

REED

Toolkit

A Handbook for
Energy Entrepreneurs



Rural Energy Enterprise Development

PROGRAMME PARTNERS



COUNTRY PARTNERS



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CHAPTER 1

Introduction to the Toolkit

PURPOSE OF THE TOOLKIT

This Toolkit is a step-by-step guide to turning your clean energy business idea into a reality. The topics covered range from defining your personal and business objectives to preparing financial analyses and determining your distribution strategy. In addition to explaining what information is needed in an effective Business Plan, the Toolkit will help you to gather that information, and then to present it in an informative and convincing manner. By the end, you will have a Business Plan you can use to attract financing and to guide the growth of your company.

The Toolkit covers the topics that must be addressed in a Business Plan for any clean energy business, it therefore takes a general approach to developing plans. Each step in the process is designed to make the final product—the Business Plan—as good as it can be, whether you are interested in selling electricity generated from hydropower to a national utility or manufacturing energy-efficient cook stoves.

HOW TO USE THE TOOLKIT

The first step in developing your business is to write a convincing Business Description. The Toolkit will help you do this and, once it is accomplished, will help you carry out research to test the feasibility of your idea. Thorough research is time-consuming, but it is vital. Research provides clear answers to critical questions like ‘Can my customers afford my product or service?’ and ‘Can I generate revenues?’ The final step is to write the formal Business Plan and present it to potential investors, partners and employees.

The Toolkit is designed to be read in its entirety. There are four chapters, each containing material that builds on the content of the previous one. Each chapter requires the entrepreneur to produce written documents that will be used in preparation of the Business Plan. In this way, completion of each chapter brings you a step closer to the final product. By the end of Chapter 3, writing the formal Business Plan will be easy.

A typical Business Plan contains the following elements and chapters:

- Cover and Table of Contents
- Business Description and Executive Summary
- Opportunity Assessment
- Marketing
- Competition
- Operations
- Technology
- Finance
- Schedule
- Risks & Mitigation Measures
- Impacts of Business
- Closing
- Attachments

Once you have worked through Chapter 2 of the Toolkit, the Business Description section of your Business Plan will be completed; by the end of Chapter 3 more than half of the final Business Plan will be finished. The table below explains which sections of the Business Plan are completed in each chapter, and a guide at the bottom of each page helps you keep track of where you are in the process.

	Chapter 2	Chapter 3	Chapter 4
Opportunity	Marketing	Operations	Technology
Finance	Schedule	Risks	Impacts
Executive Summary & Closing			

Toolkit Chapters:	Business Plan Section Titles:
Chapter 1	Business Description
Chapter 2	Opportunity
Chapter 3	Marketing
	Competition
	Operations
	Technology
Chapter 4	Finance
	Schedule
	Impacts
	Closing and Executive Summary

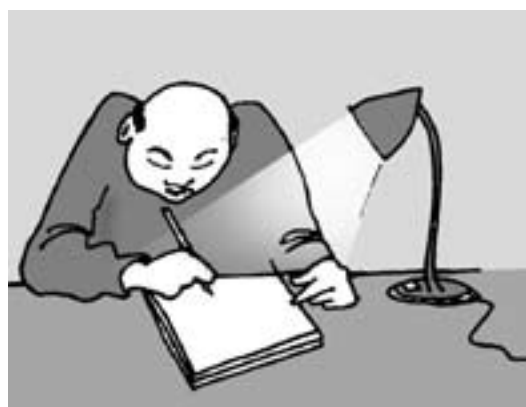
PURPOSE OF A BUSINESS PLAN

Starting and managing a business requires motivation, desire and talent. It also requires a great deal of research and planning. Compiling the data and strategy into a Business Plan is the most important step in starting a successful business.

A good Business Plan accomplishes the following:

- **draws a clear picture** of your business objectives and goals;
- **provides a thorough overview of the industry** and business you will be entering;
- **presents your strategy and the financial data** supporting it;
- **shows the potential strengths and weaknesses** of your business;
- **gives a timeline of events and financial milestones** against which you can compare your actual results; and finally
- **gives prospective partners and investors a means of determining whether your business warrants their interest—and their money.**

The primary objective of the Business Plan is to convince lenders and investors to give you financing. Your Business Plan must be written for the specific audience to whom you will eventually present it, and with the aim of persuading that audience that your business warrants their investment. Lenders and investors require a Business Plan in order to evaluate their risks and to assure them that they will get a fair return on their investment.



Let's get started!

HOW TO DESCRIBE YOUR IDEA

If you are starting a new business, there is a lot of research and analysis that must be done before writing the Business Plan. To begin with, you need to be able to describe the basic attributes of your business idea: status of the company, location of the company and operations, product or service being offered, type of customer targeted and, finally, the type of energy resource and technology used.

To get an idea of how advanced you are, write one or two sentences describing the following characteristics of your company (save this exercise as it will be built upon in later chapters):

Exercise 1-1 Describing your company

THE COMPANY NAME, ITS MISSION¹ AND A VERY BRIEF HISTORY:

LOCATION OF THE COMPANY AND ITS OPERATIONS:

PRODUCT OR SERVICE TO BE SOLD:

TECHNOLOGY AND RESOURCE TO BE USED:

CUSTOMERS:

¹ A mission statement describes what you want your company to do and to become-it defines the focus of your business.

