated capacity of the production lines is 180 capacity units. Your production lines have a workload of 88.89 %.

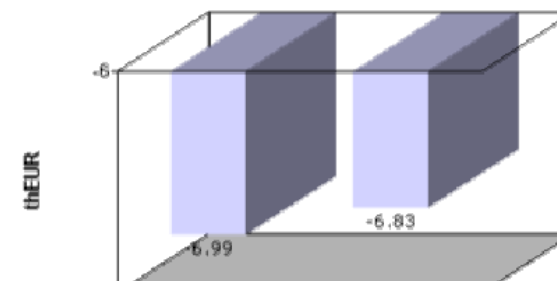
3. Result

Your operating result -6 ThsdEUR. Your interest charges were 1 ThsdEUR. Taking tax payments into account you had a period surplus of -7 ThsdEUR. In the previous period you achieved a period surplus of 0 ThsdEUR. Your sales revenues were -8.74 %, which differs from the industry average by -0.02 %.

2. Sales P1/M1



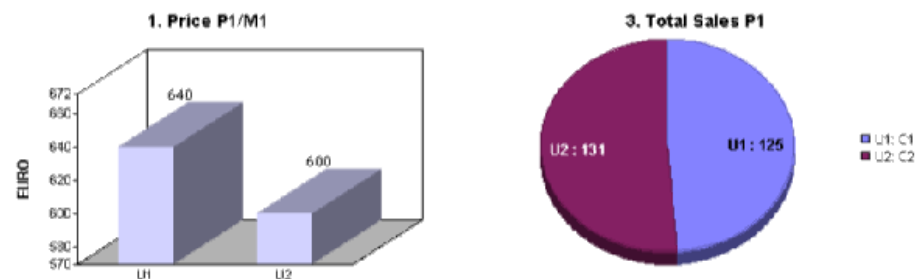
21. Net Profit / Loss for Period



INSTRUCTOR'S REPORT

1. Sales

The total sales of finished products Sunboard) on the regular market were 256 units. The sales volume for all companies varied from 125 units to 131 units. The price fluctuated between 600.00 EUR and 640.00 EUR at an average price of 620.00 EUR. Expenditure varied from 15 TsdEUR to 18 TsdEUR to advertise the product on the market.



The fluctuation margin of the industry technology indices for the finished product Sunboard) lies between 0.98 and 0.98.

For further information on sales, see the market research report.

2. Internal processes

The production costs for the finished product Sunboard) were between 267.69 and 267.74 EUR per unit for the industry. The prime costs for the finished product Sunboard) were between 646.01 and 688.75 EUR per unit for the industry. The number of production workers lies between 2 and 2.

The following companies have finished products Sunboard) in storage: "U 1", "U 2".

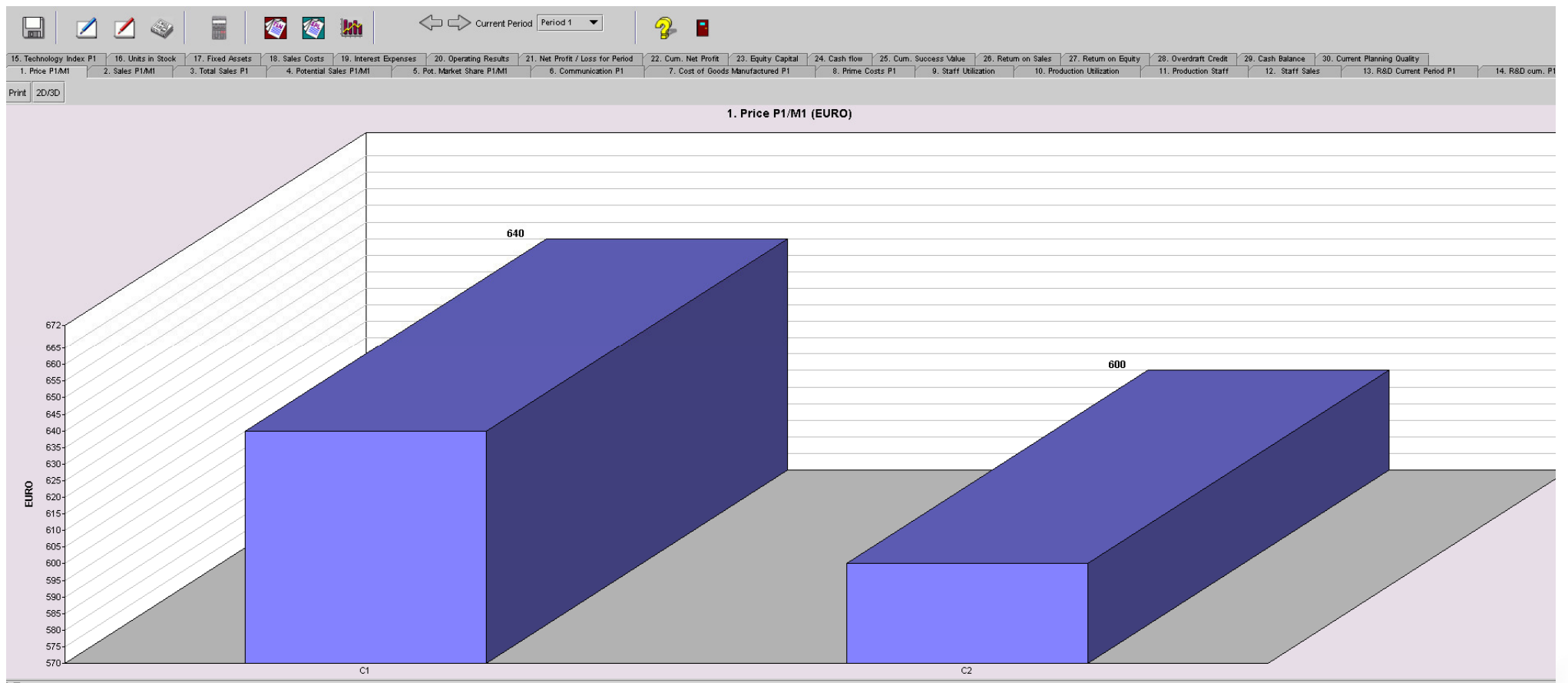


3. Result

The operating results for the industry lay between -6 and -6 TsdEUR. The tax burden for the companies lay between 1 and 1 TsdEUR. Taking tax payments into account, the period surplus was between -7 and -7 TsdEUR.



CHARTS



Thank you!

PP6 Stuttgart Media University

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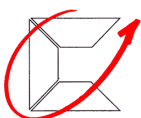




TOPSIM - easyStartup!

Participants` Manual – Part I Start-up and Business Activity

Version 2.2



Hans Lindner Institut
Stiftung des Bürgerlichen Rechts

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1 Introduction

1.1 The Purpose of this Manual

You can use this manual to prepare for the TOPSIM - easyStartup! simulation. Chapter 1 will give you a rough outline of what it contains. Ideally, to be prepared for the simulation, we recommend that you study the whole manual intensively.

Once you have started the simulation, the manual will be of use as a reference and an aid in decision-making. In addition to this manual, the instructor will provide you with an appendix featuring more detailed information on evaluating and filling out the decision forms. The appendix also contains guidelines for the first few periods, offering you some direction in dealing with the complexity of those periods.

More useful information on your decisions is available in the easyStartup! Web. Certainly, some questions will remain unanswered after you have read the manual, for instance concerning the exact values of some input variables such as salaries or price levels. In order to find this information, you will have to conduct some research on your own, just like a “real” founder of a business. In reality, this information is almost entirely available on the Internet. This is why the developers of TOPSIM – easyStartup! have chosen to create a model of the world-wide web in the form of the easyStartup! Web.

1.2 What is TOPSIM - easyStartup! about?

In the TOPSIM – easyStartup! simulation, you and your team take on the role of founders of a new business. Your plan is to start **a small business that produces surfboards**. During the simulation, you are involved in the whole process of starting up such a business: presenting your business idea, writing down your business plan, entering the market and acting on it.

You ought to start by collecting the data needed to elaborate your own business plan. There is a business plan assistant ready to guide you through this process step by step. The main objective in this phase is for you to learn about the elements that a feasible business plan should include and to get to know the challenge of formulating and calculating your planned values. Moreover, the business plan you elaborate exerts influence on the course of the simulation. The instructors take your plan as the basis for their decision on whether to grant you loans or whether an investor is willing to invest in your company.

