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Successful Strategy Execution
The World of Business

Directors: an A–Z Guide
Economics: an A–Z Guide
Investment: an A–Z Guide
Negotiation: an A–Z Guide

Pocket World in Figures
GUIDE TO BUSINESS PLANNING

Graham Friend
and
Stefan Zehle
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1 Introduction

Successfully launching a new business or initiative requires careful planning and the results of a business planning process are usually captured in a business plan. Any investor or those in an existing business responsible for approving new initiatives will invariably want to see a business plan before making any financial commitment. The business plan, besides being a prerequisite for gaining access to finance, also provides the blueprint for successfully creating and running a new venture. Even in fast-moving markets where the plan itself may quickly become outdated the insight gained from the planning process that created it remains invaluable. This book describes a business planning process that will generate crucial insights for the entrepreneur or existing business as well as supporting the preparation of a compelling business plan and the creation of a successful business.

A business plan describes the business’s vision and objectives as well as the strategy and tactics that will be employed to achieve them. A plan may also provide the basis for operational budgets, targets, procedures and management controls. No two businesses are identical and no two business plans are ever exactly the same. This guide examines the different reasons for preparing a business plan. It identifies who the potential audiences for a business plan are; how they read it; and what things different members of the audience will be looking for. The task of writing a business plan is a lot easier if you have a template that can be tailored to the specific needs of your business. Chapter 2 provides one. Also explained is how to design and present a business plan to maximise the likelihood of its gaining approval or funding.

Although the presentation of the final business plan is important, ultimately the substance of the plan is most crucial. The strategies and tactics described in the plan should be the outputs from a logical and appropriately comprehensive business planning process. The main emphasis of this guide is on the various stages of that process. This book provides a practical step-by-step business planning process and a reference for the tools and techniques necessary to complete it. It begins with an overview of a typical business plan and the remaining chapters correspond to the stages of the business planning process described in Chart 1.1 on the next page.

The process should begin by evaluating the environment in which the business operates before analysing the specific industry and the suppliers, competitors and customers within it. The insight from this analysis and an understanding of the strengths and weaknesses of the business or new venture, combined with a set of expectations about the future, can be coupled with creative and innovative thinking to develop a range of strategic options for evaluation. The evaluation stage includes developing forecasts (notably for market demand), financial projections and, in some cases, a range of valuations, as well as calculating various measures of performance with which to validate and benchmark the forecasts. The business planning process should test alternative ideas and assumptions, as one of the main reasons for planning is to help the business prepare for an uncertain future. Following stages include an examination of the funding issues and risk analysis, and lastly presenting and gaining approval for the business plan, and then implementing it. Because of the rapidly changing world in which businesses must operate, this guide places
considerable emphasis on business planning in the face of uncertainty and makes use of techniques such as scenario planning.

All business plans require some form of financial analysis and forecasts for the business or project. Most financial projections are prepared in a spreadsheet package such as Microsoft's Excel. Chapter 14 describes the generic Excel spreadsheet business model that
accompanies this book and that can be used within your own business. The model also forms the basis for the detailed worked examples that are used to explain the basic principles of accounting and the preparation of financial statements in Chapters 15 and 16. This book is not, however, about business modelling, which is dealt with in The Economist Guide to Business Modelling.

THE BUSINESS PLANNING MODEL

A business planning model built in Microsoft’s Excel is available for the readers of this book. To download the model visit www.guidetobusinessplanning.com and follow the simple download instructions. There are two versions available. The blank version (Blank Model) is designed to help the reader understand and apply the accounting techniques discussed in Chapters 15–17. For experienced business modellers, this version can be customised to meet the specific needs of their business. There is also a completed version (Complete Model), which represents the end result of working through the examples in the book. A full set of outputs from the completed model can be found in the Appendix.

USING THE BOOK

Although this book provides a step-by-step guide to business planning, it can also be dipped into by those wanting to apply the techniques to address a specific business appraisal or analytical challenge. Chart 1.2 on the next page provides a quick reference to all the business planning techniques used in the book, including the typical applications for each technique and where they can be found.

