Borsa Italiana

Strategic Plan Guide

Listing Guides

London
Stock Exchange Group

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Preface

The strategic plan[1] is the document which illustrates the strategic aims of management relating to the company's competitive strategies, the action which will be carried out for the achievement of the strategic objectives, the evolution of the key value drivers and the expected results. The plan performs an essential role with regards to the management of the companies since it is useful to management for the portrayal of their business outlook; to the members of the Board of Directors in order to fully perform their role for guiding and overseeing the company; to the company in order to attract resources, both human and financial, necessary for the accomplishment of the Action Plan[2].

The drawing up of the strategic plan, as part of systematic strategic planning initiatives, contributes towards improving the quality of management's strategic aims and directing the subsequent implementation actions, improving, in conclusion, the corporate performances.

For the purposes of the listing on markets organized and managed by Borsa Italiana, the strategic plan must not be seen with a different meaning: the same logics, procedures and Rules normally used as part of the planning process must be followed, focusing on the very information which management usually avails itself of for conducting the corporate activities.

The strategic plan is also extremely useful for all the financial communications requested for the IPO; its correct structuring, and hence the identification and the clarification of the trend of the key value drivers, is the condition for tackling, in a consistent and complete manner, the preparation of the listing particular and the structuring of the analyst presentation and the road show. On the other hand, after the listing the effort made, if instilled in systematic planning activities, could reveal itself to be useful for dealing with the subsequent communication requirements typical to a listed company: the presentations of the financial data (annual and interim) and the drawing up of financial documents and press releases.

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[1] From a terminology point of view, in compliance with that set forth in the Rules of Borsa Italiana, in this document the term "strategic plan" is used in place of "business plan". The latter term, though sometimes intended to mean the document drawn up at the start-up of a new company, in practice is often used as a synonym of strategic plan.

[2] See Mazzola, P., Il piano industriale: contenuti e logica, Milan, EGEA, 2003.

The drawing up of the plan for companies being listed is also an occasion for comparison and evaluations of their planning process so as to consider the opportunity of investing in the management control system[3], enhancing the planning, reporting and business intelligence systems. It is desirable that the analysis carried out during the preparation for the listing continues to perform its role on conclusion of the same; an additional effort is by contrast necessary so as to endow oneself with an adequate and reliable planning and control process.

The aim of this document is to provide a guide to be used when drawing up the strategic plan which must be presented by the issuer for listing on the markets organized and managed by Borsa Italiana, so as to satisfy the matters anticipated in the "Rules of the Markets Organized and Managed by Borsa Italiana S.p.A." (hereinafter the "Rules").

Furthermore, it is useful to point out that, in accordance with the Rules, the Sponsor works together with the issuer in relation to the listing procedure, so that said procedures is carried out in an orderly manner, and issues a specific statement regarding the forecast data illustrated in the strategic plan.

Over the last few years, the number of companies who have successfully embarked upon the listing process has increased and with it also the number of Sponsors who have supported these companies. This has meant that the need to formulate a reference standard has arisen, so as to standardize, as far as possible, on the one hand, the contents of the strategic plans which are presented to Borsa Italiana and, on the other hand, the way in which the due diligence activities are carried out by the Sponsors on the companies being listed.

In conclusion, the Guide in question, like the QMAT[4], should make it possible to improve communication between Borsa Italiana, Sponsors and companies being listed so as to facilitate the planning of the listing process.

The arrangement of the document reflects the objectives which Borsa Italiana intends to achieve via its publication. In detail, it has been structured so as to:

- include within chapter 1 the main characteristics which a plan must possess for the purposes of admission to listing;
- represent in chapter 2 a standard format for the preparation of the plan which reflects the contents illustrated in the first chapter;
- provide some examples of possible checks by the Sponsor in chapter 3 as part of the due diligence process on companies being listed.

[3] In this connection, see "Guida al Sistema di controllo di gestione" (Management Control System Guide) published by Borsa Italiana.

[4] The QMAT must be drawn up by the companies who present an application for admission to listing of their shares on the following segments managed by Borsa Italiana: Blue Chip, STAR and Standard; this document was created by Borsa Italiana's Equity Market Listing department and can be downloaded by the Sponsors from Borsa Italiana website, www.borsaitaliana.it, using a password.

1. The characteristics of the strategic plan or the admission to listing on the stock Exchange

This chapter contains an analysis of the main characteristics which a strategic plan must possess in order to guarantee the achievement of the objectives defined by the Rules. Specifically, in the first paragraphs the strategic plan is classified as a management instrument, illustrating the objectives and the requisites which it must possess.