After your business plan has been approved by the instructor, you can establish your business and enter the market. During the six periods that your business will be run, you will take all the important managerial decisions and the economic contexts into account. There are up to four competing companies on the virtual market. A computer-based simulation model processes your decisions and thus simulates the competition. After each round of decisions, reports will reveal if and to what extent your measures have been effective. This method allows you to learn and practice the implementation of business management tools as well as their interrelations. You will get to know the virtual market on which your busi-

ness acts as a complex system which inevitably brings about conflicting objectives that you will have to reconcile.

1.3 Simulation Between Theory and Practice

TOPSIM - easyStartup! builds a bridge between business administration theory and management in practice. The simulation represents a realistic model of the establishment of a business and thus offers participants

- **Fast,**
- **Risk-free,**
- **Practical experience,**
- **With lasting effects.**

One should be aware of the fact that a simulation cannot reflect reality in all its complexity. This is not the purpose. Simplifications are necessary to reduce complexity, to ensure usability, and to avoid losing sight of the essentials and hampering the learning process with the excessive complexity of the simulation.

1.4 The Learning Objectives of TOPSIM – easyStartup!

TOPSIM – easyStartup! is a simulation based on the interactive (action learning) learning method. It shares its motto with all other TOPSIM products:

**LEARNING BUSINESS
BY DOING BUSINESS**

General learning objectives of TOPSIM – easyStartup! are:

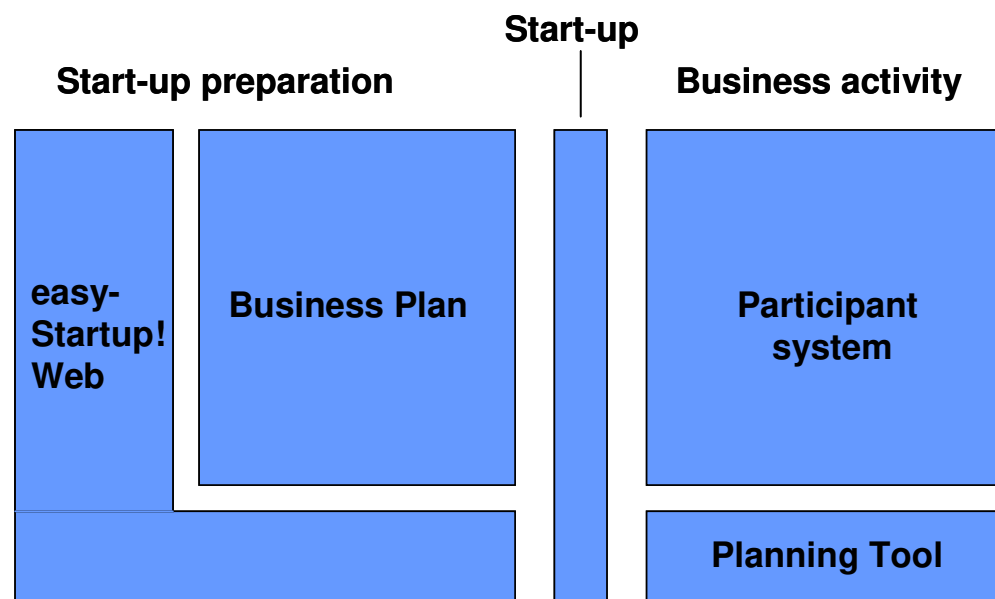
- To deal with complex information in a startup situation.
- To edit information and write a business plan.
- To train participants to think and act like an entrepreneur in the context of a startup.
- To evaluate markets and market potential.
- To formulate and measure customer benefits.
- To train participants to be competent in negotiating with investors.
- To identify the critical factors for the success of a startup as well as value drivers.
- To improve teamwork and organization.
- To assess your personal performance capacity.
- To use well-proven management tools and methods for successful decision-taking.

TOPSIM – easyStartup! deals with the founding of a manufacturing business. Therefore, specific learning objectives in the context of the startup are:

- To interpret market situations and market results correctly and use them to make goal-oriented decisions.
- To carry out critical analyses of complex business interrelationships:
 - To recognize the critical factors for success and the interrelations between advertising and sales promotion, brand recognition, product quality, pricing policies, and demand generated.
 - To retain sufficient free production capacity and to avoid expensive excess capacity.
 - To deal with growth and seasonal fluctuation.
- Systems thinking: to see the relationships between decision areas and to coordinate decisions.

1.5 The Course of the Seminar

The TOPSIM – easyStartup! – simulation consists of the two phases mentioned above: “creation of a business plan” as well as “startup, market entry, and business activity”.



In the first phase of the easyStartup! – simulation, your task is to develop your own business idea. A very basic concept is provided by instructors to ensure that all participating businesses will later compete on the same market. There is a Business Plan Assistant which helps you with the creation of a more detailed business plan. It offers a well-prepared structure and thus ensures usability of the collected information.

Next, the instructors will evaluate all information and key values which contribute to the business plan. The most important values serve as rough targets against which the development of your company will be measured.

After the instructor has evaluated your business plan and made decisions on your financing, you are ready to establish your business. Decision forms are supplied for this second phase of the simulation. Here, you can enter decisions on your startup process and the following periods, which are then transmitted to the instructor. Alternatively, you can enter the decisions directly in the computer

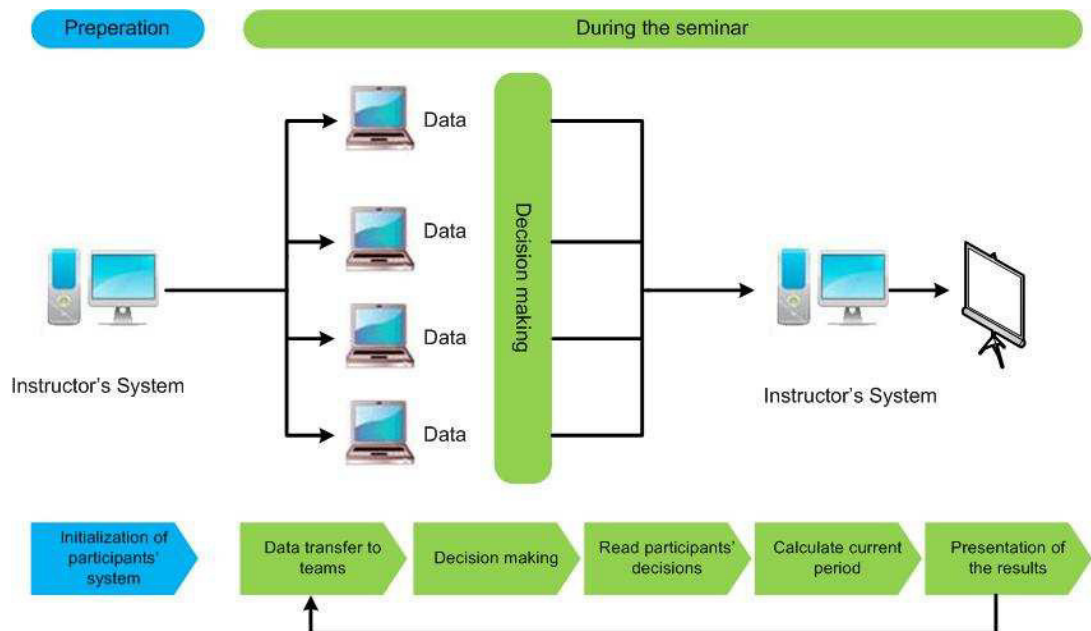
by yourself and hand the instructor a USB Stick with the data saved onto it (or the instructor can access your decisions via a network).

After founding your company, you take the respective decisions for the following periods. Areas of decision-making include sales, purchasing, production, staff, investments, and financing. One period in the simulation equals half a year (six months).

Based on the companies' decision data, all of the current period's business transactions and activities are simulated by the computer. Yet simulating the competition can only start once all participants have handed in all their decision forms. To ensure fair competition, it is important that you stick to the deadlines given and hand in your decision forms on time even if you have the impression that you are running out of time.

Subsequent to the simulation of a period, each company is provided with extensive feedback through seven different reports. They serve as the basis for decisions concerning the following period. At the beginning of each period you will additionally be supplied with economic news, briefing you on the overall economic environment. This information gives you additional hints for making your decisions, for instance for your pricing and personnel policies. In contrast to conducting business in reality, the simulation allows you the advantage of getting fast feedback on the consequences of your decisions.

The following overview visually displays the procedures for exchanging information described above:



1.6 Your Business Idea: A Short Abstract

Together with your partners, you plan to start a small business which produces surfboards. The boards are sold in your own shop where they are also stored. You determine the price at which the surfboards will be sold.

