

CHAPTER 8

The Global Business Plan

What is a global business plan? What is the purpose of writing one? Are there some common aspects of a global business plan that are universal regardless of the innovation? Who is the reader of this plan?

Scenario: Ryanair

Ryanair was founded in 1985 by Christopher Ryan, Liam Lonergan (owner of Irish travel agent Club Travel), and Irish businessman Tony Ryan (after whom the company is named), founder of Guinness Peat Aviation. It started with a share capital of £1 and 25 employees. In July 1985, Ryanair launched its first daily flights on a 15-seat Bandeirante aircraft from Waterford, Ireland, to London's Gatwick Airport. Ryanair's first cabin crew recruits had to be less than 5 feet 2 inches tall to be able to work in the aircraft's small cabin. In 1986, Ryanair obtained permission from the regulatory authorities to challenge the high fare duopoly of British Airways and Aer Lingus on the Dublin-London route, and in May of that year, their first flights began from Dublin to London Luton Airport. The launch fare of a £99 return was less than half the price of the lowest return fare of £209 charged by British Airways and Aer Lingus. Both British Airways and Aer Lingus cut their high prices in response to Ryanair's. This was the start of the first fare war in Europe. During their first full year of operation, Ryanair had two routes in operation and carried 82,000 passengers.

In 1990, following 3 years of rapid growth in aircraft, routes, and intense price competition with Aer Lingus and British Airways, Ryanair accumulated £20m in losses and went through a major restructuring in 1991. Michael O'Leary was assigned the job of making the airline profitable. He realized that the key to low fares was to implement quick turn-around times for aircraft with "no frills" and no business class, as well as operating a single model of aircraft. Copying the Southwest Airlines low fares model, Ryanair was relaunched under new management as Europe's first low fare airline. In 1992, Ryanair continued restructuring by reducing routes and fleet. Despite these reductions, passenger numbers grew by over 45%. In 1993, Ryanair's growth continued, and for the first time, they carried over 1 million passengers in 1 year. They overtook British Airways and Aer Lingus in 1995, becoming the largest passenger airline on the Dublin-London route. They also became the largest Irish airline on every route they operated to and from Dublin.

On May 29, 1997, Ryanair became a public company with a successful flotation on the Dublin and NASDAQ (New York) Stock Exchanges. The shares were more than 20 times oversubscribed, and the share price surged from a flotation price of €11 to close at €25.5 on their first day of trading. In January 2000, Ryanair launched their website and within 3 months became Europe's largest booking website with 50,000 bookings per week. To accommodate their growth in 2002, Ryanair announced the largest aircraft order by an Irish airline by increasing their aircraft order with Boeing from 45 to 125 firm aircraft with an option to buy 125 more. The value of this order exceeded €6 billion. Ryanair became number one in Europe in customer service, surpassing all other European airlines for punctuality, fewer cancellations, and least lost bags.

Ryanair's 2003 acquisition of Buzz, the Stansted-based airline, from KLM gave them immediate access to 11 new French regional airports and made them the largest airline operating at London Stansted Airport. Google named Ryanair the most popular airline on the web in 2003 and www.ryanair.com continues to be the most searched travel website in Europe. To celebrate their 20th birthday, they offered 100,000 seats at 99 pence, 100 times less than their 1985 fare! In 2006, Ryanair was the only airline to guarantee "no fuel surcharges ever" making them the world's first airline to carry more than 4 million international passengers in 1 month on 436 low fare routes across 24 countries over the summer of that year. There was a 20% growth in passenger numbers in 2007, resulting in a total of 51 million passengers. In December of 2008, they launched their first charity calendar, which featured their cabin crew, and raised €75,000 for the children's charity Angels Quest in Ireland. The calendar has become part of Ryanair's annual contribution to a designated charity each year. Passenger growth continued from 2008 to 2010, resulting in an increase in employment numbers and aircraft. Despite higher oil prices, the global recession, and volcanic ash disruptions in the spring of 2010, Ryanair's profits rose 26% to over €401 million.

Ryanair has come a long way since it started in 1985 with a 15-seat aircraft and a staff of 25. They now operate a fleet of 283 new Boeing 737-800 aircraft on more than 1,500 flights per day from 50 bases across 28 countries connecting 165 destinations. Ryanair currently has a team of more than 8,500 people and expects to carry 75 million passengers in 2012. To date, they have a 100% safety record: No aircraft has ever been involved in incidents resulting in death or serious injury.