Further on in the chapter, the main elements are dealt with, subsequently pausing on certain points such as the logics behind the creation of the plan, the sensitivity analysis, the handling of critical aspects and a series of useful rules.

In this brief introduction it emerges as appropriate to specify the relationships between the strategic plan and QMAT, so as to avoid or at least reduce the duplications between the two documents. For this purpose, first and foremost it is necessary to emphasise that the QMAT must be considered to be an integral part of the strategic plan and that the two documents have been conceived by Borsa Italiana so as to limit overlappings.
In particular, while the strategic plan should concentrate on the illustration of the strategic project, the Action Plan, the assumptions underlying the forecast data and the data itself, the QMAT should mainly cover everything that concerns the Business Model adopted by the company, the significant stakeholders and the sector it belongs to. This means that the matters already dealt with in the QMAT (such as, for example, the description of the Business Model or the competitive dynamics of the reference sector) should not be duplicated in the strategic plan, but merely referred to.

1.1 Definition and objectives of the strategic plan

The strategic plan can be defined as the document in which, starting off from the presentation of the effective competitive strategies operative at company (corporate) and Strategic Business Unit level (hereinafter SBU)[5] and the possible renewal requirement or opportunity, management's strategic aims, the action which will be carried out for the attainment of the strategic objectives, the evolution of the key value drivers and the expected results[6] are illustrated.

The main aim of a strategic plan is to permit management to define in what way the company intends to increase the value created for the shareholders.

[5] Consistent with the matters indicated in the QMAT, by Strategic Business Unit we mean the unit of a company which is responsible for developing strategy in a specific area of business (SBA). A SBU generally presents: strategies independent from other areas of activities of the company; specific cost structures; independent organizational entities and dedicated responsibilities.

[6] See Mazzola, P., op. cit. for definition.

More specifically, the structure of the strategic plan should permit:

Focus on the creation of value as part of a long-term outlook

The strategic plan, within the planning process, represents the occasion for the managers to focus on the definition of deliberate strategies which make it possible to maximize the creation of value. Often the short-term operating requirements do not allow the managers to dedicate time to the analysis of the sector-based dynamics, the conduct of the competitors and the identification of valid opportunities; the introduction and the continual improvement of the strategic generation process contribute, instead, towards creating occasions where it is possible to develop innovative strategies which make it possible to create and maintain the competitive advantage. The sustainability of the competitive advantage can without doubt be encouraged by the existence and the quality of the process for drawing up the strategic plans.

The creation of a guide for the management of the corporate activities

The strategic plan, and more precisely the Action Plan - with the definition of the action and the related timetable -, represents an instrument which guides the main operating choices and in particular the entry into new markets, the introduction of new products and services, the use of new distribution channels, the expansion of the customer portfolio and the tracing of all the resources - financial, human, organizational and technological - necessary for the implementation of the strategic objectives.

The development of a useful learning process

The clear specification of the strategic choices and the implementation actions in a document, whose guidelines will also be communicated to third parties, implies a preliminary critical examination by management: in this manner, the structuring process of the plan becomes a learning instrument which makes it possible to verify the quality of certain managerial insights and therefore reduce the related risks. In fact, the drawing up of the strategic plan usually implies its progressive streamlining and therefore the drafting of subsequent versions within a repetitive process: the erroneous assumptions, the weak areas and the inconsistencies are therefore progressively corrected, while the incentives and the insights deriving from the examination of the initial plan versions are assimilated, supplementing and improving the original strategic project.

Preparation for comparison with the financial market

The drawing up and the critical examination of the strategic plan represent a way of preparing oneself for explaining and maintaining one's strategic choices vis-àvis the financial market so as to limit the risk that it is not adequately understood and not approved for this reason alone. This applies to both for the disclosure requested at the time of listing, and for the on-going disclosure typical of a listed company.

An improved definition of the corporate incentive system

The strategic plan, and in particular the financial and competitive objectives contained therein, also represents the reference basis for the definition of the incentive plan (bonuses and other variable components of remuneration) linked to the corporate performances.

1.2 Requisites of the strategic plan

The Rules (Article 2.1.2, paragraph 2, for the MTA and for the MTAX), in relation to the Borsa Italiana's responsibilities with regards to admission to listing of shares, indirectly fix the minimum requisites which must be observed when drafting the strategic plan. Article 2.1.2 states that "Borsa Italiana may reject an application for admission to listing in a reasoned decision promptly notified to the interested party:

a), b), c) omission

d) where the situation of the issuer makes admission contrary to the interest of the investors. To this end Borsa Italiana shall give consideration primarily to the following elements: the presence of serious disequilibria in the issuer's financial structure, a critical competitive position in its main sectors of activity, evidence of serious incongruences in its forecasts and the absence of elements substantiating the assumptions made therein."