Besides the sales in your own shop, you might open up other sales potential: e.g. through cooperation with wholesalers who would sell your boards under a different brand name.

When elaborating your business idea, you ought to start by working out the basic strategies. Do you want to sell a large number of boards, keeping prices and costs for personnel, advertising, etc. as low as possible (cost leadership strategy)? Or would you rather produce high-quality surfboards – with a strategy that implies high personnel and advertising costs and sales of only a relatively small quantity (differentiation strategy)? When making this decision, keep in mind that a combination of the two might also make sense.

Information on the environment in which your new business will act is available on the easyStartup! Web.

2 Business Plan

2.1 Sources of Information

There are various external sources of information that can help you to write your business plan. They offer basic information on startups, markets, potential competitors, etc.

- **easyStartup! Web:** This site which has been exclusively developed for our startup simulation can be opened by any web browser. If you have Internet access, you can click on one of the several links to the “real” world wide web listed on the website for further information. Still, Internet access is not a compulsory prerequisite for the successful creation of a business plan.
- The newsletters offer you the latest **News** for each period. It is strongly recommended that you analyze them carefully and judge their relevance.

2.2 Your Business Plan

The Business Plan Assistant helps you to elaborate your business idea, guiding you through the different elements of the business plan in ten steps – and, if needed, offering help and additional explanations.

The steps you run through by writing down your business plan are as follows:

1. Description of the Business Idea / The Marketing Concept / Executive Summary
2. Market Structure / Competitors
3. Purchasing / Production / Investments
4. Personnel Costs / Lease Fees / Other Expenditures
5. Financial Planning
6. Debt Service Calculation
7. Planning: Profit and Loss Account
8. Planning: Financial
9. Company Value
10. Entrepreneur Team - Personal Data and Qualification

2.2.1 Application

Please keep the following in mind when using the Business Plan Assistant:

- You may only edit the yellow boxes. In all of the other fields, values will be calculated according to your entries.
- In some of the boxes, text has to be entered. The following formatting is available:
 - **Line Break:** Return
 - **Bold:** Ctrl + Shift + f
 - **Italics:** Ctrl + Shift + k
 - **Underlined:** Ctrl + Shift + u

- Navigation

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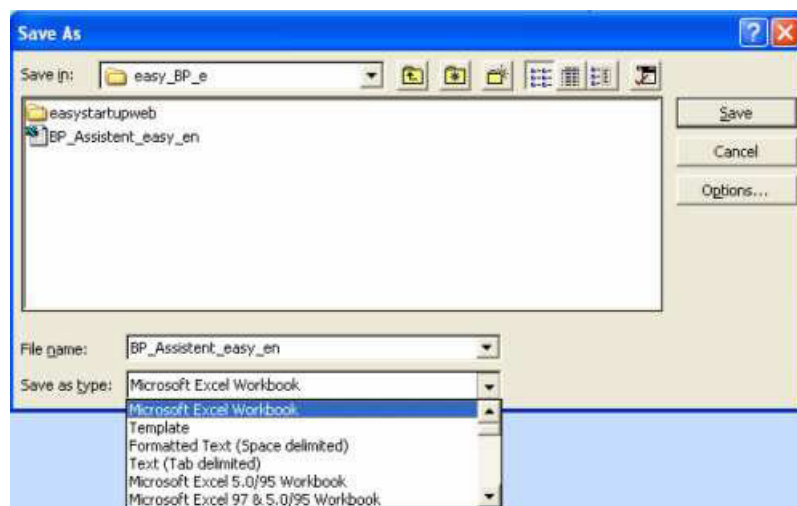
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In real life, writing a business plan takes several weeks. The easyStartup! – simulation features a simplified version of a business plan which is supposed to give you a feel for the most important elements such a document should include. Our Business Plan Assistant is not sufficient to write the business plan of a real startup.

A note on the file format of the business plan

The Business Plan Assistant is based on MS Excel. If you work with MS Excel 97 or a more recent version, it is possible to reduce the size of the business plan by saving it in a different format.

To do so, click **"File"**, select **"Save as..."** and choose **"Microsoft Excel Workbook"** as the format (rather than the standard format, "Microsoft Excel 97-2000 & 5.0/95 Workbook"). The size of the document will thus be reduced by 30-40%, but it will no longer be possible to open the business plan using Excel 95 or Excel 5.0.



2.2.2 The Steps of the Business Plan Assistant

2.2.2.1 Description of the Business Idea / The Management Concept / Executive Summary

As a first step, we will deal with the business idea. Three different points are essential for a business idea to be successful:

- Clear customer benefits
- Sufficient market size
- Feasibility and profitability

Descriptions of the **product idea**, the **service**, the **customer benefit**, **target groups**, **competition analysis**, **competitive advantages**, and **corporate strategy** serve to make you take a closer look at your business idea. This step is about formulating the product's characteristics and the possibilities to transfer these characteristics into a feasible business model. In other words: A good product alone cannot be taken as a guarantee for a flourishing business. On the contrary: Only after you have thoroughly considered how your product will be marketed will its actual potential be correctly estimated.

The further you proceed with your business plan, the more fields you will fill in the Executive Summary. They numerically represent the goals that you establish for your business idea and reflect the most essential figures of your business plan.

Be extremely careful and accurate when taking this step, as your business plan gains credibility if it is realistic. Brainstorming sessions might possibly help you and your team to identify the most important details of each part.

2.2.2.2 Market Structure / Competitors

"A horse never runs as fast as when he has other horses to catch and outpace."

Ovid

Market Volumes

First, estimate the expected market volume of the whole market (in units). The planned sales volume of your business (in units) then results from the market share you expect to have.

All the figures you enter here ought to be based on well-founded arguments. Hence, it is crucial that your forecasts are realistic and comprehensible. (Justifying your forecasts is part of completing the next pages of the business plan.)

Pricing

After you have finished planning targeted sales and have fixed a price, you can calculate your expected turnover in Euro. These estimations will be reused as expected revenues in other parts of the business plan. Therefore, you should conduct profound research to forecast these values.

Expected Inpayments in the Current Period

In order to successfully conduct your financial planning, you finally need an estimation as to what part of turnover in a period actually comes in as payments. All other payments represent accounts receivable from goods and services which will be paid in the following period.

Marketing Measures

First, indicate how much of your budget you plan to spend on communication measures. To get a feel for the amount to budget, check the ratio between these expenditures and the targeted turnover. In order to do your financial planning and your profit and loss statement, it is also important to check what investments are needed to realize your advertising strategy.

Verbally state how you imagine the marketing mix of your company to be.

- Product Policy

Which products do you intend to offer? What product characteristics are of essential importance for your goals?

- Pricing Policy

Do you intend to employ a cost leadership strategy or a differentiation strategy? If you plan to tie your customers to your company by low product prices, you need to keep your production costs as low as possible.

- Distribution Policy

What are the available distribution channels? Which ones are more important than others? What location do you intend to choose and what do you want the point of sales to look like?

- Promotion Policy

What advertising strategy do you want to follow? What is the planned relationship between print advertising and sales promotion (for example)? What role does advertising play in your overall strategy?

2.2.2.3 Purchasing / Production / Investments

Production

After you have fixed the planned production volumes here, it becomes obvious how many finished products are on stock and when your forecasted sales will be realized. All finished products on stock cause you to incur storage costs. You can enter the expected storage costs as part of your logistics planning.

The next step is to estimate the **purchase** prices of your input materials which determine your expected outpayments in Euro.

In the investments section, you plan how many machines you will probably need for production and how many among these you still have to purchase. Reliable numbers and good planning of capacities are again essential. Information on prices, etc. is available on the easyStartup! Web.

Depreciation costs for furniture, office equipment, and machines are calculated automatically (purchase price divided by duration of usage).

2.2.2.4 Personnel Costs / Rental Fees / Other Expenditures

Personnel costs constitute one of the main issues in your financial planning. Generally, it will be difficult to adapt your personnel numbers to your company's needs on short notice. Moreover, hires and dismissals can cause additional costs (e.g. contract negotiation, training, etc.). Hence, it is important that you plan the number of personnel you need accurately!

The following data might help you:

- Anticipated wages / salaries
- Productivity (for example: how many units can one production worker produce within one period)
- ...

Information can be found on the easyStartup! Web.

Remember to enter the “expected personnel costs in EURO” into your financial planning sheet and your planned profit and loss statement.