PREPARING YOUR BUSINESS PLAN

When considering the forecasting and accounting needs for your own business, you are strongly recommended to gain professional assistance from trained accounting personnel if the accounting and modelling issues extend beyond those covered in this book. The banks from whom you hope to raise finance may be able to provide assistance with the creation of your financial projections or alternatively you can seek the help of a professional accounting firm or management consultancy. You may also be able to obtain help from government organisations established to support new business ventures. The specific details of setting up a new company or partnership are beyond the scope of this book, but Chapter 13 provides a useful checklist of the issues that should be considered when creating a new company. The first thing that you should think about, however, is whether you are emotionally prepared for the inevitable stress that running your own business entails. We hope that this book will at least alleviate some of the pressures of preparing your first business plan.
### Chart 1.2 Quick reference guide to business planning techniques

<table>
<thead>
<tr>
<th><strong>Technique</strong></th>
<th><strong>Application</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>Obtaining financial and operational data from competitors against which a business can measure its own performance. Helps to set targets and focus improvements on areas where this is most needed. Chapter 7, page 63</td>
</tr>
<tr>
<td>Brand perception map</td>
<td>Shows how a brand appeals to a differentiated set of customer needs. If customer segmentation is needs based, the product should score highly against the targeted needs. Relevant for developing the marketing strategy. Chapter 11, page 105</td>
</tr>
<tr>
<td>Business/industry attractiveness screen</td>
<td>A matrix commonly known as the GE Business/Industry Attractiveness Screen. It is used to evaluate the position of a business or business unit. Chapter 8, page 81</td>
</tr>
<tr>
<td>Core competencies</td>
<td>The functions or practices that are central to a business. The activity (or activities) that the business believes it does best. If a business’s core activity is closely aligned with its core competencies it is better placed to achieve competitive advantage. Chapter 6, page 44</td>
</tr>
<tr>
<td>Curve fitting</td>
<td>A form of extrapolation used for market forecasting. It is based on the observation that technological and market developments usually follow an s-shaped pattern. Chapter 12, page 122</td>
</tr>
<tr>
<td>Diffusion of innovation</td>
<td>A model that describes how a new product or service is adopted by a population, most commonly known as the Bass model. Used for market forecasting. Chapter 12, page 125</td>
</tr>
<tr>
<td>Directional policy matrix</td>
<td>A technique derived from the growth-share matrix, but using a much wider range of factors to analyse a portfolio of products in terms of business sector prospects and business position. Chapter 8, page 74</td>
</tr>
<tr>
<td>Discounted cash flow</td>
<td>One of the most fundamental techniques for evaluating a business opportunity. It examines the amount, timing and risk associated with the cash flows of the business. An essential technique for evaluating strategic options. Chapter 18, page 210</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Economies of scale may occur when production volumes increase. Important in the context of cost leadership strategies and forecasting. Chapter 8, page 65</td>
</tr>
<tr>
<td>Experience curve</td>
<td>The relationship between cumulative production volume and unit costs. Unit costs can decline in a predictable manner as the cumulative quantity produced over time increases. Useful for strategic planning and forecasting. Chapter 8, page 65, and Chapter 12, page 126</td>
</tr>
<tr>
<td>Financial forecasting</td>
<td>All business plans require financial projections for the business’s profit and loss, balance sheet and, most crucially, its cash flow. Financial forecasting often involves preparing a spreadsheet model. Chapter 14, page 144</td>
</tr>
<tr>
<td>Topic</td>
<td>Description</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Generic strategies</strong></td>
<td>Porter’s three generic strategies, cost leadership, differentiation and focus. The focus strategy has two variants: cost focus and differentiation focus. Used to generate strategic options.</td>
</tr>
<tr>
<td><strong>Growth-share matrix</strong></td>
<td>Used to analyse a portfolio of products using market growth and market share. It has strategic implications, particularly for resource allocation in a multiple product business.</td>
</tr>
<tr>
<td><strong>Industry life cycle</strong></td>
<td>A concept that describes the different stages of an industry’s maturity.</td>
</tr>
<tr>
<td><strong>Key differentiators and unique selling points</strong></td>
<td>Unique attributes that differentiate a business from its rivals. A business should leverage the key differentiators in order to achieve competitive advantage.</td>
</tr>
<tr>
<td><strong>Key success factor ranking</strong></td>
<td>A method of analysing competitors against your own business, applicable to the analysis of the firm as part of strategic planning.</td>
</tr>
<tr>
<td><strong>Market research</strong></td>
<td>Collecting and analysing data from prospective customers to establish the likely demand for a new product or service or to understand better customers’ preferences for existing products.</td>
</tr>
<tr>
<td><strong>Market segmentation</strong></td>
<td>A market segment is defined as a sufficiently large group of buyers with a differentiated set of needs and preferences that can be targeted with a differentiated marketing mix. To be of value, the benefits of segmentation must outweigh the costs. Useful for developing the marketing strategy and for forecasting.</td>
</tr>
<tr>
<td><strong>Marketing mix</strong></td>
<td>A tool to position products in the target market. The marketing mix is defined by the four Ps: product, price, promotion, place. All elements of the marketing mix together constitute the “offer”. Relevant for developing the marketing plan.</td>
</tr>
<tr>
<td><strong>PEST analysis</strong></td>
<td>An extremely useful technique for examining the environment in which the business operates. PEST is an acronym for the Political, Economic, Social and Technological influences on the business.</td>
</tr>
<tr>
<td><strong>Porter’s five forces model</strong></td>
<td>Provides an analytical framework for the analysis of the structural factors that shape competition within an industry and from which a number of generic competitive strategies can be derived.</td>
</tr>
</tbody>
</table>
### Portfolio analysis
Uses techniques such as the growth-share matrix to analyse a portfolio of products or strategic business units to make decisions about their strategic direction and resource allocation.
Chapter 8, page 65