Ryanair was the first independent airline in Ireland and the first budget airline in Europe. It is one of the oldest and most successful low-cost airlines in Europe. Its innovativeness and willingness to take risks has transformed the Irish airline market where other airlines like Avair failed to compete with the more powerful national carrier Aer Lingus. Ryanair is a clear example of an organization that has faced many different environments since its foundation, and like any other airline, it has been challenged by the current economic climate. However, what makes Ryanair distinctive is its commitment and perseverance to successfully manage and overcome these challenges and be the innovative organization it is today. At a time when airline companies worldwide are in difficulty, Ryanair continues to expand, announcing the opening of its 50th base and expansion into Paphos (the third largest city in Cyprus) in May 2012 with 14 routes that will initially deliver over 600,000 passengers annually and sustain over 600 jobs with over 80 weekly flights. Ryanair will invest over \$140 million at Paphos Airport.

Ryanair clearly leads the way in how they manage innovation and entrepreneurship in diverse economic climates through their strategies and philosophy toward achieving their goals. This is best accomplished by Ryanair as well as all existing and start-up companies through developing a global business plan.

SOURCE: Adapted from www.ryanair.com

What Is a Global Business Plan?

A global business plan is a document prepared by an inventor or entrepreneur that describes all the aspects of making the innovation into a new venture. Just like the Ryanair innovation, each innovative idea needs to have a road map or game plan to move forward answering these basic questions: Where am I now? What do I want to become? And, how do I get there?

In establishing the direction of the innovation, the business plan takes into account such external factors as the economy, competition, trends, and changes in technology. It establishes short-term and long-term objectives and plans for the next 5 years.

Purpose of a Business Plan

A business plan is written for several purposes—the most frequent one being to obtain financing for the innovation at some stage in its development. The earlier in development the innovation is, the more difficult it is to obtain the financial resources needed. Once the product/service innovation has been fully developed and even better when it has some revenue funding is somewhat easier to obtain. Both of these cases cause the valuation of the innovation to increase, allowing less equity to be exchanged for the funding. Regardless of the development stage of the innovation, the amount of capital needed, or whether the type of the capital is in the form of debt, equity, or a grant, a business plan allows the provider of the money to be able to access the innovation and its potential success as a basis of a new venture or a license on the market.

While financing is the major purpose for the creation of a business plan, a business plan also indicates the resources needed in addition to financial ones. By laying out the existing resources of the scientists and others involved in the innovation, resource needs are identified. These may include such things as technology, scientific equipment, outsourcing entities, distribution channels, scientific and management skills and experience, and sources of supply. Not only should the needed resources be identified but approaches should be developed in the business plan for their obtainment.

The third reason for a business plan—establishing the direction for the future development and launch of the innovation—is important enough that all innovations should have a basic business plan. Not having a direction established can cost much more to develop the innovation to the extent that the innovation may never be developed and commercialized. Having the direction established also helps provide focus for the creative individuals developing the innovation. Creative people find many things interesting and can easily have their attention diverted. Venture capitalists, entrepreneurs, and successful inventors all agree that focus is one of the most important aspects for success.

A business plan also provides a way to evaluate the results of efforts on a regular basis. These periodic evaluations allow the development to stay on track and generate reports for stakeholders such as fund providers. The information also indicates the deviations occurring, allowing the deployment of “management by deviation” or successfully moving the innovation development forward by seeing what needs to be done to correct the problem and get back on the plan or, in some cases, change the plan itself.

The final purpose of a business plan is to provide a document for obtaining the needed resources, outsourcing partners, or another partner. It is much easier for some company or individual to become involved with an innovation when the direction and end result are clearly defined.

Aspects of a Business Plan

Regardless of its purpose, a business plan has several aspects that are necessary for any innovation. As indicated in Table 8.1, a business plan typically has three sections. Section 1 introduces the plan, Section 2 is the main body of the plan, and Section 3 supplies support documents for or expands on various items mentioned in Section 2. Each section will be discussed in turn.