Important note: An adequate number of well-trained personnel is one of the most important prerequisites for a company's success on the market. From startup, the founders usually join their own company as employees and take on the key positions of the young business. (In the easyStartup! simulation, you, as the founder, work in your company. Each member of your team will take on various responsibilities, according to his/her competence (e.g. sales, production). The complete team will thus be part of the listed personnel.) Basically, when a shortage of staff is anticipated, **temporary workers** can be added to the plan. However, this is **not provided for** in the **creation of a business plan**.

The **lease fees** you are charged depend on your company's location. There are expensive locations where customer acquisition can more easily be conducted – while other places might be cheaper but also disadvantageous in terms of market access.

Other expenditures that occur in the course of conducting business activities can be taken into account in your calculations. (Enter them in the box “Other expenditures” in your financial planning sheet and in your profit and loss statement.)

2.2.2.5 Financial Planning

"If you want to know the value of money, try to borrow some."

Benjamin Franklin

Before you start your financial planning, you should have completed steps 1-4, since the figures you forecast exert influence on your financial planning.

Financial planning serves to identify your financial needs. Once you have completely entered the figures for business plan spreadsheets 1-4, your cash balance reveals that you will have liquidity or that your company will have a surplus from the period. Oftentimes, a deficit will be displayed which represents your financial needs. To meet these needs, you have the two following possibilities (which can, of course, be combined):

Venture Capital

In the first period of your business activity, you may enter expected "Inpayments of venture capital" in your financial planning. Possible excess funds ought to be invested as soon as possible to profit from the interest.

Venture capital investors want to get shares of your company. The respective quota is subject to negotiation however (see also 16. "Company Value").

Subsidies

If you do not want to give out shares of your company, you will have to finance your investments using standard loans and subsidies. To do so, the first thing you need to do is find a bank and convince its manager of your business idea so that he is willing to grant you a loan. This tends to be more challenging than finding venture capital – it might even be impossible! Another disadvantage of borrowing money is of course additional charges in the form of interest payments!

Don't forget the forecasts concerning future interest rates (bottom of the page)!

2.2.2.6 Debt Service Calculation

To make sure that the bank loans for which you have planned are actually granted, you need good collateral. Here you should make clear what collateral you have for a loan!

2.2.2.7 Profit and Loss Account Plan

All figures predicted so far will now be combined in the profit and loss account in order to calculate the result of normal business activity. Apart from extraordinary revenues / expenses and taxation, this corresponds to the period's net income later.

ESE depreciation from startup expenses:

The costs incurred in the startup phase (e.g. wages and salaries, hiring costs) come under "Expenditure for Startup and Expansion". They can thus be accounted for in the balance sheet (cf. "Budgeted Balance Sheet", ESE) and are depreciated linearly over 10 periods.

2.2.2.8 Budgeted Balance Sheet

The given balance sheets (for six periods) are also – like the Profit and Loss Statement – based on the values you forecast in your business plan.

Assets

On the asset side of your balance sheet, all items of property are displayed. You need to distinguish between:

FIXED ASSETS (items intended to be used continuously)

CURRENT ASSETS (items which are only used temporarily)

Liabilities**EQUITY**

Here, all capital resources are summed up (including profits / losses of a period and accumulated deficits).

In detail:

- **Subscribed Capital** (share capital): This is your capital, meaning the capital that you are liable for.
- **Capital Reserves**: This is, for example, generated by surcharges (agio) when you initially offer new shares; concerning capital companies such as the limited liability company, capital reserves correspond to the deposited nominal capital which exceeds the legal minimum of liable equity capital. Up to now, this has been part of the legal reserves.
- **Retained Earnings**: These derive from the after-tax profits of earlier periods which have not been distributed.
- **Profit / Loss carried forward**: Deficits do not necessarily diminish your reserves. They may be set against later profits.
- **Net Profit / Loss for Period**: The result of the current period is entirely integrated into the final balance sheet, without being distributed. Different options for using the period's profits (cf. comments on Profit and Loss Account) are accounted for in the next period.

LIABILITIES

These are all liabilities the company has towards financial institutions. They include subsidies, loans with a residual term below one year and overdraft loans.

2.2.2.9 Company Value**Cash Flow Calculation**

Cash Flow = Results from Ordinary Business Activity + Depreciation ESE + Depreciation

Company Value

The company value is calculated as the present cash value of the cash flow. This is done by discounting the cash flow using the indicated projected interest

rate. This interest rate ought to include a risk premium (both industry and company specific) so that a comparison to alternative rates of return is possible.

Adopting the “Going Concern” premise, the expected cash flow for Period 6 is credited as a perpetuity for the following periods.

The ratio between shares distributed to venture capitalists and to founders is defined later on in a negotiation process. In your business plan, please enter a realistically estimated / desired quota.

2.2.2.10 Entrepreneur Team - Personal Data and Qualifications

"I invest in people – not in ideas."

Eugene Kleiner, venture capitalist

For your potential venture capitalist, information on the team of entrepreneurs is almost as essential as your business idea. If the founders are not able to realize their business idea or to sell it, if none of the team members have any entrepreneurial knowledge or experience, or if the entrepreneurs do not manage to work together and show a bit of leadership, almost any startup business is doomed to fail.

As you can see, the business plan of a real startup would require a detailed description of the founders' qualifications specifically highlighting all of the aspects relevant to the realization of your business idea.

Concerning your easyStartup! Business Plan, such elaboration is obviously unnecessary. Nevertheless, thoroughly consider all of the aspects mentioned and try to present your qualifications with respect to the easyStartup! Business Idea as well as possible.

This part of the business plan also serves to sensitize potential founders to tricky issues which are often neglected (e.g.: What is my actual motivation to start this business? etc.).

2.3 Data Transfer

In your business plan, you have formulated company goals and derived strategies and measures from them. It can thus take on an important role even after you have started your business. In the course of conducting your business activities, the business plan serves as an instrument for guiding and monitoring your actions.

The calculated figures of your business plan can for instance serve as a basis for a **comparison of target and actual** business results. There is a transfer function implemented in the simulation which allows for the input of the realized values (actual results) in your calculations. Every time you read your results into the participants' system, certain key figures are prepared for input into your business plan. To import these, click on “Data Transfer” in the main menu of the Business Plan Assistant. Then, click on “Update Values” on the following page.

Besides importing figures from the simulation, you have the option of copying target results from the planning tool into the business plan. You can insert these values in the yellow table beneath the “Transfer” table. To do this, proceed as follows:

- Open the Planning Tool (the business plan remains open in the background).
- Choose the "Transfer" table.
- Click on "Prepare Values for Export".
- Select the yellow fields by clicking on the topmost field with the mouse and pulling the cursor downwards.
- Copy the values (using either "Ctrl. + C", or "Edit" and "Copy" in the Excel menu).
- Reenter the business plan (select the workbook "BP Assistant" in the menu "Window").
- Select the column of the yellow table into which you wish to insert the values.
- Insert the values (using either "Ctrl. + V" or "Edit" and "Paste" in the Excel menu).

Note:

1. It is equally possible to manually enter values in the yellow table at any time.
2. If values are listed in the yellow table (by copying from the planning tool or by manual entry), these ALWAYS overwrite imported values from the simulation. To be able to import values for a particular period, you must therefore ensure that the corresponding column in the yellow table is empty before you click "Update Values".
3. Imported values (in the blue table) can be deleted manually at any time.
4. You can click "Update Values" as often as you desire. Every time, the values prepared by the participants' system are read in, and some fields may be overwritten with values from the yellow table.

3 Starting your Company

The founding of the company is simulated separately from the market entry. In your incoming mail, you get the final, approved version of the business plan, and a current bank statement which gives you information about liquidity available.

The constitutive decisions have to be taken now, such as:

- Borrowing and application for subsidy loans
- Lease of buildings
- Purchase of machines, furniture and office equipment, etc.
- Hiring of employees.

Arising expenditures are capitalized as "Expenditures for Startup and Expansion of a Business" (cf. the section "Profit and Loss Account" of the business plan).

4 Market Entry and Business Activity

In TOPSIM - easyStartup!, the economic development of your company can be influenced by numerous decisions. The explanations of this chapter point out which decisions are at your disposal. You should always consider the decisions and reactions of the competition and the economic frame within which you operate. The results of your decisions can be checked with the aid of the reports you receive after each period.

4.1 Sales / Turnover

4.1.1 Pricing Policy

At first, a price for sales in your surfboard shop can be fixed for each product (in Euro/unit). The effect of this price on the market depends on the price level of the competition. If you offer a relatively low price, a higher turnover can be achieved. Respectively, if you offer your products at a relatively higher price, turnover will decrease.

An overview of your future sales market and common price levels of your competitors can be obtained in the easyStartup! Web.

