Handbook to create a sustainable business

Module 4: Business planning

A handbookto create a sustainable business
is developed within the Young GREENtrepreneurs project

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Introduction

New product development is the chief process of innovation and can take part as a completely new venture through a startup approach or a part of the development strategy in an existing company. In both cases, if we incorporate the perspective of sustainability we come to a green product development. In the case of green product development, we consider both the product's market performance and environmental concerns.

Welcome to the fourth module of this new training on how to create a business plan, and what mistakes can be made when preparing a business plan. The module also gives an overview of what our starting strategies for change might be in a new or more mature business situation. An overview of exit strategies is also useful because it opens up a new perspective and helps you to plan for the longer term.

Lesson 1: Business Plan vs Strategic Plan

In this lesson, we build on the knowledge covered in the previous modules. We will try to deepen them and provide examples to help you make decisions about your future business.

First, we will look at the process of business planning and business design. **Try to remind what you have read about business planning in previous modules!**

The business plan is a document summarising the future goals of the business and the strategy to achieve them. In practice, it is a medium-term action plan, usually outlining tactical and strategic steps and their timing over three to five years.
The business plan therefore describes the whole enterprise, from the initial idea to the achievement of the main objective. The process of preparing a business plan starts with defining the ultimate goal (long term), building the strategy (medium term), and then breaking this strategy down into steps or tactics - and building the day-to-day, operational running of the business from these (short term).

Source: Molnár D. (2023): A tökéletes üzleti terv készítés (mintával, sbalonnal). https://targeter.hu/uzleti-terv-keszites/

EVERY COMPANY NEEDS A BUSINESS PLAN!

Creating a business plan is a vital process. It offers several benefits, including:

- Helps you think about your business objectively by highlighting its history, strengths, weaknesses, and achievements.
- Keeps you on track with your goals and needs.
- Formalizes your overall mission.
- Acts as a guide that can help you through business successes and failures.
- Shows potential investors what their return on investment can be.

How to make a business plan? We've already given you some tips in previous modules, just consider the Business Model Canvas. This model is simple, logical, easy to understand, and can even be used as a one-pager. The disadvantage is that it leaves out several important parts, such as the organisational structure, which is included in a more traditional business plan. Let's briefly look at the parts of this extended business plan.
Since your business plan is a formal document that serves many purposes, it's necessary to organize it so it's detailed and easy to read. To properly detail your plan, you can include several sections of information, such as:

- Executive summary (Highlights the plan, Include the why);
- Business description (Goals, Products, Services, Target market, What makes you different);
- Market analysis and strategy (Geographic locations, Demographics, Identify audience, Strategic estimates);
- Marketing and sales plan (Pricing plans, Marketing, and promotion strategies);
- Management and organizational description (Legal structure of business, Introduce leadership team, Human resources requirements);
- Products and services description (Expound on product and services, Explain their necessity, How will they be manufactured, and their longevity);
- Competitive analysis (Compare competitors to your business, Delve into the advantages, What makes you different);
- Operating plan (Plans of operation, Logistics);
- Financial projection and needs (How you plan to generate revenue, Sources of Funding, Projections of cash flow);
- Appendix (Resumes of management and stakeholders, Legal documentation, Picture of your product);

Source: https://www.youtube.com/watch?v=KbdYmg3sJJU&t=172s

You can learn more about creating a business plan by watching the serie of short videos below: The Complete How To Write Business Plan Course 2024

The preparation of a business plan is essential. We often make **mistakes** when preparing it. We have collected a selection of these.

- Not having a realistic financial plan, but embellishing things to make it look good.
- We define our target audience wrongly.
- We do not put enough emphasis on communication and advertising.
- We are overconfident about our own business idea, which leads us to fail to realistically assess the competition and the market.
- We include a lot of unnecessary things in the business plan.
- We write for ourselves and not for our readers.
- We are not honest for fear that someone will steal our idea.
- We confuse business planning with strategic planning, treating business plan and strategic plan as synonymous.
- What is the main difference between a business plan and a strategic plan?

The biggest difference between a strategic plan vs. a business plan is its purpose. Existing companies use the strategic plan to grow their business, while entrepreneurs use business plans to start a company.

The following questions can also help us make a difference:

A business plan answers these questions:	A strategic plan answers these questions:
What is my idea? What will be my playground and market scope? What investment and financing do I need? When will I generate revenue and profit for my business? What do I need for my idea to succeed? What value will my idea bring to my business and shareholders?	What are my current capabilities, values, mission and vision? What are my goals and what should I do to achieve them? Who does what, how and by when to get where I whant to go?

Lesson 2: Phases of Business Planning

It's a long way from business idea to product. We call project management the "navigation" activity to guide, implement, and monitor our actions.