The minimum deducible requisites are therefore three:

I) the **Financial sustainability**, or rather the absence of serious financial disequilibria;

II) the **Consistency**, in other words the absence of "serious incongruences" in the plans;

III) the **Reliability**, which makes reference to the foundation of the assumptions.

In chapter 3 "Due diligence activities: areas of analysis and the process phases" some examples will be proposed of possible checks to be carried out by the Sponsor in order to assess the presence of the afore-mentioned requisites. Furthermore, on the basis of the experience which Borsa Italiana had matured over the last five years, the chapter will include some strategic plan examples lacking these requisites and the potential risks, for the company being listed and for the financial market, associated with the same.

I) Financial sustainability

The financial sustainability of a strategic plan must be considered in relation to the quality and quantity of the sources of funding which management intends to use in order to deal with the requirements linked to the achievement of the strategy. To this end, during the plan's time-span it would be appropriate if the cash flows (understood to be the sum total of net profit and amortization/depreciation) cover at least the absorptions of working capital and the net replacement/maintenance investments, while the recourse to further debt capital and/or risk capital (and therefore to the proceeds of the IPO) should take place in order to partly or fully meet the investments made for growth purposes.

In this connection, it is useful to state, as will be reaffirmed in paragraph 1.6., that the strategic plan must be drawn up pre-money; this does not affect the fact that, for the purpose of evaluating the financial sustainability, within the accepted meaning indicated above, one can also consider the proceeds of the IPO.

A further aspect not to be neglected is the availability of the sources of funding. It is necessary that the choices of funding by means of debt capital are feasible in light of the borrowing capacity (and therefore the current borrowing ratio) and the potential risk profile of the company (and the possible rating); the eventual consideration of proceeds from the public offer to subscribe must in contrast be made prudently, using the lower limit of the "price range" and applying further discounts linked to the foreseeable performance of the share markets; lastly, the subsequent recourse, during the plan's time-span, to the share market (by means of capital increases) must be carefully examined in light of the potential difficulties which this option may involve.

II) Consistency

This requisite relates to an "internal" dimension of the plan and materializes where all the aspects - strategy pursued and initial corporate situation, strategic aims, Action Plan, assumptions and financial forecasts - are consistent with one another; the strategic choices must, therefore, reflect themselves in the implementation actions foreseen and the latter must be substantiated in the trend of the forecast data.

Therefore, a strategic plan can be defined as consistent if the causal connections exist between the strategic aims, the Action Plan, the assumptions placed at the foundation of the financial projections and the financial data.

Another dimension of the consistency requisite concerns the possibility of realizing the Action Plan and more precisely the compatibility of the action planned with the timetable proposed and with the current and forecast resources (human, organizational and technological) which the company avails of or will endow itself with. This evidently supposes the clear indication in the plan of the implementation actions which are intended to be adopted in order to implement the strategic project.

III) Reliability

A strategic plan can consider itself to be reliable if it is drawn up on the basis of realistic and justifiable assumptions and if it brings expected results which can be reasonably achieved. More specifically, the foundation of the assumptions should be checked with respect to the conditions analysed as follows.

Compatibility with the dynamics of the competitive context

The contents of the strategic plan must emerge as realistic with respect to the competitive dynamics of the reference sector and, in particular, with respect to:

- the performance of demand and the market shares;
- the trends underway with regards to consumer needs and the key factors which guide the related choices (buying factors);
- the behaviour of the competitors (which can be determined on the basis of benchmarking analysis relating to aspects such as strategy, the Business Model[7], the key success factors[8] and the historical and forecast financial data);
- the structure of and the changes to the distribution channels and the supply relationships;
- the legislative, technological, social and environmental context.

This does not mean that a strategic plan can be defined as unreliable if it presents contents not completely aligned with the dynamics which are occurring in the reference sector[9]; in the cases in question, the credibility of the plan can in any event be guaranteed by means of an in-depth illustration of the elements supporting the strategic objectives presented.

Comparability with the historical results

The critical analysis of a strategic plan must necessarily base itself on the comparison between the historical performances and the plan results as well; the more the forecast results - financial, management and competitive - differ from those in the past and the more ambitious the plan objectives are, the more it will be necessary to propose elements supporting their credibility.

[7] By Business Model we mean the series of functions or processes required to conceive, generate and distribute the company's product/service to the end customer. The Business Model varies in relation to the individual Business Unit, the company and the sector.