### Price elasticity of demand
Measures how sensitive changes in demand for a product are to changes in the unit price of the product. Used in market forecasting.
Chapter 12, page 127

### Product life cycle
A concept that describes the different stages of a product from introduction through growth to maturity and decline. Has applications in market forecasting as well as in strategic and tactical planning.
Chapter 8, page 66, and Chapter 12, page 124

### Product positioning map
A technique to map the position of a firm’s products and those of its rivals to the needs of the customer. Relevant for marketing strategy and planning.
Chapter 11, page 103

### Project management
Techniques for managing efficiently the process of business planning. For a lone entrepreneur, issues of co-ordination do not arise and there is less need for detailed project management. In larger organisations, where the business planning process involves a large number of people across a range of different departments, effective project management of the process becomes essential.
Chapter 3, page 23

### Ratio analysis
Certain financial ratios can be calculated from the projected financial statements that allow the liquidity, profitability and efficiency of the business to be evaluated. Ratio analysis can be applied to evaluate strategic options as well as for validating the realism of financial forecasts.
Chapter 17, page 188

### Regression analysis
A statistical technique that examines the relationship between dependent variables, such as sales, and independent variables, such as price and commission. This methodology can be used for market forecasting as well as tactical decision-making.
Chapter 12, page 119

### Resource audit
Identification of operational, human, organisational and financial resources coupled with an analysis of efficiency and effectiveness of their utilisation. A business that makes optimum use of its resources may gain competitive advantage.
Chapter 6, page 49

### Risk analysis
Faced with an uncertain future, a business must examine the risks that it might face and the tactics that can be used to mitigate them.
Chapter 20, page 238