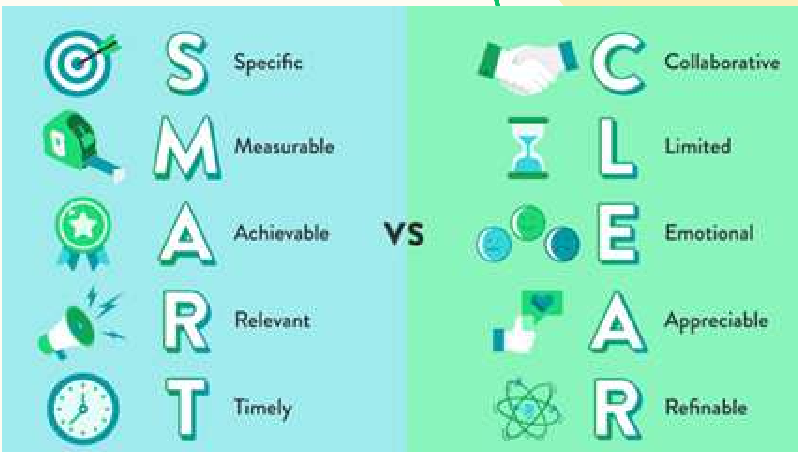
Managing a project is no easy feat, no matter what the scale and scope are. From planning the minutia to handling the ever-changing demands of clients to shipping the deliverables on time, there's a lot that can go wrong. When you divide the project into manageable stages, each with its own goals and deliverables, it's easier to control the project and the quality of the output.

According to the PMBOK Guide (Project Management Body of Knowledge) by the Project Management Institute, a project management life cycle consists of 5 distinct phases including initiation, planning, execution, monitoring, and closure that combine to turn a project idea into a working product (Source: 5 Phases of Project Management - A Complete Breakdown. 2023).

Phase 1: Project initiation
The project initiation phase is the first stage of turning an abstract idea into a meaningful goal. In this stage, you need to develop a business case and define the project on a broad level. In order to do that, you have to determine the need for the project and create a project charter.

Phase 2: Project planning
The project planning stage requires complete diligence as it lays out the project's roadmap. In this phase, the primary tasks are identifying technical requirements, developing a detailed project schedule, creating a communication plan, and setting up goals/deliverables.

There are several methods of setting up the project's goals but **S.M.A.R.T.** and **C.L.E.A.R.** are the most popular.



Source: SMART vs CLEAR Goals: Which is Better to Find a Job? 2023.
https://mondo.com/insights/clear-vs-smart-goals-how-to-find-a-job/

The SMART criteria ensures that the goals you set for your project are critically analyzed. It is an established method that reduces risk and allows project managers to make clearly defined and achievable goals.

The CLEAR method of setting up goals is designed to cater to the dynamic nature of a modern workplace. Today's fast-paced businesses require flexibility and immediate results and CLEAR can help citizen developers with that.

Phase 3: Project execution
The project execution stage is where your team does the actual work. As a project manager, your job is to establish efficient workflows and carefully monitor the progress of your team.

Phase 4: Project monitoring and controlling
In the project management process, the third and fourth phases are not sequential in nature. The project monitoring and controlling phase runs simultaneously with project execution, thereby ensuring that objectives and project deliverables are met.

Phase 5: Project Closing
This is the final phase of the project management process. The final task of this phase is to review the entire project and complete a detailed report that covers every aspect.

Practical Exercise: Design Your Future Business

Imagine yourself as a time traveler from the future who has come to the present to start their own business. Using the five phases above, plan an innovative green business considering the future's technological, societal, and economic environment.

1. Project initiation	• Choose an industry or sector from the future that doesn't exist in the present. • Consider how this industry aligns with the future societal and technological trends.
2. Project planning	• Devise new and innovative green products or services relevant to the future.
3. Project execution	• Envision how you would implement the planned future business using present-day resources and capabilities. • What steps can you take now to launch your future business?
4. Project monitoring and controlling	• Evaluate the potential impact of your future business on the present and the future. • How will you measure success and innovation for your future business?
5. Project closing	• Review the entire project! What would you do differently if you weren't a time traveller and thought in the present?

Lesson 3: Exit strategy

As an entrepreneur, we may reach a point where we feel that enough is enough, we want to do something else, or we want to do something different. Maybe we want to sell the existing business and start a new one based on new ideas. If we feel this way and want to move on, we need an exit strategy.

A business exit strategy is a plan that a founder or owner of a business makes to sell their company or share in a company, to other investors or other firms.

Source: What Is a Business Exit Strategy? Definition, Types and Uses. 2023.

When to use an exit strategy

Make a profit: people can use an exit strategy to sell their investment in a company after achieving a certain profit objective. For instance, many online publishers sell their websites after making a certain amount of profit. The same practice is common among angel investors who fund tech startups. The sale can help the investor make a profit and then go on to new projects.

Limit losses: a business might start to experience losses because of legal issues, poor management, or market disruptions. In any case, an exit strategy is an effective way to liquidate losses from a business that is not making profits.

Improve the company's future: despite their departure, an owner or investor likely wants to ensure the company's future success. A company that can continually profit or recover from poor management helps the owner or investor preserve its reputation. An exit strategy can facilitate a seamless transition for the new stakeholders and help them build the entrepreneur's legacy.

