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Generic Business Plan



HM TREASURY

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uk

HM Treasury Guidance

Generic Business Plan - Outline Template
Suggested Business Plan Contents for Commercial Opportunities
Arising from High-Technology Areas of the Public Sector

March 2004

A non-prescriptive guidance note for Public Sector Research Providers including Departmental and Non-Departmental Public Sector Research Establishments, NHS Hubs and NHS Trusts.

Prepared by Partnerships UK on behalf of HM Treasury

This document is aimed at public sector bodies who are planning to set up an external company, attract equity investment and pursue commercial activities. This business plan has a focus on business opportunities arising from the high-technology sector, though most of the suggested subjects will be common for the commercialisation of products and services from other areas. A business plan for opportunities requiring some element of debt funding may be similar in form but greater emphasis should be placed on the financial information, and the current and future cash flows in particular.

**THIS TEMPLATE DOES NOT REPLACE INTERNAL GUIDANCE NOTES FOR
INTERNAL APPROVALS.**

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GENERAL HINTS AND TIPS

The business plan is one of the key stages in attracting funding for a venture. It is a mechanism to attract the attention of, and prompt further interaction with, potential investors. The executive summary is fundamental to attracting the attention of potential investors who, due to their exposure to large numbers of business plans, often reject opportunities based on the strength of the executive summary. It is therefore important to ensure that the executive summary is highly polished and well written.

The content of a business plan will evolve over time, and there are few ventures which follow the path predicted in the first business plan, even over the first few years of operation.

The purpose of the business plan is to provide a snapshot which illustrates that there is a market for a product or solution and that the originators of the business plan are in an excellent position to bring the product to market, thereby producing a business with growth potential. The key ingredients of a business plan are outlined in this document.

The plan should be concise but needs to be of sufficient length to provide information on most of the subjects listed in this document. For example, the business plan should be approximately 20 pages in length for relatively simple opportunities requiring around £1 million, excluding the supporting information in the appendices. The author should pay particular attention to the audience for the business plan, pitching the language and technical detail at the appropriate level, ensuring a clear, concise and accessible document.

For most potential investors, the strength of the staff, the management team and the financial projections will outweigh the technical merits of the opportunity. These non-technical elements are worthy of a considerable amount of effort to maximise the probability of funding.

There are many other guides which can be consulted when creating a business plan (references 1, 2 and 3, for example). Guides aimed at small businesses seeking debt funding can be obtained from a number of sources.

Confidentiality

The business plan may contain confidential information and therefore confidentiality agreements should be in place before the plan is distributed. However, some equity providers, particularly corporate venturers, may refuse to sign confidentiality agreements at the early stages of discussion. If confidentiality agreements are not in place, it is important to consider both the contents and the distribution list for the document. The document should be clearly marked with the relevant classification as stated in any confidentiality agreements.

Confidential information can be excluded from the executive summary. The distribution of the executive summary therefore avoids the release of confidential information whilst ensuring the exposure of the opportunity to potential investors.

BACKGROUND TO EQUITY FUNDING

Equity funding is very important for new ventures and for high-technology ventures in particular. Debt funding will not usually be accessible for such ventures due to their lack of a secure cash flow and credit history. There are several potential sources of equity funding. These include corporate funding, business angels and venture capital funds. These sources can operate at several stages of opportunity development, outlined in Figure 1. The terminology and boundaries of each stage can vary between equity suppliers and there is often considerable overlap between the stages at which funders will consider investment.