### Scenario planning
A powerful technique for developing different views of the possible future environments facing the business. It is often used in conjunction with PEST analysis and is useful for forecasting in uncertain markets.
Chapter 5, page 36
<table>
<thead>
<tr>
<th><strong>Quick reference guide to business planning techniques</strong></th>
</tr>
</thead>
</table>
| **Strategic business unit (SBU)** | A division or department of a corporation that is sufficiently self-contained and could operate independently from the whole business. In larger organisations, strategic planning can be carried out at the level of the SBU. The concept is applicable to portfolio strategies.  
Chapter 4, page 25 |
| **SWOT analysis** | A simple and effective technique that analyses a business’s Strengths, Weaknesses, Opportunities and Threats.  
Chapter 9, page 85 |
| **Time series analysis** | A statistical analysis technique that examines how observed sequences of observations evolve and develop over time. Often used in market forecasting.  
Chapter 12, page 114 |
| **Value add analysis** | Identifies how much value is created at different stages of the value chain. This enables a firm to focus improvements or strategic change on areas where more value can be added.  
Chapter 6, page 46 |
| **Value chain analysis** | Explores the configuration and linkage of different activities that form a chain from original raw materials through processing, manufacturing, packaging, distribution, retailing and customer care to the end customer. It is used to optimise the allocation of resources.  
Chapter 6, page 46 |
| **Value system** | Extends the value chain beyond the boundaries of the business and recognises that a business is dependent on relationships with suppliers and customers. It can be used to make decisions about backward or forward integration to help position a business at the most valuable parts of the value system.  
Chapter 6, page 49 |
| **Vision, mission and objectives** | Vision explains what the business intends to do. Mission explains how this vision is to be turned into reality. Objectives provide a yardstick against which success can be measured.  
Chapter 4, page 27 |
| **VRIO analysis** | A technique for analysing whether a resource is Valuable, Rare and Imitable and whether the Organisation is taking advantage of the resource.  
Chapter 6, page 43 |
2 The business plan

Business decisions should always be made on the strength of the underlying business idea, but it is much easier to come to a decision if the idea is communicated simply and clearly in a well-written business plan. The discipline required to articulate the business's strategy, tactics and operations in a written document ensures rigorous analysis and greater clarity of thought. If the strategy of the business cannot be clearly and convincingly described on paper, the chances of its working in practice are slim.

No two businesses are ever identical and no two business plans are ever alike, but good business plans always contain a number of common themes. They “tell a story” and explain how the business will achieve its objectives in a coherent, consistent and cohesive manner. The “story” will be focused on the needs of the customer. The plan will identify the market, its growth prospects, the target customers and the main competitors. It must be based upon a credible set of assumptions and should identify the assumptions to which the success of the business is most sensitive. It should also identify the risks facing the business, the potential downsides and the actions that will be taken to mitigate the risks. As the blueprint for the business, it should describe what makes the business different from its competitors: its source of competitive advantage and how it will be sustained in the longer term. It should describe the experience and track record of the management team, and, within larger organisations, the plan should have the support of those in the different functions who will be involved in implementing it. Most importantly, it should identify the funding being sought from potential investors, how the funding will be used and the investors’ expected return.

A good business plan checklist:
- tells a coherent, consistent and cohesive, customer focused story;
- clearly defines the market, its prospects, the customers, suppliers and competitors;
- contains credible business planning assumptions and forecasts;
- describes how the business will achieve sustainable competitive advantage;
- identifies the assumptions to which the business is most sensitive, the potential risks and any mitigating actions;
- is supported by those that must implement it;
- contains a description of the individuals involved in managing the business;
- identifies the funding requirement for the business, the use of the funds and investors’ expected returns.

What are they for?
Before starting to write a business plan it is important to appreciate the reason for preparing one. The focus and level of detail will vary depending on the decision the business plan has been designed to support.

Securing finance
Most business plans are prepared in order to secure some form of funding. In the case of
new business ideas, banks, venture capitalists, private equity and other providers of capital place great emphasis on the business plan, as this is often all they have to rely upon. The business plan will generally focus on the growth prospects for the market and the sources of sustainable competitive advantage for the business. The emphasis will be more on strategic and tactical considerations, as well as the financial projections and investor returns, rather than on operational detail.

**Operational management and budgeting**

The business plan can also provide the basis for the creation of business processes, job descriptions and operational budgets. It can also provide the basis for monitoring and analysing performance. In this instance, the business plan will say little about strategic and tactical considerations and will focus on technical details, process descriptions and product specifications.

**Other uses**

To get approval or finance for a project and to help manage it are the common reasons for producing a business plan. However, the process of preparing one can be used as a mechanism for reconciling conflicting views and building consensus, as well as communicating the vision, mission and goals of larger companies.