[8] The key success factors (KSFs) are the elements necessary for operating, at each stage of the Business Model, effectively and with results wich are better than the competitors. The KSFs depend on the quality and the quantity of the resources used and the distinctive competencies developed during each phase.

[9] In this connection, these can be hi-tech sectors subject to situations of great discontinuity, determined by the introduction of new technologies, which make the estimate of market demand extremely difficult for example.

Visibility of the forecast data

The visibility refers to the possibility of foreseeing the formation of the estimated data (forecasts of revenues, margins, investments, etc.), or the elevated probability that the projections relating to these items will really manifest. It is evident that the matters discussed will heavily affect the reliability of a plan; in fact, the more, for example, the company being listed bases its assumptions on the initial data recorded during the current period, on orders already in the portfolio, on sales to be made to customers with whom stable relationships exist or on negotiations which are at an advanced stage, the more it will be possible to consider the revenue flows are highly probable.
The reliability of the plan will be decidedly inferior for those companies who must justify forecasts of revenue trends based exclusively on assumptions of acquiring new customers, entering new markets or launching new products/services.

Sensitivity analysis

A further level of analysis to be carried out is that relating to the various scenarios which can take shape with respect to the main variables. As will be more clearly seen in paragraph 1.5., the development of the plan-related financial prospects must always be accompanied by a sensitivity analysis conducted by means of a “what if” type approach which makes it possible to identify the key variables (competitive and operational) which are more fully capable of exercising an influence on the creation of value and assessing the effects associated with the various scenarios.

1.3 The contents of the strategic plan

A strategic plan is based on both qualitative and quantitative elements which cannot be separated without prejudicing the foundation: the absence of an adequate illustration of the strategies and the Action Plan in fact expresses the financial results of the simple extrapolations of past trends, whose credibility can in no way be checked, unless ex post; on a consistent basis, in the absence of quantitative forecasts, the plan cannot be expediently appreciated on a preventive basis, nor the implementation subsequently checked.

The strategic plan, as indicated in the table 1, is made up of several elements which will be analysed in subsequent paragraphs.

Before dealing with these components, it has been considered expedient to reaffirm that the main objective of a strategic plan is to define in what way the company intends to increase the value created for the shareholders.

Yesterday-Today	Tomorrow			
STRATEGY PURSUED	**STRATEGIC AIMS**	**ACTION PLAN**	**ASSUMPTIONS**	**FORECAST FINANCIAL DATA**
Description of: – operative strategic layout – performance realized in each SBA – need/opportunity for strategic renewal	Management choices relating to: – role in competitive arena – value proposition – creation of competitive advantage	Actions which reduce the gap between strategy pursued and strategic aims; in particular: – economic/financial impact and timetable – investments to be made – organizational impact of the individual action – intervention on products/services/ brand portfolio – actions which change the customer target – responsible managers – conditions and restrictions regarding realizable nature	Relative to key value drivers and forecast data, with reference to: – macro-economic magnitudes – development of revenues – direct costs – indirect costs, financial – charges and taxation – evolution of capital employed – evolution of financial structure	Consistent with the strategic aims and the Action Plan and referring to: – SBUs – distribution channels – geographic areas – customer type – products/services/ brands
ILLUSTRATION OF ORIGINS AND ASSUMPTIONS OF THE STRATEGIC AIMS Sector QMAT	HOW VALUE WILL BE CREATED EVA®			

TABLE 1: The components of the strategic plan

The value for the shareholders - gauged, what is more, by means of the EVA®, (Economic Value Added)[10], or rather the difference between the ROCE (net of taxes) and the cost of the capital deployed to produce it - can be increased from one accounting period to the next by taking action, individually or at the same time, on: the operating result (EBIT), the growth in sales, capital employed and the cost of capital (WACC)[11].

The use of one or more alternatives is conditioned by various aspects, including the performance of the economic cycle, the phase of the strategic course which the company is experiencing, the strategy achieved and its efficacy, the level of borrowing reached, the competition within the sector it belongs to, the level of geographic coverage, restrictions associated with the social and regulatory environment.

[10] See Bennet Stewart III, G., The Quest for Value, New York, Harper Business, 1991, for further information.

[11] See paragraph 1.4.3. for further details.

The strategic plan must always make clear which levers, among those indicated above, management intends to use in future accounting periods for increasing the company's value. As a rule, over the long-term the most utilizable lever lies in the ability of the company to keep to a route of profitable growth (realized so as to increase the EVA®). The manoeuvre possibility of the other levers available to management is, in fact, conditioned by some rather stringent structural restrictions. Just think, for example, of the fact that the increase of the operating profitability, dimension being equal, finds certain limits in the characteristics of the sector and in the interaction of the competitive efforts which act within.