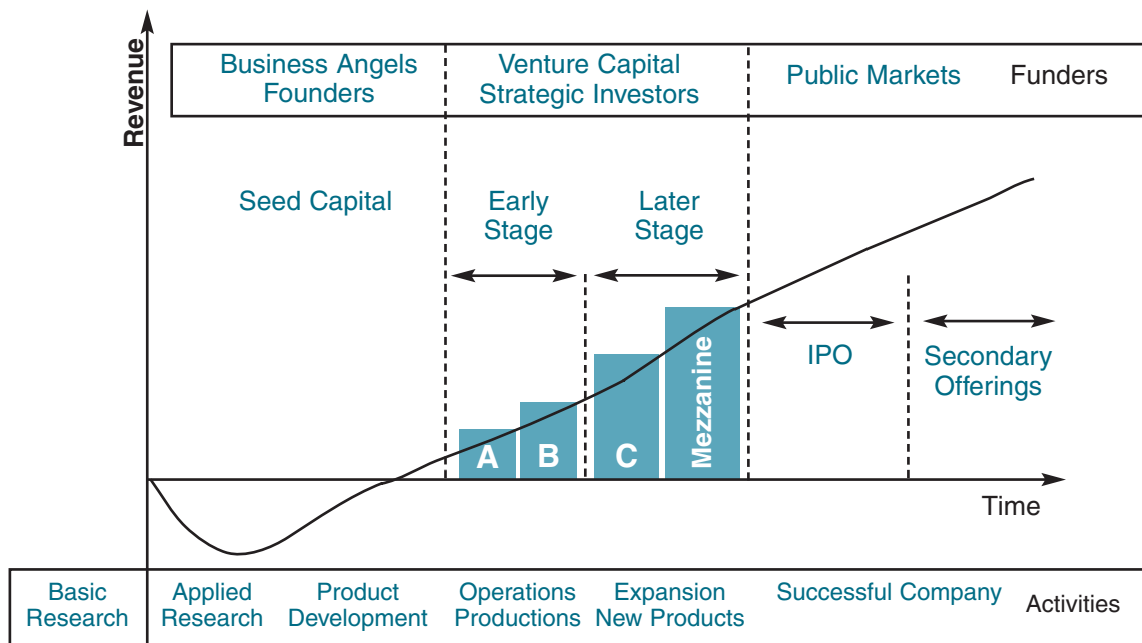


Figure 1 Equity providers and activities by stage of investment

The amount of equity which is available at each stage increases as the venture matures. The average investment in individual UK high technology ventures in 2000 at various stages is shown in Table 1 (Source European Venture Capital Association⁴).

Stage	Investment (£k)
Seed	260
Start-up	1,410
Expansion	2,840
Buy-out	12,550

Table 1 Average investment in individual UK high technology ventures

A useful list of venture capitalists is available from references 5, 6 and 7. Business Angels can be found through local Angel networks and through reference 8.

PROPOSED LAYOUT OF THE BUSINESS PLAN

1. THE BUSINESS CASE: TITLE/COVER SHEET

Include a working name for the company and a clear statement of the classification of the document (as defined in any confidentiality agreement).

2. EXECUTIVE SUMMARY

This should be an absolute maximum of 2 pages, should be highly polished and should provide a summary of:

- A. The purpose of the business plan (e.g. ... *to secure funding to establish a ...*)
- B. The purpose/opportunity for which funding is required. Include:
 - i. The purpose of the company i.e. what the company will do;
 - ii. The level of funding required;
 - iii. An estimate of the shares available in return for the investment(s) [optional];
 - iv. Likely exit routes, timescale and probable returns;
- C. The problem which the opportunity addresses and the unique selling point of this solution.
- D. The barriers to others producing substitute/competing products.
- E. The market for proposed activity.
- F. Financial projections and critical milestones.
- G. Management, operation and marketing strategies.
- H. Management team synopsis.
- I. Company philosophy/mission statement.
- J. Any alliances/collaborations with other companies.

3. TABLE OF CONTENTS

4. THE BUSINESS

A. *Description of the Business*

- Brief technical sell of the originator's experience, track record and capabilities.
- The origin and description of the opportunity.
- The unique selling point of the business as a whole.
- What is the dominant/monopoly position?
 - How long will it last?
 - How long will it take to establish?
- What are the barriers to others producing substitute/competing products.
How strong is:
 - The patent position?
 - Reputation?
 - Tacit knowledge/capabilities?
 - Equipment lead?
- The activities to be pursued – which activities will reside within the company and which remain within the parent organisation?