Business plans may also be prepared as part of a tender process for the right to operate assets or services that are allocated by a government body. The tender process is sometimes referred to as a “beauty parade” as the companies must prepare a business plan that displays their technical, operational and business skills in the best light. A beauty parade might be used for the allocation of radio spectrum, or the right to administer a national lottery or operate rail services.

**Who are they for?**

In the same way that no two businesses are alike, no two readers will be looking for exactly the same issues or messages in the business plan. Indeed, the different needs of different audiences can be such that it may be necessary to create more than one version of the same plan.

**Bankers and others providing debt financing**

When lenders review a business plan they are concerned with three main issues:

- If the loan is only one element of the financing necessary to fund the business plan fully, are the other sources of finance in place and secure?
- Will sufficient cash be generated by the business to meet interest payments on the loan and to repay the principal?
- Are there physical assets, or other forms of collateral, within the business against which a loan can be secured so that, were the business to fail, the lender would be able to get all or some of its money back?
Bankers will look closely at the financial forecasts contained within the business and the underlying assumptions on which those forecasts rely. They will wish to satisfy themselves that they are credible. As part of their financial analysis of the business plan they will look closely at the balance sheet to assess its strength and the liquidity of the business. They will examine the gearing, the ratio of debt to equity within the business, to ensure that the business does not become too heavily geared towards debt, which will increase the possibility of default on the loan. They may also examine ratios such as interest cover which is described in more detail in Chapter 17. If the loan agreement contains financial covenants, certain levels of performance the business must meet, then the financial forecast must include the measures associated with any covenants and demonstrate sufficient headroom so that the lenders can be confident the covenants will not be breached.

**Providers of equity funding**

There are many organisations and individuals who might provide equity funding to support a business plan. Family and friends are often the first port of call for smaller business ventures. The providers of more substantial levels of equity or share capital for new business ventures include venture capitalists and private equity houses, who have a shorter investment time horizon compared with, say, institutional investors. Pension funds and other institutional investors may already be investors in an existing business and will be among the first to be approached when additional capital is required. Another source of equity funding may be a business considering some form of merger or partnership, which it may achieve through an equity injection into the business. The appropriate sources of funding for different business plans are discussed in detail in Chapter 19. As providers of equity finance or share capital are last in the line of creditors to be paid when a firm goes bust, their concerns are different from those of bankers:

- What are the funds to be used for?
- Is the business proposition a strong one and is there an identifiable source of sustainable competitive advantage that will allow the business to outperform the market in the long term?
- What is the expected return on equity (ROE – see Chapter 17)?
- How experienced and capable is the management team?
- Is the business plan fully funded and what are the risks that more equity capital will be needed, leading to a dilution of the equity stakes of those who invest first?
- What are the growth prospects for the business and the potential for capital appreciation and/or a strong dividend stream?
- What returns have been achieved on any previous equity injections into the business?
- How will the providers of equity be able to exit from the business and realise the gain on their investment?

The providers of equity will look closely at the credibility of the financial statements and the level of gearing (the ratio of debt to equity within the balance sheet). The more highly geared the business, the greater is the level of financial risk faced by the equity providers. These themes are explored in more detail in Chapter 20.
The management team of a large, existing business

It is usual for business units in large organisations to prepare business plans in order to gain approval (and resources) for new business initiatives from senior management and the board. The issues that they will wish to see addressed vary from organisation to organisation and according to the strategic, tactical or financial challenges facing the business at the time. However, it is possible to say that they will wish to be presented with a business plan that is consistent with their stated objectives, strategic imperatives and financial constraints. The following list gives an indication of the questions they are likely to ask:

- Is the plan consistent and supportive of the business’s overall strategy?
- What is the likely impact on the overall financial performance of the business in terms of revenue growth, profitability and gearing?
- Will adopting the business plan require the raising of additional financing?
- Does the business plan reinforce the position of the business’s brand?
- Is the business plan feasible and within the scope of the organisation’s capabilities?
- How will the press and the financial markets react to the adoption of the business plan?
- Will the adoption of this business plan have an impact on other areas of the business?
- What alternative opportunities could be pursued?