Table 8.1 Aspects of a Business Plan

Section 1: Title Page Table of Contents Executive Summary Section 2:	
1.0 Description of Business <ul style="list-style-type: none"> • Description of the Venture • Product(s) and/or Service(s) • Type of Industry • Mission Statement • Business Model 	2.0 Description of Industry <ul style="list-style-type: none"> • Future Outlook and Trends • Analysis of Competitors • Industry and Market Forecasts
3.0 Technology Plan <ul style="list-style-type: none"> • Description of Technology • Technology Comparison • Commercialization Requirements 	4.0 Marketing Plan <ul style="list-style-type: none"> • Market Segment • Pricing • Distribution • Promotion • Product or Service • Sales for First 3 Years
5.0 Financial Plan <ul style="list-style-type: none"> • Pro Forma Income Statement • Pro Forma Cash Flow Statements • Pro Forma Balance Sheet • Break-even Analysis • Sources and Applications of Funds Statement 	6.0 Production Plan <ul style="list-style-type: none"> • Manufacturing Process (amount subcontracted) • Physical Plant • Machinery and Equipment • Suppliers of Raw Materials • Outsourcing Aspects
7.0 Organizational Plan <ul style="list-style-type: none"> • Form of Ownership • Identification of Partners and/or Principal Shareholders • Authority of Principals • Management Team Background • Roles and Responsibilities of Members of Organization • Organizational Structure 	8.0 Operational Plan <ul style="list-style-type: none"> • Description of Company's Operation • Flow of Orders and Goods 9.0 Summary
Section 3: Appendices (exhibits) A – Résumés of Principals B – Market Statistics C – Market Research Data D – Competitive Brochures E – Competitive Price Lists F – Leases and Contracts G – Supplier Price Lists	

Section 1

Section 1 has three major areas: (1) the title page, (2) table of contents, and (3) executive summary. The title page labels the innovation and all major participants involved and their title. Often a three- to four-sentence summary of the purpose of the business plan follows. The title page should conclude with the following: “This is confidential business plan ____.” The line should be filled in with a low number between one and five and then a record kept of the person receiving that particular business plan and the date. This allows follow up to occur in 30-, 60-, and 90-day intervals if no response is received.

The table of contents allows the reader to quickly locate any particular information desired. All pages should be sequentially numbered as should each table, figure, or other document appearing in the appendices (exhibit) in Section 3.

The third part of Section 1 is the executive summary. This important two-page document summarizes the main aspects of the business plan determined by the reader, purpose, and stage of development of the innovation. For example, if the innovation is almost developed and the purpose of the business plan is to obtain financing for the reader to launch the innovation, then the executive summary would emphasize (1) the management team and entrepreneurs; (2) the nature of the innovation, its competitive position, and unique differences and the size and nature of the market; and (3) the revenues and profits expected over the next 5 years. Five years is the usual time frame as that is the input required by most investors and the software program typically used by private investor groups frequently called angel groups.

Section 2

The main body of the business plan appears in Section 2 and contains seven, eight, or nine parts depending mostly on the type of innovation. The parts that may or may not be represented are the technology plan and the production plan. While there are several different ways a business plan can be laid out, the one indicated in Table 8.1 has been well received when used for a variety of purposes by the author.

The first part of Section 2 is the description of the business. This part describes in as much detail as possible the type of business being created and all aspects of the innovation and the resulting product(s)/service(s). A discussion of the industry of the innovation and its general characteristics position the innovation appropriately. This discussion is followed by the mission statement of the venture. A mission statement describes the overall main purpose and direction of the venture. It indicates the values and what is important. The core of the mission statements of several companies such as 3M, American Express, Ford, IBM, Marriott, Nordstrom, Procter & Gamble (P&G), Walmart, and Walt Disney are indicated in Table 8.2. Many common core features occur in these mission statements, including product/service excellence, honesty and integrity, respect for the individual employee, great customer service, continually innovate, and a customer satisfaction focus.

The final part of the description of the business is the business model. The business model has become an increasingly important part of the business plan as it gives an entire picture of how the venture will operate together with all of its strategies and tactics. It describes the innovation and how it will be produced and marketed. When the business model created actually is new and can change the way business is done in an industry, it is particularly beneficial. For example, Pizza Hut changed the pizza industry business model by introducing delivery. Dell changed the business model of the personal computer industry by building computers to order.