4.1.2 Promotion Policy

Two different publicity tools which can help your company to achieve greater name recognition are at your disposal. Publicity affects the quantity of surfboards sold.

It is important to determine the right mixture of marketing instruments which optimally increase name recognition and thus market share. In other words, your publicity expenditures should be reasonable in relation to the achieved turnover.

All **marketing measures** have different impacts in terms of time, and can moreover exert influence on the market as a whole (this means intensive publicity efforts of all competitors can lead to an increase of the overall market volume).

Note the following advice from marketing strategists:

To profile your new company, it might make sense to spend fairly large amounts on publicity in the beginning. Established companies invest an average of 5-10% of their turnover in publicity measures. Their publicity budgets are often structured as follows:

Print Advertising	70%
Sales Promotion	30%

Effects of Marketing Expenditures on "Publicity"		
Effects During Current Period	... Next Period
Print Advertising	Strong	Lasting
Sales Promotion	Strong	Low

4.1.2.1 Print Advertising

Print advertising covers advertisements in print media and on billboards. According to publicity experts, this classic publicity instrument is outstandingly apt to **promote sales in the current period**, yet it also has a **lasting effect on the following periods**. At the beginning, print advertising will prove to be a good instrument for promoting your company in your region and to incite customers to take a look into your surfboard shop.

4.1.2.2 Sales Promotion

Sales Promotion is one of the most effective tools to acquire new customers. This instrument covers coupons, ordering vouchers, sweepstakes, etc. These mainly have an impact **in the period in which they are implemented**.

4.1.3 Wholesalers

Besides selling your surfboards in your own shop, you might possibly be given the chance to cooperate with big trade chains. These wholesalers buy products in larger numbers and sell them under a different brand name (usually at a significantly lower price). Hence, wholesalers represent an option to open up new sales potential. As a rule, though, it will be necessary to charge the wholesaler significantly lower prices than those which can be achieved on regional sales markets. Prices are predetermined by each wholesaler. It is then up to you to decide on the quantity of surfboards you want to deliver at the given price.

4.1.4 Sales Force

It is the task of your sales force to provide advice to the customers in your surf-board shop. The more customers feel well-advised by qualified and competent sales personnel, the more likely they are to buy from your business.

Note:

When filling in your **decision form**, please enter the **final number** of sales staff (not the number of hirings or dismissals).

4.2 Purchasing

The purchase price is a defining factor when it comes to calculating your manufacturing costs. Therefore, the decision on the quantity of input materials that you wish to purchase per period should only be taken after thorough consideration.

A larger quantity might allow for extra profits due to economies of scale. Nevertheless, you should remember that excess input materials not used in production have to be stored. The major shortcoming of keeping inventory is the resulting storage cost. In addition, stored materials cause you to incur costs for the capital which is fixed in them.

4.3 Administration

You cannot take any decisions for the administrative function. The system automatically accounts for the necessary number of employees and the other administrative costs.

4.3.1 Workforce in Administration and Purchasing

The number of employees is calculated based on the previous period's turnover.

Consider the benchmarks given below:

Turnover in thEU-RO	0	500	1,100	1,800	2,600	5,000	10,000	50,000
No. Staff (Admin.)	0	1	2	3	4	8	15	64

A part-time employee (50%) is automatically hired to support your administration in the period in which you found your company.

4.3.2 Administration Costs

In addition to the variable costs for employees in administration, fixed administration costs of 1,000 Euro will be incurred per period, as well as sales volume

dependent administration costs amounting to 1.0% of turnover (e.g. for office supplies).

4.4 Research and Development

To meet your customers' expectations and keep up with technological progress, your products need constant improvement. It is possible to outsource research and development from your company and to assign an external company with the task of further developing your products. The higher your investments in external research and development are, the more the quality of your products, measured by the technology index, improves. (For instance, your surfboards may become equipped with a high-order facing, etc.)

4.5 Production

4.5.1 Machinery / Production Lines

The decisions taken for the "Technology" function determine how many production lines you want to operate.

The **capacity of your production lines** is measured in units per period. Detailed information on production lines is available on the easyStartup! Web.

4.5.1.1 Investments / Disinvestments / Production Lines

You can adjust the capacity of your production lines by investments or disinvestments. Production lines are depreciated **on a straight-line basis** per period (i.e. $\text{depreciation} = \text{purchase price} / \text{asset depreciation range}$).

The **disinvestment** of production lines **causes extraordinary expenditures** (amounting to the residual book value) and **extraordinary returns** (proceeds from the sale of scrap). If you decide to disinvest a line, please indicate the line's number in the decision form. It will then be scrapped within the same period.

4.5.1.2 Staff in Production

You need well-trained and reliable personnel for the production of your surfboards. The number of boards one worker can produce within one period depends on the product's technical specifications. The easyStartup! Web contains more information on this topic.

Temporary staff is employed automatically in case the capacity of your own workforce does not suffice for the planned production volume. You will find the costs for temporary workers in easyStartup! Web.

4.5.2 Shop Location

You are able to choose from three different locations to start your business. A future enlargement of your shop area is not necessary and hence not possible

for the whole simulation. The different locations differ regarding lease amounts, additional charges, etc. The geographical location of your shop is important as it may exert a positive influence on the sales volume of your shop.

To prepare your service and production space, you need to invest in office furniture and equipment. This includes furnishing the rooms with desktops, personal computers, chairs, etc.

Note:

Your office furniture and equipment is written off linearly (by dividing the purchase price through the expected time of usage).

4.6 Personnel

Personnel decisions are one of the most important critical factors for the success of your business. In general, handling personnel means determining the right number of employees, hiring and dismissing workers. The number of workers needed in Purchasing / Administration results from the realized sales volume.

Decisions to be made at a glance:

- Final number of employees in sales.
- Number of workers hired and dismissed in production

4.6.1 Staff Costs and Services

The easyStartup! – Web offers you supplementary information on average wages and salaries which represent the biggest component of your personnel costs.

4.6.2 Hirings and Dismissals

Once you have decided on the number of workers needed in production, you need to account for employee turnover when you plan your hiring or dismissal activities.

NOTE: For the sales department, you simply decide on the **final number of employees** – possible attrition is automatically accounted for by the system. You must still consider hiring costs.

At the start of your business, **attrition** will be **extremely low**. In a small company, the management is informed quickly of workers intentions to quit. (In the simulation, the instructor will inform you if such a case occurs).

Nevertheless, once your company has begun to grow and the number of employees in one department **exceeds 10**, you will no longer learn so easily if and when a worker wants to leave the company.

As you can imagine, this **natural attrition** is to a high degree related to the situation on the labor market – a factor on which you have no influence. Attrition is also caused by personal reasons: maternity leave, relocation, better job offers or retirement. Experience has shown that the attrition rate differ from one department to the next. As a rule, employees in administration are less inclined to change jobs than production workers are.

Fixed costs may occur accompanying each hiring and dismissal decision. More elaborate data can be found on the easyStartup! – Web.

4.7 Finance and Accounting

Decisions overview:

- Raise a short-term loan
- Application for a loan
- Opting for capital increase (equity)
- Investment in shares

4.7.1 Financing Decisions

Raising short-term loans or buying shares is possible at all times. A conclusive and convincing argument is needed in order to raise a loan or increase the equity capital. Give your proposal to the training team who will decide on it.

4.7.1.1 Short-term Loans

You can raise a short-term loan (with a maturity of one period). It will be repaid automatically in the following period. This means that you have to indicate that you wish to raise the loan in your decision form. In the current period (the period in which you have the loan) you will be charged with interest. The possible volume of short-term loans is unlimited.

As your loans (compared to your capital resources) increase, so does the risk – and the interest you have to pay on them. Visit the easyStartup! – Web for details.

4.7.1.2 Overdraft Loans / Minimal Cash Balance

Your company needs to possess a minimum cash balance at the end of each period (check the easyStartup! Web). If your inpayments (including the cash balance from the start of the period) do not meet this balance (after all outpayments have been made) – you are automatically allocated an adequate overdraft loan. Thus a negative cash balance or insolvency is avoided. The allocated amount can be found in your financial report. **Interest has to be paid within the same period.**

We advise you to plan your finances carefully – and keep the volume of overdrafts as low as possible, as these are relatively expensive.

4.7.2 Capital Investments / Shares

Profits from a period can be invested into short-term shares with a fixed rate of interest if you want to “park” some liquidity. Repayment is done automatically in the next period and interest is credited to the current period. You only need to fill in the amount you want to invest in the decision form.