The list of potential questions is endless and those responsible for writing the business plan need to anticipate and address the issues that will be of most concern to those who make the final decision on whether to go ahead with the project or not.

A BUSINESS PLAN TEMPLATE

The style, length and content of a business plan will depend on the business decision or activities the plan is designed to support and the audience for whom the plan is to be prepared. There are no hard and fast rules as to length, but a business plan should be as short as possible while meeting all the needs of those who will read it. During the heyday of the dotcom boom, business plans were occasionally presented as “elevator pitches”: those with a business idea had as long as an elevator journey to convey the main thrust of their business plan. These days, as in pre-dotcom days, business plans are expected to be more substantial. A business plan for a small and straightforward business may range from 20 to 40 pages, whereas a “beauty-parade” document may run to over 500 pages once all the technical appendices have been included. In large organisations the format for business plans may be predefined, and in the case of tenders or beauty parades a structure may be provided as part of the “Request for tender” document.

On the next page is a template for a generic business plan. The headings used have been expanded to provide more insight into the contents of each section. In the final business plan more succinct section headings would be used. It is unlikely that all the sections contained within the template will be relevant, but it may be necessary to include additional sections or subsections to reflect the peculiarities of a specific business.
A business plan template

Executive summary
Vision, mission, objectives
Current state of the business
Products and services
Strategy and sources of sustainable competitive advantage
Summary financial forecasts
Money required, timing and deal on offer

Basic business information
Title
Contents
Contact information
Document control
Professional advisers
Definitions
Legal structure and corporate data

Current business situation
Definition of the current business and its market
Corporate history, major events and past financial performance
Current business and market position
Core competencies
Current business organisation and outline business infrastructure

Strategic analysis
Political, economic, social and technological analysis and impacts
Key differentiators and unique selling points
VRIO analysis
Core competencies
Configuration of resources
Value add analysis
Value chain analysis
Value system
Resource audit
Operations resources
Human resources
Organisational resources
Financial resources
Industry life cycle
Industry structure
Competitor analysis
SWOT analysis

Strategic plan
Vision, mission and objectives
Sources of sustainable competitive advantage
Competitive position
Market positioning

Marketing plan
Market segments, size and growth
Description of customers and customer needs
Target market segment
Product positioning and value proposition
Marketing mix
Description of products and services
Pricing and discounting
Advertising and promotional plans
Channel and distribution strategy
Guarantees and warranties
After-sales service and customer care
Comparison with competition
Performance and economics
Marketing forecasts

Operations/production
Physical location
Make or buy considerations
The production process
Facilities, equipment and machinery
Scalability of operations
Engineering and design support
Quality control plans
Staffing requirements
Sources of supply of key materials

Research and development
Objectives
Organisation
Plans
Resources

Management and organisation
Organisation chart
Top management
Management’s ability to deliver the plan
Corporate governance and shareholder control
Staffing
Recruitment
Training
Labour relations
Office space and amenities
Employment and related costs

Forecasts and financial data
Summary of performance ratios
Sales forecast
Assumptions underpinning financial forecasts
Profit and loss account (income statement)
Balance sheet
Cash flow statement
Evaluation criteria and valuation
Discounted cash flow
Internal rate of return
Payback
Break-even
Return on investment
Benchmarks
Sensitivity analysis

Financing
Summary of operations prior to financing
Current shareholder loans outstanding
Use of proceeds
The deal on offer
Anticipated gearing and interest cover
Expected returns
Exit routes for investors

Risk analysis
Risk overview
Limiting factors
Critical success factors
Alternative scenarios and strategic responses
Specific risks and risk-reduction strategies

Business controls
Information technology
Financial
Sales and marketing
Operations
Other controls

Appendices
Glossary of terms
Details of market research
Consultants’ reports
Product specifications
Marketing collateral
Orders in hand
Organisation charts
Curricula vitae
Detailed financial forecasts
Technical data
Details of patents, copyright