The recourse, then, to borrowing in order to exploit the tax benefit linked to the deductibility of the interest expense cannot exceed certain limits so as not to prejudice the flexibility and corporate soundness.

When drawing up the strategic plan of a company being listed, given the more short-term view which characterizes it (the Rules require the coverage of a period spanning 3 accounting years), the need to always clearly indicate the methods which are intended to be pursued in order to increase the value of the company must be underlined: any strategic formulation which does not highlight how it influences the creation of value would be considered to be lacking foundation.

1.3.1. The strategy pursued and the strategic aims

The strategic plan must firstly provide a description of the operative strategic setup (see example in table 2), of the stage in the life cycle in which the company being listed is found and of any requirement or opportunity for a renewal of the strategy deriving from the threats/opportunities of the competitive environment and/or from the comparison with the strong and weak points of the competitors (benchmarking).

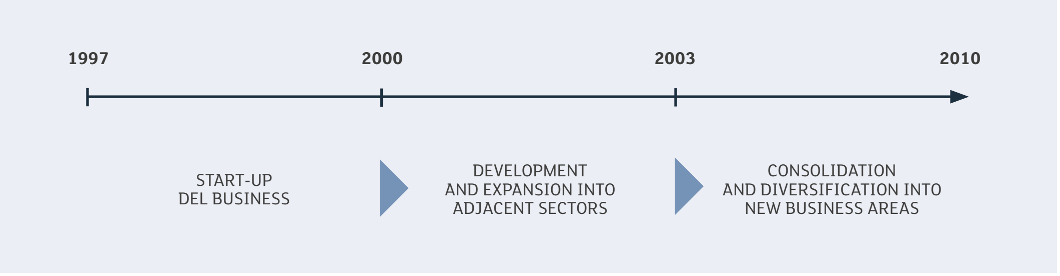


TABLE 2: Operative strategic set-up

In this context, the **strategy pursued** (an example is shown in table 3 below relating to the company Gamma, involved in the management of hotel structures) identifies the positioning developed as a result of past choices and action, consolidating over time following the creation of a structure, operating mechanisms and a consistent corporate culture.
The plan should make it possible to clearly state the connection between the results achieved in the past and the main strategic choice made and offer a clearer illustration of the origins and the assumptions of the company's strategic aims. The analysis of the causal connections between choice and results is essential in order to identify the operational levers and the related metric which have had the greatest impact on the corporate performances (the so-called key value drivers and key performance indicators) and also verify on a quantitative level the quality of the strategy pursued. The latter should specify the following points at least: the corporate competitive strategy, the competitive strategy of the each SBU and the performances achieved in each SBA.

As far as this aspect is concerned, it is necessary to provide the greatest detail possible with regards to any positive impact of cyclical and extraordinary phenomenon and the effect of the investments which, despite having been made in previous years, produce their benefits in current years.

MAIN STRATEGIC CHOICES MADE DURING THE PERIOD 2000-2002

The company Gamma launched a turnaround process which has led to an improvement in the operating profitability and the value created by means of:

– the development of tourist hubs of big size (Alfa Hub and Beta Hub) and with high profitability;

– the closure of small hotel structures, which are not specialized and not profitable (for example: Hotel Omicron and Lambda Village);

– the management of new medium-sized structures (for example: Sigma Village, Hotel Omega and Hotel Delta).

RESULTS OBTAINED IN THE PERIOD 2000-2002

	2000	2001	2002
Number of structures	15	14	16
including:			
Tourist hubs	0	1	2
Small structures	8	5	4
Medium-sized structures	7	8	10
Capacity (beds)	5,500	5,400	6,400
Average price/day (€)	70	71	72
Occupation rate	52%	54%	57%
Sales (€, mln)	20.5	25.1	30.8
Ebit (€, mln)	-1,1	1,3	1,8
Capital Employed (€, mln)	9	10	13.5
ROCE (%)	-12.2%	13.0%	13.3%
EVA (€, mln)	-1.4	+0.05	+0.1

TABLE 3: The strategy pursued

By contrast, the **strategic aims** represent the choice declared by management relating to the company's field of activities, the dimensional growth to be pursued and the role it intends to cover in the competitive arena. Within the strategic plan they must be described with a sufficient level of detail so that it is possible to grasp the changes which these imply in the strategy adopted, the degree of consistency with the renewal requirement/opportunity and the expected results which they lead to (in connection again with the example shown for the strategy pursued, the strategic aims of the company Gamma are illustrated in table 4).