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- Summary of the IP position (if any) with greater detail in the appendices including copies of the patents and patent numbers.
 - What scope is available for subsequent products/services developed from the initial technology/opportunity?
 - Product manufacturing routes – include thoughts on ease, cost and streamlining possibilities.

B. Brief Summary of the Market Survey

What is the current market and how is the market expected to look at the time when the new product/service is ready for launch? Simple diagrams and charts will have a greater visual impact than body text. This section should include:

- A geographical breakdown;
- Size and growth of markets;
- Pricing of similar and competing products;
- A summary of the major players and the segmentation;
- The nature of the market (e.g. cost or quality/technology driven etc.);
- A summary of the openness, existing strategic links etc. which may have an impact on market penetration; and
- Identification of the customers.

C. Competition and SWOT (for each activity)

This section should be relatively brief and the strengths, weaknesses, opportunities and threats (SWOT) analysis can be tabulated.

- What is the (monopoly) position, what are the barriers to others producing substitute products and how long will the strong market position last? How strong is:
 - The patent position?
 - Reputation?
 - Tacit knowledge/capabilities?
 - Equipment lead?
- Competition – identify *direct* and *indirect* competitors – what is the environment for current operators?
- SWOT – compared to current operations and solutions.
- USP – Unique selling point for each activity (e.g. novel solution, higher quality, smaller, faster etc.).
- How does each activity fit into the corporate strategy?

D. Operation, Staff and Structure

This is a very important aspect of the business plan.

- Assign priorities to the planned activities.
- Assign Management/staff required for these activities and consider:
 - The expertise and track record/experience of management and technical staff;
 - Vacancies – where there is no identified candidate for the position;

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- Contracts and the legal specifics of employment (secondment, contract permanent etc.);
 - The organisational structure (chart) with the associated responsibilities;
 - The salary structure and share (or other) incentive schemes for staff.
 - Activities closest to market are often prioritised over activities requiring more development in order to secure a revenue stream as quickly as possible.
 - Operational details
 - Location of operations;
 - Accommodation.
 - Structure of the Company
 - Legal structure of the company.
 - Proposed investment requirement and structure for that investment. Valuation and hence shareholding received for a given level of investment (or intellectual property / technology contribution for the public sector).
 - Non-executive positions, how many from each party including investors? Talented non-executives can add considerably to the value of a company and the likelihood of funding.

E. Collaboration and Partnerships

Current Industrial Partners -

- Who are the industrial partners?
- Why have these partners been chosen?
- What is the nature of these links (partners, licences, etc.) – examples of agreements in appendices if relevant; and
- Are there any links back to the originating body – (this can be important particularly with public sector procurement rules).

F. Marketing & Pricing (for each activity)

Rough outline at this stage.

- How aggressively to pursue potential market.
- Target Market:
 - Where;
 - Who;
 - How.
- Services & products – (who, where, why, pricing including any special pricing arrangements).
- Which market – UK, internationally etc.
- Name – branding is very important. Protection of the reputation of the parent organisation is also important, particularly for the public sector.
- What will be the company philosophy? – Quality, innovation, price etc.
- Pricing & number of sales (market) ⇒ returns.

5. Financial Data

Outline any assumptions regarding market share, volume sales etc. and the likely exit strategies for an investor. (IPO, subsequent investment, trade buy out etc.). It is often helpful to include:

- A simple timeline of major expenditure and income;
- A summary of overall expenditure and revenue over the initial 5 year period; and
- A summary of expected liquidity events and further equity or debt raising events.