4.7.3 Taxation

The amount of taxes you have to pay is calculated as below:

	Result of ordinary business activity
+/-	Extraordinary result
=	Taxable income
*	Tax rate
=	Taxes to be paid

You can derive the different figures from your profit and loss account. The tax rate which specifically applies for your company can be found on the easyStartup! – Web. Losses from previous periods will be offset against your taxable income. You only have to pay taxes once you have accumulated profits during the whole simulation. Taxes are paid in the current period.

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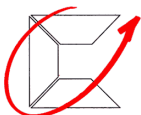
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TOPSIM - easyStartup!

Participants' Manual – Part II Explanations

Version 2.2



Hans Lindner Institut
Stiftung des Bürgerlichen Rechts

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1 Planning

An important factor for the success of your business game is thorough planning. Planning helps you to be more goal-oriented. It is very difficult to choose a supplier if you do not know what sales target you want to achieve, for instance. By planning, you can see how successful your measures have been. By analyzing deviations between target and actual figures yourself, you can check where your strategy has not (yet) been successful, and also pinpoint areas for possible change.

In the first few periods your planning values will probably not be very exact, and you will often simply have to estimate. As the simulation evolves, you will learn to judge the effects of each measure better. In this way you will have more influence on your success by appropriately implementing the tools that you have.

You should try to plan the following areas as specifically as possible right from the start:

1. The **sales** level you want as a target. Here you should take into account the price level that you have set, the effects of different advertising methods, the technology of the products, etc.
2. The **profit from one period**. Based on your planned sales, try to calculate your potential profit after all costs have been deducted. You should at least calculate the largest expenses for each period, such as those resulting from the use of inputs, personnel costs, depreciation, interest, etc. The profit and loss account can be of help here.
3. The **financial resources you need**. In each period you should try to plan your cash flow, which is an important indicator of your company's internal financing, and thus of your liquidity planning. You must also compare cash inflows and outflows for a period. From your planned sales you can deduct your planned expenditures on goods and materials used, personnel and other payments, investments, and loan pay-offs. This will give you a target value for how much money you need to borrow, or how much you can invest. The financial report will serve as a guide.

At the same time you should try to keep an eye on other goals, such as the market share you wish to achieve, for instance. Even if you do not manage to plan to this extent at the beginning, you will see that you will reach your targets more easily as time goes on.

2 Guidelines for Initial Decisions

The following guidelines are intended to help you make decisions at the beginning of Phase II. Your group may choose a different order later on.

An overview of the **decision phases**:

1. Planning Sales and Pricing
2. Determining Production Volume
3. Determining Purchase Quantity
4. Determining the Number of Production Workers
5. Determining the Number of Machines
6. Determining Sales Measures
7. R&D
8. Financial Planning

1. Planning Sales and Pricing

All decisions are based on your sales planning. Consider how much you want to sell in the next period and at what price. Your starting point is the level of sales achieved in the previous period. You also ought to take into account changes in industry volume: how is the market changing? Which seasonal fluctuations need to be considered? How many items could you sell to wholesalers? You can find out which marketing mix led to these sales by analyzing your reports especially the Market Research Report.

Here, you also need to think carefully about what **strategy** you wish to implement. Should you keep prices and costs for personnel, advertising, etc. low and sell as much as possible (cost-leadership-strategy)? Or does it make more sense to sell surfboards of as high quality as possible, involving high personnel and advertising costs with a higher profit margin, and sell a smaller quantity (preference/differentiation strategy)? It is of course worth considering a combination of the two strategies.

Remember that decisions from previous periods can limit your strategic options. If you have neglected product development over the last few periods, a preference strategy may no longer be an option for your company.

2. Determining Production Volume

Production volume has a decisive influence on your costs. You are ultimately making decisions about your personnel, material, and capacity requirements. Your production volume should, however, be consistent with your sales strategy. Remember that storage may be necessary, and include it in your plans.

3. Determining Purchase Quantity

Make your purchasing decisions depending on your planned production volume. Do not simply look at the purchase price. If you order a large amount you will have to pay less per item, but then you will be burdened with storage costs and will also have to finance the value of inputs left in storage.

4. Determining the Number of Production Workers

The number of production workers should correspond to the planned production volume. Temporary personnel will automatically be hired if necessary so that the planned production volume can be met. Always base your plans on your current personnel numbers. The number of sales and administrative employees depends on what the targeted sales level is. You should also consider attrition. The rate of attrition can only be estimated. In some cases, you will be informed in time about employees intending to hand in their notice. This will be dealt with in the scenario.

5. Determining the Number of Machines

Subsequently you should check whether you have enough machine capacity to deal with the production volume you are planning. Here you should not only look at the current period, but also at your plans for the next periods. If necessary, adjust your decisions (to buy new/scrap old sites). However, remember that scrapping an old site often earns you only a fraction of the current book value.

6. Determining Sales Measures

Product advertising only has an effect on one product category, and the product's positioning. The price should especially be taken into account here. The value of the previous period will serve as a guide. You should also consider that the effects depend on the activities of your competitors. For your industry, a realistic percentage to spend on advertising is around 5% of your sales.

Now you should determine how much you want to spend on sales promotion, e.g. give-aways, competitions, etc.

Decide on how you want to use your sales staff. The large majority of your products will be sold in your shop. You are selling a high quality product which also needs to be explained in detail to the customer.

7. R&D

Now decide on how your products can be further developed. You can employ your own engineers to improve your products, or you can outsource your development requirements to external engineering firms. In the long-term, of course, it makes sense to have the know-how embedded in your own company, but this does increase personnel costs considerably.

8. Financial Planning

Now you have made all decisions necessary for calculating your financial requirements. This is easier for you if you use the cash inpayments and outpayments listed in the financial report as a guide (excluding depreciation, however).

It is not possible to be absolutely exact in planning because of the uncertainty about the sales for the coming period. Any financial means lacking will however be provided by the automatic granting of an **overdraft**, and surplus loans taken out will raise the **closing cash balance**. However, you should avoid the latter because of unnecessary interest payments. You should

also use expensive overdraft as little as possible, and instead take out a short-term loan. You could also apply for further **venture capital** and special **or additional subsidy loans**. In order to be awarded extra equity or subsidy loans, you are expected to present concepts accordingly. The instructor decides whether you will be awarded these means.

Opening cash balance (= cash balance at the end of the previous period)
+ **Inpayments** (incl. loans)
- **Outpayments** (excl. depreciation and reserves)
= **Closing cash balance** (min. €2,000)

3 Decision Form: Explanations

3.1 Startup Decisions

Company :

Startup

Sales	Number of employees (final workforce)	
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Production	Purchase (quantity)	Machines

Location	Lease property	Alternative no. 1	O
		Alternative no. 2	O
		Alternative no. 3	O

Staff Production	Hirings (quantity)	
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Finances (Euro)	Short-term loan	
	Long-term subsidy loan (only after conferring with instructor; not allocated automatically)	
	Application for venture capital (only after conferring with instructor; not allocated automatically)	
	Fixed-term deposits/securities	

3.2 Decisions for Periods 1 to 6

Company 4	Company 7	Company 8	Company 9	Company 10	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10
Company 1	Company 2	Company 3	Company 5	Company 6						
Sales/R&D	Sales		Surfboard							
Goods and Services	Retail price (EURO)		0							
Finance/Planning	Printed advertising (EURO)		0							
	Sales promotion (EURO)		0							
	Sales employees (final inventory)		1							
	R & D		Surfboard							
	external R&D expenses (EURO)		0							

Sales

- Market sales price of product.
- Finished product volume for wholesaler (from Period 3)
- Advertising expenditure
- Sales promotion: Expenses for measures such as give-aways, competitions, etc.
- Number of sales employees (final workforce, attrition will automatically be accounted for)

Purchasing

- Supply of inputs to produce the surfboards. You can find the number of inputs necessary per surfboard in the easyStartup! Web or in the news for the current period.
- One supplier per category with quantity based prices (from Period 2) for:
 - Fiberglass
 - Hard foam
- Supplies are received in the same period as they are ordered.
- Inputs in storage incur costs.
- If not enough inputs are ordered for the production volume of the current period, express deliveries are ordered automatically.
- The number of purchasing and administrative employees depends on sales.