Table 8.2 Core of Mission Statements of Selected U.S. Companies

<i>3M</i>	<ul style="list-style-type: none"> • Innovation; “Thou shalt not kill a new product idea” • Absolute integrity • Respect for individual initiative and personal growth • Tolerance for honest mistakes • Product quality and reliability
<i>American Express</i>	<ul style="list-style-type: none"> • Heroic customer service • Worldwide reliability of services • Encouragement of individual initiative
<i>Ford</i>	<ul style="list-style-type: none"> • People as the source of our strength • Products as the “end result of our efforts” (we care about cars) • Profits as a necessary means and measure for our success • Basic honesty and integrity
<i>General Electric</i>	<ul style="list-style-type: none"> • Improving the quality of life through technology and innovation • Interdependent balance between responsibility to customers, employees, society, and shareholders (no clear hierarchy) • Individual responsibility and opportunity • Honesty and integrity
<i>IBM</i>	<ul style="list-style-type: none"> • Give full consideration to the individual employee • Spend a lot of time making customers happy • Go the last mile to do things right; seek superiority in all we undertake
<i>Marriott</i>	<ul style="list-style-type: none"> • Friendly service and excellent value (customers are guests); “make people away from home feel that they’re among friends and really wanted” • People are number 1—treat them well, expect a lot, and the rest will follow • Work hard, yet keep it fun • Continual self-improvement • Overcoming adversity to build character
<i>Nordstrom</i>	<ul style="list-style-type: none"> • Service to the customer above all else • Hard work and productivity • Continuous improvement, never being satisfied • Excellence in reputation, being part of something special
<i>Procter & Gamble</i>	<ul style="list-style-type: none"> • Product excellence • Continuous self-improvement • Honesty and fairness • Respect and concern for the individual

<i>Walmart</i>	<ul style="list-style-type: none"> • “We exist to provide to our customers”—to make their lives better via lower prices and greater selection; all else is secondary • Swim upstream, buck conventional wisdom • Be in partnership with employees • Work with passion, commitment, and enthusiasm • Run lean • Pursue ever-higher goals
<i>Walt Disney</i>	<ul style="list-style-type: none"> • No cynicism allowed • Fanatical attention to consistency and detail • Continuous progress via creativity, dreams, and imagination • Fanatical control and preservation of Disney’s “magic” image • “To bring happiness to millions” and to celebrate, nurture, and promulgate “wholesome American values”

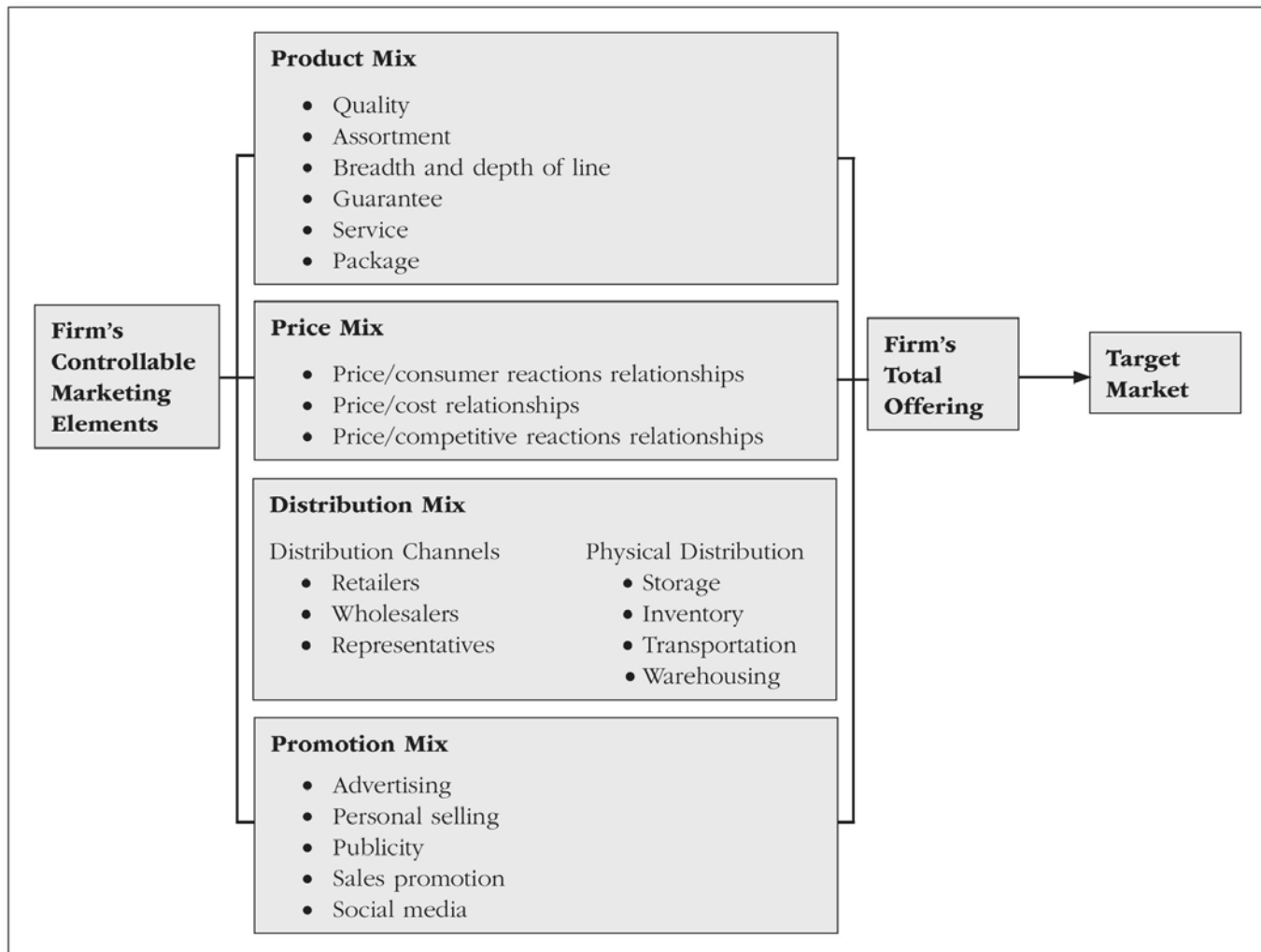
The next area of Section 2 is the description of the industry. The country code of the product in the respective country needs to be identified so that industry statistics can be gathered. This country code is the North American Industry Classification System (NAICS) code in the United States and the Standard Industrial Classification (SIC) in Korea and a different SIC in China. Data on the industry over at least the past 3 years should be collected so that a trend is apparent. The growth rate of the industry should be cited. Also, all competitors of the innovation should be identified and at least the ones closest to the innovation should be thoroughly discussed so that the uniqueness of the innovation is shown. Each successful innovation needs to have at least three to five unique features called unique selling propositions.