Practical Exercise: Storytelling

Once upon a time in a bustling city, two friends, Alex and Chris, embarked on a creative venture. They founded a quirky bookstore named "Wonders Read" that offered not only books and second-hand books, but also interactive storytelling sessions and unique book-related events.

As the years went by, Wonders Read gained a loyal following and became a beloved community hub. However, both Alex and Chris knew that eventually, they would need an exit strategy to pursue other dreams. They brainstormed several options:

1. Passing the Torch: They considered hiring a passionate manager who shared their vision. This manager would gradually take over operations while they retained ownership but had more time for personal pursuits.

2. Selling to a Kindred Spirit: They envisioned finding a buyer who understood and cherished the store's essence. This buyer would promise to preserve the store's character and continue fostering the community spirit.

3. Legacy Transition: Alex and Chris pondered the idea of turning Wonders Read into a cooperative owned by the store's most devoted patrons. This way, the community itself would safeguard the store's future.

4. Creative Culmination: Lastly, they thought about organizing a grand farewell event that celebrated the store's journey. They would close the store on a high note, ensuring that its memory lived on in the hearts of the community.

After careful consideration, they opted for the "Passing the Torch" approach. They found an enthusiastic manager, Sarah, who shared their passion for storytelling and community engagement. Over the course of a year, Alex and Chris gradually reduced their involvement while mentoring Sarah.

When the day came for Alex and Chris to officially step back, the community gathered to celebrate their contributions. The event was a testament to the impact Wonders Read had made. The legacy continued under Sarah's capable leadership, and the store remained a cherished place for years to come.

In the end, Alex and Chris executed their exit strategy thoughtfully, ensuring Wonders Read's legacy lived on while allowing them to pursue new adventures. Their story taught the city that every journey has its seasons, and with careful planning, one can gracefully transition to new chapters while honoring the past.
Which option would you have chosen and why?

Lesson 4: Winning strategies to maximize the exit plan

In this lesson, we present 10 winning strategies to help you create your own exit plan. These are standard business practices that are used in different situations. For example, it does not matter how mature the company is when we talk about an exit strategy. Nor does it matter how many employees or how much turnover the company has. And of course it matters what the owners' strategy is for the future. Treat these as general examples and in the last practical exercise think about the aspects described here.

- **Liquidation**: Liquidation means exiting a business and selling its assets or redistributing it to creditors and shareholders. There are two ways of doing this. One way is to close the deal and sell the assets as soon as possible. The other standard settlement option is to pay yourself until your company's finances are depleted and then finally close the deal.
- **Sell the Business to Someone You Know**: You may want to let someone else own your business. In many cases, your exit strategy may be to sell to someone (family member, friend, employee, customer…) you know.
- **Sell the Business in the Open Market**
- **Sell to Another Business**
- **An IPO (Initial Public Offering)**: An initial public offering (IPO) generally refers to the sale of your shares by a company to the public. Businesses often go through this process to raise additional capital. Going public is a big step for any business – it's a long and expensive process, and after that, the industry is subject to public reporting.
- **Acquisition**: An acquisition happens when a company buys another company. With an acquisition exit strategy, you give ownership of your business to the company buying it from you.
- **Become Part of an "Acquihire":** Unlike a traditional acquisition, this exit strategy business plan is a business plan in which a company buys its business to attract talented or qualified employees.
- **Merger:** In a merger, two companies are combined into one. Mergers add value to your business, which is why investors like them.

There are five types of merger:

- Horizontal: Both businesses are in the same sector;
- Vertical: Both businesses that are part of the same supply chain;
- Conglomerate: The two businesses don't have anything in common;
- Market extension: They sell the same products or services but compete in different industries;
- Product extension: Both businesses' products go well together;

- **Management or Employee Buyout**: While many of these methods can be challenging to plan, people who already work for you may want to buy your business from you when you're ready to go. Because these people know you and know how to run the business, this business exit strategy could result in a smoother transition and increased loyalty to your company's legacy.
- **Declare Bankruptcy**

Practical Exercise: Researching Successfull Exit Strategy

Conduct online research to find a real-life example of a green company or startup that has successfully executed an exit strategy. Through the chosen example, understand why and how the company selected this strategy, and what results they achieved.

Process:

1. **Selecting a Company:**
- Choose a green company or startup that has successfully executed an exit strategy.
2. **Research:**
- Explore the company's history and discover the exit strategy they chose.
- Gather information about the company's motivations and objectives behind the chosen exit strategy.
- Evaluate the impact of the chosen strategy on the company's trajectory and growth.

3. Assessment:
- Reflect on the insights you gained from your research.
- How can these principles be applied to other companies and startups?

Conclusion

The fourth module is closely linked to the knowledge reviewed earlier. However, we have sought to deepen the previous knowledge. In the case of the business plan, we have outlined an extended structure. We have reviewed the mistakes that can be made in planning and why it is important not to confuse the business plan with the strategic plan. In the module we then looked at the phases of the planning and management process, the importance of an exit strategy and how to do it. The built-in practical exercises were designed to apply what was learned, integrate knowledge and develop creative problem solving.

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