Research and Development

- Expenditure on engineering firms (external expenses)

Company 4	Company 7	Company 8	Company 9	Company 10	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	
Company 1		Company 2			Company 3			Company 5			Company 6
Sales/R&D		Purchase of production lines			Type A						
Goods and Services		Number			1						
Finance/Planning		Standortwahl			Alternative 3						
		Standort									
		Staff			+Appoint. (wkrs)			-Dismissal (wkrs)			
		Production workers			2			0			

Goods and Services

- Investments
 - Purchase of production lines with a certain capacity
 - You can find the production lines' characteristics (e.g. direct costs, maintenance costs, etc.) in the easyStartup! Web or to some extent in the news for the current period.
- Disinvestment
 - Production lines which are no longer needed can be disinvested. To disinvest a production line, simply click in the appropriate field under the number of the site.
- Space
 - The property you choose to lease also affects the market share, as properties differ in location (central with occasional customers, industrial estate, ...).
 - Storage space incurs costs per item.
- Number of production workers
 - Number of hirings / dismissals (attrition will only be taken into account if you have seven workers or more!).
- If you do not have enough capacity, temporary workers will be employed.
- Decision on the production volume of finished products.

Company 4		Company 7		Company 8		Company 9		Company 10		Company 5		Company 6		Company 7		Company 8		Company 9		Company 10			
Company 1				Company 2				Company 3				Company 5				Company 6							
Sales/R&D				Finances				Short-term loan				Securities				Subsidies loan							
Goods and Services				Finances (EURO)				0				0				20,000							
Finance/Planning				Target val.				Surfboard															
				Planned sales store (EURO)								0											

Finance

- Taking out a short-term loan
- Investing in fixed deposits/securities
- Applying for subsidies

Planned Values

Shop sales must be given as the planned values for the next period.

3.3 Decision Form for Period 1

Company :

Period :

	Product	Surfboard
	Retail price (Euro/Item)	
	Print advertising (Euro)	
	Sales promotion (Euro)	
	Sales personnel	

R&D	External expenses	
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	Machines		
Production	Purchase (quantity)		Disinvestment (give number)

Staff Production	Hirings (quantity)	
	Dismissals (quantity)	

Production volume (Surfboards)	
--------------------------------	--

Finances (Euro)	Short-term loan	
	Fixed-term deposits/securities	
	Long-term subsidy loan (only after conferring with instructor; not allocated automatically)	
	Application for additional equity (only after conferring with instructor; not allocated automatically)	

	Product	Surfboard
Target values	Turnover (Euro)	

4 Participants' Reports: Explanations

At the end of each period you will receive participants' reports containing all the market results. These reports are structured as follows:

- Executive Summary
- Internal Processes
- Internal Accounting
 - Cost Accounting / Cost Center Accounting
 - Product Cost Accounting
- External Reporting
 - Financial Report and Statement
 - Profit and Loss Account
- Market Research
- Business Reports from the Industry

4.1 Executive Summary

The Executive Summary gives you a quick and basic overview of the business quarter that has just occurred. This report details the most significant figures for your company, and also contains information on your competitors. All the information in the Executive Summary is also included in the detailed Participants' Reports, 2 - 8.

4.2 Internal Processes

This Participants' Report (PR) gives an overview of the internal processes in the company. This includes storage values, production capacities, personnel inventories, and product development.

Inputs / Parts (when purchasing decisions are enabled)	
Opening stock	Volume: This is the final inventory for the previous period. Storage values: Values at the end of the previous period.
Orders	Volume: This arises from the purchasing decisions for the previous period.
Shortage purchase	If too few inputs/parts were ordered in planning production volume, there will be an automatic express delivery of the inputs needed.
Dispatch to production	Volume: Used in production Storage values: Weighted average of opening inventory and acquired stock
Final stock	Volume: Opening stock + acquisition – dispatch

Finished Products	
Storage values	These arise from the manufacturing costs (product cost accounting) per manufactured item multiplied by the production volume.
Input from production	Volume: Production volume

Depreciation of Production Lines	
Depreciation / half year	Linear depreciation of production lines (acquisition value divided by useful life in half-year periods)

Production Planning	
Required production lines	Machine capacity required according to production volume.
Required inputs	Volume of inputs according to production volume.

Production Workload	
Production workload	The volume produced divided by the possible production volume at 100% workload.
Number of workers needed	This depends on the productivity of the workers (if necessary taking into account the amount of production capacity available, i.e. based on actual production volume).
Temporary workers	The need for temporary workers depends on the difference between the number of workers employed in production and the worker requirements for the actual production volume.

Personnel (Cost Center Overview)	
Initial workforce	(From the previous period)
Hirings / Dismissals	Incur costs (cf. personnel costs in cost accounting in the participants' reports)
Number of workers in purchasing and administration	Depends on sales target.

Product Development	
External expenses	Expenses incurred by using external engineers (engineering companies)
Cumulative expenses	The expenses for product development thus far, including the current period, are an indicator of the stage of development.

4.3 Cost Accounting/ Cost Center Accounting

Overhead	All costs not directly accountable to the product or product line
Direct costs	To be tied to the product or product line according to the input involved

Cost Accounting	
MATERIAL COSTS	
Input materials / Parts	Assigned according to use
Operating supplies	Assigned according to use
External expenses	Costs for temporary workers. (Assigned according to need for production workers)
PERSONNEL COSTS	
Wages / Salaries Hirings / Dismissals Non-salary staff costs	Production workers' wages and fringe costs are assigned according to personnel requirements in production. The remaining personnel costs are overhead.
DEPRECIATIONS	
ESE	Depreciation of costs incurred at startup which were activated as ESE (cf. PR 8: Balance)
Production lines	Depreciation of production lines
OFE (Office equipment)	Space / Depreciation for OFE
OTHER COSTS	
Other direct costs	Miscellaneous direct costs for the production sites.
Maintenance	Costs for maintenance of production sites.
Lease of office space	According to decision made regarding location during the startup period.
Office running costs	According to decision made regarding location in the startup period.
Other admin. costs	= 1% of turnover costs dependent on sales + Direct costs dependent on business structure (Per. 1 = €1,000)
Storage costs	Storage costs for inputs: Assigned to purchasing as overhead. Storage costs for finished products are assigned to purchasing as direct costs.
Advert./Sales Promotion	Print advertising/Sales promotion
Other R&D costs	Expenditure for R&D commission to external engineering firm.

COST CENTER ACCOUNTING

→ Distribution of overhead (from Cost Accounting) to individual cost centers.

PERSONNEL COSTS	Distributed when they arise.
DEPRECIATIONS	
ESE	Distributed according to the number of workers in each department.
Production sites	Assigned completely to production.
OFE	Distributed according to use of space in m ² .
OTHER COSTS	
Other direct costs	Assigned completely to production.
Maintenance	Assigned completely to production.
Lease of office space	Distributed according to number of workers.
Office running costs	Distributed according to number of workers.
Other admin. costs	Distributed according to number of workers.
Storage costs	Storage costs for inputs: assigned to purchasing as overhead.
Advert./Sales Promotion	Assigned completely to sales.

4.4 Product Cost Accounting

Product Cost Accounting	
Input materials / Parts	Direct costs (cf. Cost Accounting: "Input Materials / Parts")
+ Operating supplies	Direct costs (cf. Cost Accounting: "Operating supplies")
= Direct costs for material (I)	
Direct costs for production	Direct costs (cf. Cost Accounting) (Sum of: wages/salaries + non-salary staff costs + external services)
+ Production overhead	Assigned in relation to production direct costs.
= Production costs (II)	
= Manufacturing costs (I + II)	
+ R&D direct costs	(cf. Cost Accounting: "Other R&D costs")
+ R&D overhead	Assigned in relation to sales figures (per item).
+ Sales direct costs	(cf. Cost Accounting: "Advertising/Sales promotion")
+ Sales overhead	Assigned in relation to sales figures (per item).
+ Purchasing/Admin. direct costs	(cf. Cost Accounting: "Storage costs")
+ Purchasing/Admin. overhead	Assigned in relation to sales figures (per item).

Product Costing

Product costing distributes the costs from cost unit accounting according to the item produced (up to the manufacturing costs), or to the item sold (up to the prime costs).

4.5 Financial Report and Balance Sheet

The **financial report** contrasts the cash inpayments and outpayments for a period, thus providing a guide for liquidity planning.

Financial Report	
CASH INFLOWS	
Cash inflow from sales from current / previous period	According to customers' paying habits and agreed conditions of payment, a certain percentage of payments will not be made until the following period.
Cash inflow of venture capital	Venture capital is assigned by the instructor after the business plan has been created; further venture capital payments are possible during the course of the simulation.
Overdraft loan	Will be automatically granted by the system if the minimum cash balance (= 2,000 Euro) is not covered by cash inpayments and outpayments plus the opening cash inventory.
CASH OUTFLOWS	
Purchase of OFE	Decision to buy new office furniture and equipment (OFE).