NEED OR OPPORTUNITY FOR A STRATEGIC RENEWAL

– Gamma's two main competitors present greater profitability (ROCE 2002 approx. 17%) thanks to greater focusing on the tourist hubs (in fact, 80% and 65% respectively of 2002 sales revenues derive from the management of these structures)

– Nearly all the small structures currently run by Gamma are characterized by constantly negative results, low rates of occupancy and locations which are not particularly attractive

MAIN STRATEGIC AIMS IN THE PERIOD 2003-2005

The company will continue with the process for increasing the creation of value by means of:

– increasing the number of tourist hubs managed and improving the occupancy rates thanks to the exclusive nature of the location of the new openings;

– growth of the sales at all the structures thanks to the positive effects of the agreement which will be stipulated with a leading Italian tour operator;

– progressive decrease of the small hotel structures, which are not specialized and not profitable;

– rise in the average daily price thanks to the opening of new tourist hubs which will be sold at higher prices given the exclusive nature of the locations and the high level of service offered.

MAIN STRATEGIC AIMS IN THE PERIOD 2003-2005

	2003	**2004**	**2005**
Number of structures	17	19	20
including:			
Tourist hubs	4	7	8
Small structures	3	2	1
Medium-sized structures	10	10	11
Capacity (beds)	7,150	8,460	9,100
Average price/day (€)	72	75	77
Occupation rate	60%	65%	66%
Sales (€, mln)	36	46	51
Ebit (€, mln)	2.2	3.1	3.9
Capital Employed (€, mln)	15	19	22
ROCE (%)	14.6%	16.3%	17.7%
EVA (€, mln)	0.2	0.4	0.6

TABLE 4: The strategic aims

The strategic aims, in other words, identify the plan via which the company intends to create value for the shareholders, or rather the series of action with which the company intends to offer products or services maximizing the value created for the shareholders; this action undergoes continual change in relation to the results achieved, the competitive scenarios and the errors which may be committed.

As already indicated in paragraph 1.3., in the illustration of the strategic aims the strategic plan must always clarify which levers management intends to use in future accounting periods in order to increase the value of the company.

Wishing to analyse in greater depth the concept of strategic aims, it is believed that these represent the synthesis of the expected role of the company in the sector it operates in, the value proposition and the methods by means of which the company intends to acquire a sustainable competitive advantage with respect to the current and potential competitors.
The strategic aims must specify the corporate choice and, where the company operates by means of various SBUs, the choices for each of them.
At corporate level, it is necessary to clarify:

— the choices in terms of SBAs where the company intends to operate and the possible exit from and entry into new SBAs;

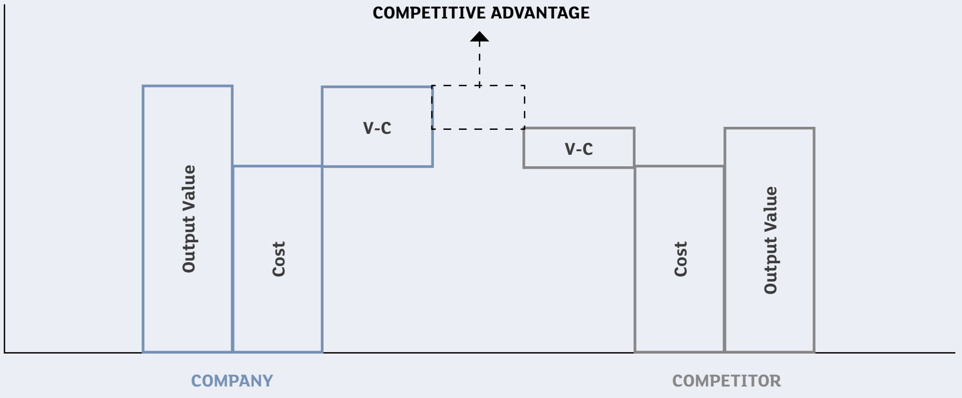
— the role assigned, within the sphere of the value creation process, to each SBU - which oversees each individual SBA - (reporting cases where the value created by certain SBUs serves to support others during start-up or turnaround), the criteria for the allocation of the financial and human resources available, the synergies achieved and those estimated among the SBUs.

The corporate strategic goals should aim at finding a balance within the company in its entirety; it is advisable that management constantly analyses, by means of the management control system, the value created by each SBU, which should represent the quantitative basis for the decisions relating to the SBAs in which to operate. Even if there may be a series of reasons which might lead management to operate in certain SBAs despite the EVA®, being unsatisfactory, it is in any event necessary to establish the conditions (time-related or of another type) which could determine the divestment.

