Initial situation

Welcome to another learning video from the Enactus Academy. Today we're talking about the basics of business and financial planning.

Before we take a closer look, however, we would like to briefly explain to you what "sustainable entrepreneurship" actually means: In contrast to charitable organizations that use donations to provide aid on site, we want to develop business models in which people themselves become active, generate sustainable income, and thus create jobs in the long term that are not dependent on donations.

For example: The production of cars with combustion engines is a business model that addresses a need and creates jobs. However, there are also many negative impacts on people, society, and the environment, mainly because of the use of fossil fuels. Although the business model is profitable for the company, it is not sustainable.

Our *business models* are entrepreneurial, but do not focus on profit, instead prioritizing a positive impact for people, society, and the environment.

Entrepreneurial activity also means making decisions. Decisions are directed towards the future and must therefore be well planned. In the entrepreneurial environment, planning usually includes a *business plan* and a *financial plan*.

We will now briefly explain the rather abstract terms business model, business plan and financial plan and then show approaches to develop and implement them.

- **The business model** shows how an organization creates added value for a target group and secures sustainable income. The organization should be able to self-finance in the long term, (i.e., it must not be dependent on donations or subsidies in the long term).
- **The business plan** presents the business model and its competitive advantage and shows which goals are to be achieved by when. It includes the planning of resources and activities and provides an overview of the framework conditions.
- **The financial plan** is the core element of the business plan and shows that the business model can be operated economically. In the financial plan, the planned activities and the resources required for them are mapped with a focus on their costs.

How do you develop a business model and how do you create a business plan and a financial plan? What functions do they have?

Business model

The business model must clearly show which service or product will generate a long-term profit, (i.e., revenues must be at least as high as, or higher than, expenses). In order to generate revenue, it is necessary to identify the need and a corresponding willingness to pay in a target group. With a "Needs-Assessment" and the so-called "Problem Solution Fit," you can create the basis for a business model. You can find much more information about this in the video "Innovation."

Business plan

In a business plan, the various dimensions of a business model are presented in detail and in a structured manner, such as:

- The business idea
- The founders
- The product/service
- Market and competitive environment
- Strategic partners
- Marketing concept
- Organization and team
- Opportunities and risks
- Strengths and weaknesses
- Legal, social, technological, and political framework
- Legal form
- Financial plan

You should make sure that the dimensions are aligned and that you identify the critical success factors.

There are tools and techniques that can help you to systematically develop the business model and the business plan, such as the Business Model Canvas: In this model, relevant dimensions are systematically presented and scrutinized.

Financial plan

The financial plan shows which revenues and expenses are planned for a specific period. In the case of revenues, these are, for example, sales and subsidies. For the expenses, the project-related costs such as production, sales, and personnel. The financial plan should show you at an early stage when you need financial resources or have surpluses available, which you can invest, for example.

At the beginning of a project, it is sufficient if the financial plan covers a period of six months, for example. Depending on how the project develops, the planning must then also cover several years: It must be planned over several periods at the latest when long-term decisions are pending, such as investments.

For the financial plan, you need information and figures from all areas of the project in which revenues are generated and costs are incurred, such as marketing, sales, production, development. The financial plan must ensure that all figures used are plausible, comprehensible, and coordinated. An investor or capital provider will look at this plan very closely and scrutinize it. References or a precise derivation of figures are therefore very helpful.

Now it gets a little more complicated: professional financial plans include an income statement and a cash flow statement. But what exactly is the difference? We would like to explain this to you briefly and in a highly simplified way:

In a cash flow statement, pure cash flows are shown, i.e., cash inflows (cash-in) and cash outflows (cash-out). If, for example, you book a turnover of 20,000 euros in 2022, this is cash-in. If you buy a machine in 2022 and pay 10,000 euros for it, then that is cash-out. The difference, i.e., the balance of cash-in and cash-out, is the cash flow. This can be positive or negative. With a negative cash flow, you need financial means; with a positive cash flow you have financial means, which you can then use.

The income statement is used to allocate these cash flows to a fixed period. This is, for example, the fiscal year. With this allocation, you can determine whether you are operating profitably. Referring to our example: The 20.000,-Euro sales count to the fiscal year 2022. With the machine, it is a little different: The machine has a life span of more than one year. So we distribute the 10,0000 euros over the lifetime of the machine. If the machine has a life of 5 years, then 2,000 euros are allocated to each year. This amount is also called "depreciation".

So now you know roughly what a business and financial plan is.

Besides convincing banks, lenders, sponsors or investors, business and financial plan have another important function:

As part of your planning, you have set goals and defined milestones. You should regularly monitor the achievement of these goals to ensure that you do not lose focus. In order to carry out focused monitoring, it is advisable to define so-called key performance indicators (KPIs). These are the relevant key figures that have a high influence on the success of your project.

Hint: Since the expenses at the beginning of a project are usually higher than the income, there is a corresponding financial need. In a project pitch, you can point out exactly this and try to acquire investors / sponsors.

Summary: Solid planning is the basis for every successful project and start up. Planning is used for requirements planning, the targeted and efficient use of resources and is a control instrument for the progress of the project.

If you find that you don't have the necessary experience and skills on your team, you can build them up or bring them to your team. At Enactus, you are not alone and can ask business advisors or alumni. It is also possible to recruit students from business courses and higher semesters. They are sure to know a lot about financial planning.

Last but not least, you can easily familiarize yourself with the topic, There are many templates and assistance online for the preparation of financial plans. The knowledge will also help you beyond Enactus. :)