As most future cash flows rely heavily on assumptions, all assumptions must be explicitly stated at the beginning of this section. It is important to pay particular attention to the projected revenues and the market share required to generate these revenues. The assumptions outlined here can feed into a sensitivity analysis of the financial data (producing, for example, an optimistic and pessimistic financial forecast) and should also feed into the risk analysis presented in Section 6.

A cash flow statement, balance sheet and profit and loss statement will be required. The profit and loss and balance sheets can be consolidated into yearly statements but the cash flow should be at least quarterly. The forecast should be for a minimum of 5 years.

Financial templates can be supplied by PUK, or a proprietary version can be generated which includes:

A. Income

Name each activity/product group and how much income will be generated.

B. Direct Costs

Outline the costs directly associated with the activities outlined above for example:

- Raw materials;
- Manufacturing.

C. Running Costs

Including for example:

- Accounting, Advertising, Consumables, Depreciation, Distribution costs, Insurance, Legal and other professional fees, Outside Services, Rent, Repairs and Maintenance, Research and Development, Salaries, Training, Travel and Utilities.

D. Capital Equipment

- Full list of requirements for capital expenditure and the expected depreciation of the equipment.

6. RISK ANALYSIS

A risk table should be included which outlines the risks associated with the venture (including technical and market risks), their likelihood and severity and the contingencies for those risks. Risks associated with the public sector can be included here or in Appendix 6E. The risk should be linked to the sensitivity analysis and assumptions in the Financial Data section. A key part of the National Audit Office study, *“Delivering the Commercialisation of Public Sector Science”*, was that risks should be identified and managed rather than avoided⁹.

Risk	Probability	Severity	Contingency
Brief description of risk	Low, medium or high – (optional brief reason)	Low, Medium or High	Brief description of contingency or contingencies

7. ACTION PLAN

Next steps, Gantt chart for activities leading to product launch or at least the next 24 months. Critical milestones should be tabulated.

8. APPENDICES - SUPPORTING DATA

A. Patents, IP etc.

B. Technical Standing/papers published.

C. Letters of Support from Collaborators.

D. Staff CVS.

E. Public Sector Issues

Use the PUK checklist and be sure to include the risk, probability, severity, contingency for each of:

- Vires;
- State aids;
- Loans;
- Classification;
- Propriety (including reputation, conflicts of interest, value for money and Parliamentary authority);
- Liabilities;
- Freedom of Information;
- Crown Copyright; and
- EU Competition Regulations.

F. Letters of Support

From head of originating body and sponsoring department/research council.

G. The Future

Where research is leading, possible new application areas etc.

H. Detail of Market Survey

References and Further Reading

¹ Ernst and Young, “Guide to Producing a Business Plan”, available from http://www.ey.com/global/Content.nsf/UK/CEUK_-_Library_-_Guide_to_producing_a_business_plan

² Ernst and Young, “Outline for a Business Plan”, available from [http://www.ey.com/global/download.nsf/US/EGCS_-_Outline_for_a_Business_Plan/\\$file/Outline_for_a_Business_Plan.pdf](http://www.ey.com/global/download.nsf/US/EGCS_-_Outline_for_a_Business_Plan/$file/Outline_for_a_Business_Plan.pdf)

³ “A guide to Venture Capital” is available from the BVCA at www.bvca.co.uk/publications/guide/guide.pdf

⁴ www.evca.com

⁵ BVCA provide a searchable directory of sources of venture capital at www.bvca.co.uk/searchdirectory/web_templates/venturecapitalsearch.html

⁶ The Fisby guide to venture capital is available at www.fisby.co.uk/Business/g.shtml

⁷ The European Venture Capital Association provide a list of venture capital providers through their website at www.evca.com/html/home.asp

⁸ www.bvca.co.uk/publications/businessangels/businessangels.pdf

⁹ www.nao.gov.uk/publications/nao_reports/01-02/0102580.pdf

¹⁰ The Partnerships UK Public Sector Issues Checklist is available from the PUK website, www.partnershipsuk.org.uk

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Published March 2004

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