The next area of the business plan is the technology plan (see Table 8.1). This section may or may not be in a business plan depending on the technology of the innovation. Where there is a patent granted or pending then it should be discussed in the technology plan. The technology needs to be described in detail, indicating how the technology features of the innovation are better than those presently on the market and can produce benefits for the user. All commercialization requirements should be described by providing an understanding that the innovation can be produced in a systematic sustainable way.

The technology plan is followed by the marketing plan. The marketing plan starts with a discussion of the market, its size, trends, and growth rate. In a business-to-business (B2B) market, this will involve finding the country system number for the market similar to the industry analysis. In a business-to-consumer (B2C) market, this involves demographic data on the market. The typical demographic variables used are age, income, and gender.

Following the discussion of the market are the four major elements of the marketing plan: (1) price, (2) distribution, (3) promotion, and (4) product or service. Parts of each of these are indicated in Table 8.3. A detailed marketing plan needs to be developed for the innovation so that sales and revenues occur. The packaging, where applicable, and use of social media can be extremely important. Of all the areas of the marketing plan, price is probably the most difficult one. Not only do the costs of the innovation need to be carefully determined but competitive prices and customers’ view of price need to be examined as well. In many cases, the innovation is priced too low. The marketing plan ends in first-year sales, which logically flows into the next area of the business plan: the financial plan.

Table 8.3 The Marketing Plan



The financial plan—the fifth area of Section 2 of the business plan—has the 12 financial statements indicated in Table 8.4. The one different statement from the financial statements regularly seen in an operational business is the sources and uses of funds statements where the uses of the capital and the sources for this capital are indicated. Of course since the venture does not have actual numbers, all the income and cash flow statements as well as the balance sheets are pro forma or forecasted. In a start-up venture, the most important financial statements are the 5-year pro forma income statement summary and the 5-year pro forma cash flow statement summary.