In the **balance sheet** (according to §266 of the German Commercial Code), your company's assets are compared with the amount of available capital. Assets include fixed and floating assets. Liabilities include equity capital and debt. Assets and liabilities balance out if the period's excess is added to the liability side, or the period's deficit is subtracted.

Assets	
Expenditure for startup and expansion (ESE)	This includes the entire costs for startup incurred from the start of business activity.
Fixed assets	= Opening inventory of production lines, OFE (Period X) + Investments (Period X+1) – Depreciation (Period X+1).
Accounts receivable	Sales affected in the period which have not yet been paid for.

Liabilities	
Subscribed capital	= Initial capital (= common capital = capital stock)
Capital reserves	Difference between the legal initial capital (i.e. capital stock) and the additional investment capital.
Retained earnings	Accumulated surplus from previous periods that has not been distributed and is already taxed.
Loss carried forward	Accumulated deficits from previous periods. These are set against surpluses of later periods (effects on tax payment in later periods).

4.6 Profit and Loss Account

Profit and Loss Account

The law passed on December 19, 1985 allows the alternative of calculating the operating profit/loss according to **total costs** or **sales**.

In the **total cost calculation** (left-hand side of the profit and loss account) the sales revenue from the period is adjusted for the change in stock (= total performance for the period) and the total costs for the period are then deducted (distributed by the cost center account).

The **sales calculation** (right-hand side) compares the prime costs of the products sold with the sales revenue for the period.

Apart from the cost of manufacture, the prime costs of the products sold include the total costs for administration, research, and marketing for the period.

If the volume sold does not correspond to the volume produced in that period, the manufacturing cost of goods sold is calculated by taking average values.

Asset depreciations	Sum of: Depreciation for machines, OFE and ESE (see above)
Extraordinary revenue	e.g. Revenue from scrapping disinvested production lines
Extraordinary expenses	e.g. Special depreciation for machinery scrapped in the current period at the residual book value

Balance sheet usage

The total net loss/profit for the period is entered as equity for the current period. The period surplus can be used to

- offset losses carried forward,
- build up surplus reserves, and to
- distribute dividends.

A company's **surplus reserves** are calculated as follows:

- To start, the period's surplus is set against any losses carried forward.
- The planned dividends for the period are subtracted from the remainder.
- Any remainder after the accumulated deficit and dividends have been subtracted goes towards surplus reserves.

Sum to be distributed	50% of the period's surplus is distributed as dividends. (This is paid in the next period.)
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Cash Flow

Cash flow is calculated after tax (based on the period's surplus).

Cash Flow

- The period's profit is the result of the income received and the costs incurred for a period. This is calculated in the profit and loss account and should reflect the success of the period.
- The cash flow for a period, as the period's after-tax surplus + depreciation [+ provisions], suggests the company's "**internal financing**".

Planning

The planning factors to be entered in the decisions are compared with what has actually happened. The absolute variance is evaluated in %. A variance of 0% gives a planning quality of 1; a variance of 100% or more gives a planning quality of -1.

Success value

The success value of the period is based on the period's surplus and planning quality. Here, the planning quality is derived (generally 1,000 Euro per point) by a certain sum (Euro/point).

4.7 Market Research Report

The market research report includes essential decision data concerning your competitors (e.g. prices, advertising/sales promotion expenses, net sales, market shares according to product categories, etc.). This report can help you a great deal to make your decisions and evaluate your strategy.

Market Results	
Price	Companies' sales prices
Sales	Number of products sold by each company
Market share	Calculation of the companies' market share of the whole market
Communication	Expenses for advertising and sales promotion
Shop	Sales market
Technology index	Result of expenditures on external research and development which leads to this technology index.
Awareness	Result of the marketing mix selected in terms of establishing the company's reputation.
Wholesaler	Guaranteed sales made at a set price. Wholesale volume is entered under other data as soon as wholesalers are activated in the simulation (complexity which can be added).
Sales staff	Number of employees responsible for selling the products.

4.8 Business Reports from the Industry

The business reports from the industry include the profit and loss account and the balance sheets of all competing firms. Hence, you can gain an overview of the success of the individual firms.

In the lower section of the report you will find several value-oriented figures which enable you to analyze both your own firm and your competitor's using significant figures.

4.9 Decisions Forms

The decision form gives you an overview about the decisions you made in the last period.

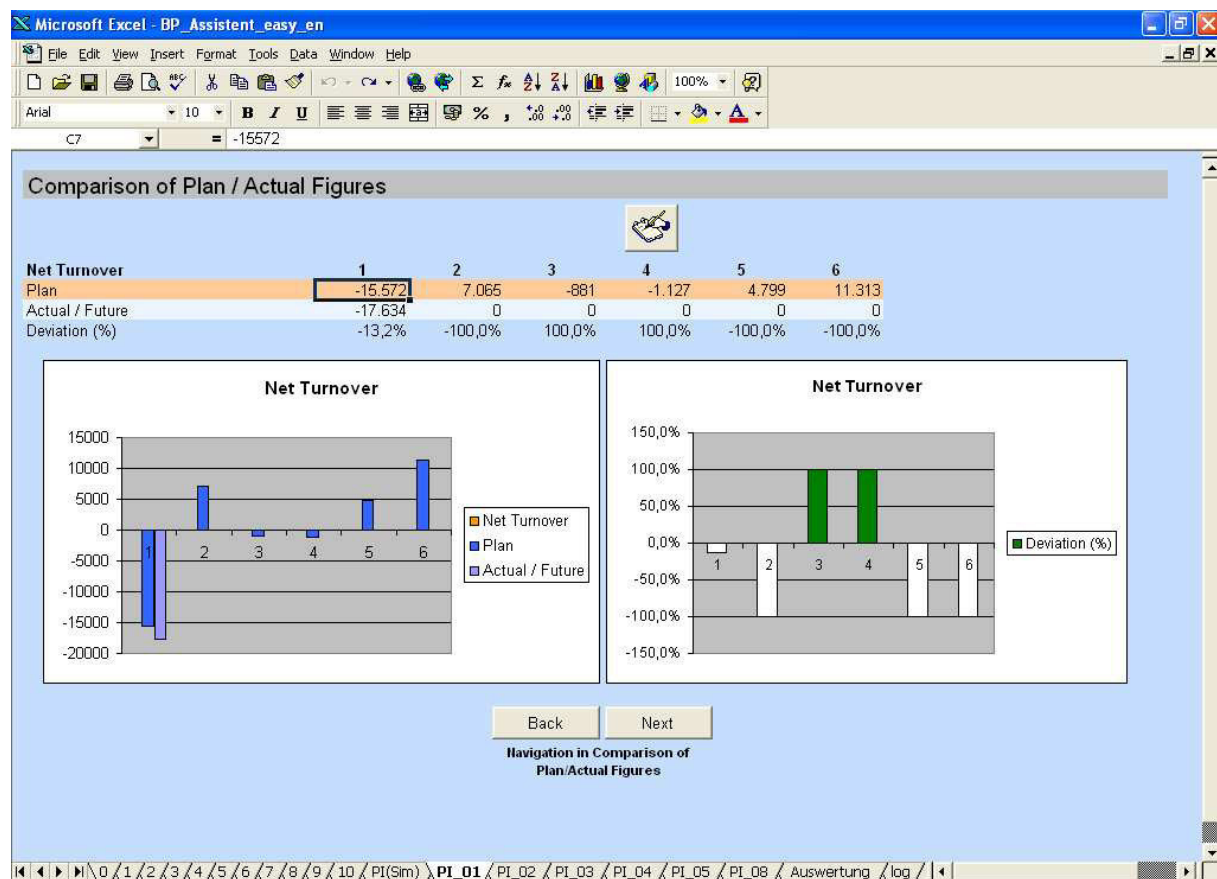
5 Comparison of Simulation Data with Business Plan

When you enter your decisions (whether via diskette, USB stick or the Net), a "BPTransPro.xls" file will be created in the C:\Temp folder. This file contains the data from the previous periods in this simulation. You can now use the Business Plan Assistant to make a comparison of target / actual figures after each period. All you have to do is click on "Data Transfer" in the index, and then select "Update Values". The values will be transferred from the "BPTransPro.xls" file and compared with the target values in the business plan.

For this comparison, the following values will be taken into account:

Sales income
Period surplus/shortfall
Market share (in %)
Personnel costs
Stock (Finished products)
Total liabilities
Cash Flow (before financing)

Then you can see the figures in diagram form.



You can find more information on data transfer in the first part of the Participants' Manual (2.3).

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