By contrast, at SBU level, the strategic aims must define:

— the positioning of the company within the overall value chain of the sector concerned, specifying, on the one hand, which activities the company intends to carry out directly and which via third parties and, on the other hand, what portion of the value it intends to leave to the suppliers, distributors, customers and outsourcers;
— the configuration of the Business Model, highlighting any elements of uniqueness and superiority, when compared with the business models of the competitors, which establish the competitive advantage;
— the targets of current and potential customers (specifying the segments which the company prefers not to serve) and the products/services/brands portfolio (indicating the abundance and features) with which one intends to satisfy consumers' expectations;
— the price strategy for the main products, services and/or brands;
— the current and prospective geographic areas within which to operate and, for each one of these, the distribution channels via which the target customers will be reached.

The strategic aims must also summarize the value proposition of the company, represented by the reasons - expressed in terms of price/benefit ratio - why the customers should choose the products/services of the company rather than those of the competitors. A sound value proposition is the expression of a sustainable competitive advantage. The existence of the competitive advantage - which a company can claim that it has when it manages to offer the customers better products and services at the same cost or products and services in line with those of the competition at a lower cost - should be evaluated, as far as possible, making reference to the difference or the ratio between the value of the output for the purchaser[12] and the costs of its creation[13], and not the difference or ratio between prices and costs.



Source: Reworking by Mazzola, P., op. cit.

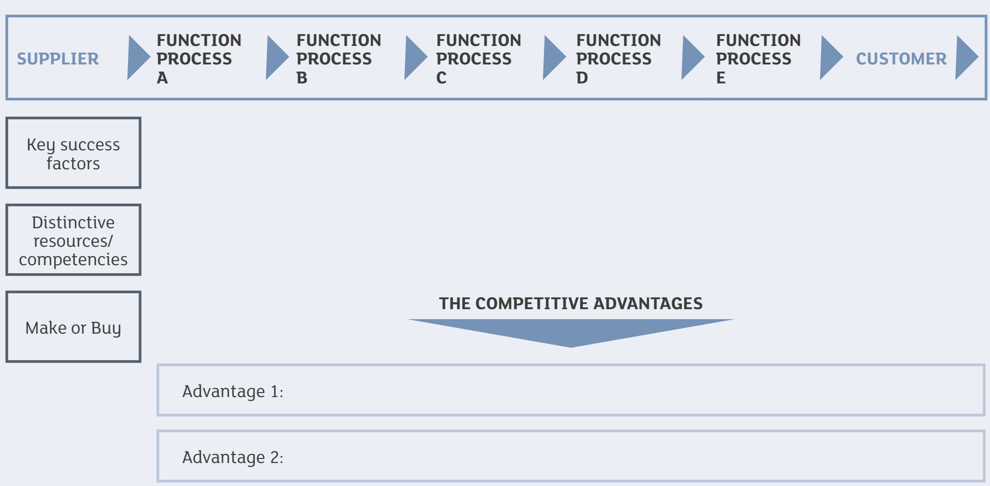
TABLE 5: Representation of the competitive advantage as the difference between the value of the output of the purchaser and the costs for its creation

[12] The value of the output for the purchaser can be estimated by algebraically adding together the gross benefits and the costs associated with the availability and the use of the good, with the exception of the purchase cost.

[13] This approach is also found in Brandeburger, A., Stuart, H., Jr., Value Based Business Strategy, in Journal of Economics and Management Strategy, 1996, no. 5, pages 5-24; Ghemawat, P., Strategy and the Business Landscape, Addison Wesley, 1999, page 62 et seq.; Mazzola, op. cit., page 47 et seq. and page 121 et seq.

Therefore a company possesses a competitive advantage if it demonstrates that it has (or can create) a difference between the value and cost greater on average with respect to that of the competitors and only in this case will it be able to credibly hypothesise superior performance than that obtained on average by the competition, both in terms of growth and in terms of profitability. The competitive advantage of a company derives from the way in which within its Business Model the functions/processes combine and integrate together, from key success factors which are overseen in each stage and from the distinctive resources and skills which the company avails of.

If the existing advantage cannot be cancelled within a short space of time, then it can be defined as sustainable; over the average and long-term, by contrast, it is difficult to analyse the sustainability of the competitive advantage and this forces any company to create a series of temporary competitive advantages over time.