Basically, a Business Plan can be divided into two sections: the Business Description, and everything that follows. The Business Description is the point in the Business Plan at which you say clearly what you want to do. It is the section that should make readers want to continue reading the document, so it must be compelling, thorough and well organized. The sections following the Business Description support your description and give details of how you intend to accomplish what you say you can do.

Let's review what should be included in the Business Description:

The Company: Provide a brief introduction to your company including basic information such as name, whether it is a new or existing company, when it was founded and its legal form. If the company is already operational, activities to date are described here. This is followed by the company's mission statement. Finally, a description of the management team is written, indicating technical and managerial experience, years working in the field, proposed involvement in the company, and who owns the company.

Location: Name the location of your company's headquarters. If the location of operations will be different, state that location as well. If there will be a manufacturing or production plant, or if specific parcels of land or structures will be developed, include descriptions of them.

The Product or Service: Describe the product or service you will sell. Is this product sold retail, wholesale or is it manufactured? When writing your description, keep in mind that investors want to know about the customer need that your firm will satisfy. Describe the direct and indirect **benefits** your product or service will provide to its customers. Those benefits are the basic reason why your produce or service will be in demand.

Energy Technology: What type of energy technology will your business use and for what purpose? State whether this type of technology has proved viable elsewhere. Also define the scale of the project.

Customers: Who will be the customers for your product or service? Make sure the customer you describe is appropriate for the location indicated above. If known, indicate the ability and willingness of customers to pay. State what customers are currently buying to meet the need, indicate costs, and explain why they will switch to buy your product or service. Describe this in terms of the benefits your product or service will provide.

To learn more about energy technologies and to view examples of business descriptions, read **Annex A—Sustainable Energy Technologies**, and **Annex B—Business Description Examples**.

WRITING THE BUSINESS DESCRIPTION

Unless you did a perfect job a few pages back, it is time to polish your Business Description. Business descriptions can take many forms, but all of them convey the same basic information about the company, its leadership team, its operations and its customers. An example of how it may be presented follows:

Business Description

1. The company: (Name of company) is a(n) (existing or start-up) business. The company was established in (year) under the laws of (home country) . The company's mission is _____ . (Company name) is a _____ type of company, meaning _____ .
Since it was founded, (company name) has accomplished the following:

The management team is comprised of the following people: (include names and experience)

The company is owned by _____. Its profits are distributed between _____ .
2. Location: Location of operation (country, region, village or nearest village and specific site—in terms of parcels of land as well as specific map location): _____. The headquarters is located in _____ region/province/department/area of (country name), _____ kilometres (km) from (mapped village, town). The business will operate in the following areas, which are _____ km from the headquarters:
(List locations of operation, and indicate any local offices that are to be created)
3. Product (or) Service: (company name) will (manufacture, distribute, sell) _____. The main activities include _____. This is a good business opportunity because _____ .
4. Technology: (this section outlines the technology used in terms of type, size, conversion process, suppliers, etc.) The business will use _____ technology and be about _____ in size (kilowatts, megawatts, numbers of households served, etc.). The _____ technology converts (wind, water, biomass, sunlight) by _____ (describe process). This technology (has/has not) been used before in this country.
5. **Energy Resource:** (by type, sources of supply, availability of supply and the competition for the supply): The technology will use (type of resource) which comes from (sources) and will be available to the business because _____ .

Examples of technology description:

- 'The business will use ___ pressure boilers to convert bagasse to _____ of steam and ___ MW of electricity. Such boilers are in use in ___ other business in the country. The proposed business will use bagasse from sugar cane processing, obtained from five sugar mills within 18 kilometres of the location. The bagasse will be purchased through a contract between the company and the sugar mill.'
- 'The business will use ___ hydroelectric turbines to produce ___ kW of electricity. Turbines of this size and type have not been used before in this part of the country. The proposed business will use water from the _____ River, which will be diverted to a canal and delivered to the power house. Rights to use the water will be obtained through the awarding of a concession from the government.'
- 'The business will use ___ type solar panels connected to _____ type water pumps, which will provide irrigation for about ___ hectares of land for each pump set sold, replacing diesel pump sets. Solar pump sets have been used successfully in a pilot programme of ___ installations.'
- 'The proposed business will use wind/sunlight available in sufficient quantities in the region. The business will install ___ and ___ watt solar panels, and hardware in _____ households and businesses. These photovoltaic panels will be of the _____ type, which are already supplied by _____ and are installed in ___ other commercial businesses in the country. Solar insolation of ___ is documented.'

5. 'Customers: (Company name) will sell its product to (name/type of customer or customers). The targeted customer(s) currently meets this need by purchasing _____ at a cost of _____. Targeted customers would be willing to buy my product or service because _____. The targeted customer is located _____ km from our headquarters or field office. There are roughly (number) of customers in our target segment.'

Specific examples:

- 'The proposed business will sell its electricity to _____, the national utility under a power purchase agreement.'
- 'The proposed business will install a local area grid and sell its electricity to the Village Cooperative, which will provide electricity to the 150 households in the village of _____.'
- 'The proposed business will sell pump sets to farmers within the _____ region of the country. Between ___ and ___ pump sets will be sold each year.'
- 'The proposed business will sell small-scale solar electric systems to ___ households and businesses per year in the _____ region. It is estimated that ___ systems will be sold in the first three years.'
- 'The proposed business will install _____ solar home systems and collect monthly fees from these households through a network of local collection agents.'

**CONGRATULATIONS!! You have completed the first version of your
Business Description.**