Table 8.4 Financial Statements

- Sources and Uses of Funds Statement
- Pro forma Income Statement – 5 year summary
- Pro forma Income Statement – first year by month
- Pro forma Income Statement – second year by quarter
- Pro forma Income Statement – third year by quarter
- Pro forma Cash Flow Statement – 5 year summary
- Pro forma Cash Flow Statement – first year by month
- Pro forma Cash Flow Statement – second year by quarter
- Pro forma Cash Flow Statement – third year by quarter

- Pro forma Balance Sheet – Year 1
- Pro forma Balance Sheet – Year 2
- Pro forma Balance Sheet – Year 3

Following the financial plan is the production plan. This may or may not be present depending on the nature of the innovation. Many innovations are service-oriented in nature. The product plan can become an outsourcing or licensing plan if the intention is to either outsource or license the innovation to be produced by someone outside the venture.

The organization plan is the next area of Section 2 of the business plan. This focuses on the organizational form (type of venture) and the organizational structure. Besides proprietorships or partnerships, there are six general types of corporations available to be the organizational form of the venture: (1) LLC, (2) SC, (3) C corporation, (4) professional corporation, (5) nonprofit corporation, and (6) hybrid corporation. Care should be taken to understand the aspects of each type of organizational form in terms of legal liability, taxes, ownership numbers and location, and fringe benefit packages in selecting the best organizational form for the innovation.

The second part of the organization plan is the organizational structure. This usually takes the form of an organizational chart with the duties and responsibilities of each position delineated. Individuals already a part of the organization should be discussed by position showing their skill, education, and background.

The last two parts of Section 2 of the business plan—the operational plan and summary—are short ones. The operational plan presents a description of the operations of the venture, indicating the flow of production, orders, and revenue. A particularly important aspect of this part, when equity investment comes from outside sources, is the exit plan. Equity investors anticipate a return on their investment ideally within 5 to 7 years except for very high technology innovations such as biotechnology. There are three ways for this exit to occur. They can get their investment and return through retained earnings of the venture, sale of the venture to another company, or an initial public offering (becoming a publicly traded company). Most exits occur through the sale of all or part of the venture. Section 2 of the business plan concludes with a summary—a brief, overall summary of the entire plan.

Section 3 of the business plan contains appendices (exhibits) adding to or supporting information in Section 2 (see Table 8.1). Each business plan will contain a résumé of each principal person involved. Also, typical appendices are market statistics, market research data, competitive brochures, competitive price lists, leases and contracts, and supplier price lists.

Implementing the Business Plan

The business plan is designed to guide the development of the innovation into an operationalized new venture. In order for this to occur, controls need to be put in place to monitor the activities. Some of the usual controls include development control, quality control, inventory control, production control, sales control, cash flow control, and distribution control. It is particularly important to focus on the market entry strategy to avoid sales occurring much later than expected and costs exceeding expectations.

Even the most effective business plan actually becomes out of date as soon as it is implemented. A business plan needs to be revised as needed, reflecting the changes in the customers, economy, competition, industry, technology, and results of operation.

Even good business plans can result in failure to successfully commercialize an innovation. Typical causes include lack of market acceptance of the innovation, cost overruns, unrealistic objectives, lack of capital, and lack of management experience and expertise. In spite of this, an innovation has a better

chance of success with a business plan than without one.

Summary

This chapter took an innovation through the process of creating a business plan. By examining the internal and external factors affecting the innovation and its successful commercialization, the business plan provides important guidance in decision making and venture creation. Given the high rate of failure of commercialization, every effort should be made to create a plan that can be executed in a timely, cost effective manner.

Suggested Readings

Henricks, M. (2008, December). Do you really need a business plan? *Entrepreneur*.

The article showcases the cofounder and co-owner of Roaring Lion Energy Drink, Sean Hackney, and his philosophy on writing a business plan. The entrepreneur considers the business plan the cornerstone of every new business and a live document that should be subject to frequent revisions.

Kwicien, J. (2011, March). Enhance your asset value with a business plan. *Employee Benefit Adviser*, 56.

The author considers the business plan as a definitive action plan that solidifies one's commitment to the business. Jack Kwicien also shares valuable tips to create a business plan that will indeed improve the asset value of the organization. He also highlights the importance of including the company's employees in the creation and evolution of the plan.

Kwicien, J. (2012, January). Put it in writing. *Employee Benefit Adviser*, 30.

In this article, Jack Kwicien presents the business plan as an opportunity for the business owner to analyze all the issues pertinent to managing the business and positioning it as a value add to customers. He highlights the importance of treating a business plan as a concrete road map and guide to running a business.