Source: QMAT

TABLE 6: Representation of the sources of competitive advantage

1.3.2. The Action Plan

The Action Plan must concisely express the main guidelines via the strategic project should be implemented.
It must include at least the following points:

— all the action which permits the realization of the strategic aims, with specification of the impact in financial terms and the estimated timetable for the implementation (by way of example, see the plan for the reduction of the operating costs contained in table 7);
— the description of the investments which will be achieved, highlighting the sum total, the type, the reference accounting periods and the balance sheet items which they will have an influence on;

— the organizational impact of the individual action in terms of Business Model, managerial structure, corporate workforce, geographic areas to be covered, distribution channels and commercial structure;

— any measures on the products/services/brands portfolio offered to customers;

— the action by means of which one intends to create a possible variation of the customer target to serve;

— the system of responsibility or rather indication of the managers responsible for the scheduled action;

— the conditions/restrictions which may influence the possibility of accomplishing the action.

The role of the Action Plan is therefore to provide the strategic aims with practicability and credibility; the more they are illustrated precisely and in detail, the more evident it will be that management has already outlined the main stages for the realization of the strategic framework.

As you will be able to see more clearly in paragraph 1.4.3. “Strategic approaches and features of the strategic plan”, the strategic plan, and therefore also the Action Plan, must present different descriptions and details according to the characteristics of the strategic project.

ACTION	TIMETABLE	COSTS REDUCTION
Reduction of production workforce by 40 units	June 2004	1,000
Replacement and reduction of suppliers	March 2004	3,000
Rationalization of logistic flow	October 2004	2,000
Internalization of plant maintenance and employment of specialized staff	June 2004	1,000

TABLE 7: Plan for reducing operating costs (figures in thousands of euro)

1.3.3. The assumptions and the forecast financial data

All strategic plans are evaluated on the basis of the assumptions and the financial prospects associated with the strategic choices.

The strategic plan must therefore contain a series of financial schedules drawn up in full compliance with the strategic choices and with the Action Plan, with indication of the contribution of the various SBUs, the distribution channels, geographic areas, customer types, products, services and/or brands to the achievement of the established objectives (in this connection, see paragraph 1.4.2.).

All the assumptions relating to the key value drivers and the main forecast data must also be indicated, or rather the criteria via which, starting off from the strategic aims and from the Action Plan, the company has arrived at the definition - on the basis of a method representative of the corporate economic logic (an aspect which will be dealt with in paragraph 1.4.1.) - of the quantitative objectives which it intends to achieve over the following year.

In short, a strategic plan must indicate:

— the underlying assumptions concerning the macro-economic magnitudes (rate of inflation, exchange rates, etc.);

— the assumptions underlying the growth of the revenues by SBU and for the significant operating variables (in this connection, see table 8 for the analysis of market demand targeted at the drawing up of the growth assumptions for the sales revenues of companies who use a “top down” type economic model);

— the assumptions underlying direct costs by SBU and for the significant operating variables;

— the assumptions underlying indirect costs (for example general expenses, communications costs, amortization/depreciation), financial charges and taxation;

— the assumptions underlying the evolution of the capital employed, both fixed and working, by SBU and for the significant operating variables;

— the assumptions underlying the evolution of the financial structure and the coverage of any financial requirements generated by the realization of the Action Plan.

The formulation of the assumptions represents one of the most important stages of the entire process for the processing of the financial estimates: not only, in fact, do the latter take on full significance only if the underlying assumptions is accurately clarified, but the quality of the estimates made essentially depends on the foundation of the assumptions. The drawing up of the plan assumptions is started off by the analysis of the historical data relating to the last three accounting periods. In order to justify the performance of the economic margins, the following appear to be of particular importance:

— the existence of percentage values which are relatively constant over time (for example: the incidence of the operating costs on sales revenues), whose change over the period of the plan must be accurately justified;
— the identification of trends registered in previous accounting periods which will continue in following years;
— the existence of action destined to have significant effects on the prospective percentage values, such as, for example, investments made which have not yet expressed their effects, mergers of companies acquired, the introduction of new human resources, etc.

The drawing up of the assumptions, as already mentioned, will depend on the Business Model of the company and the economic model adopted. Paragraph 1.4.1. contains an analysis, including a number of real cases, of the bottom up, top down (demand driven) model and that which is typically following by the companies who work to order, together with the structuring of the assumptions for each one.

1.4 The logics behind the creation of the strategic plan

After having analysed the main components of the strategic plan, a series of aspects, which make it possible to provide each plan with a systematic and rational nature and to enhance the relationships between the various sections, are dealt with in this paragraph.

We will start to examine, also by means of the presentation of a number of tangible cases, the various types of economic models which can be followed for the purpose of identifying the main directional levers at the basis of the formation of the financial results; we will then stop to look at the lines along which it has taken place and along which it is expected that the development of a determinate company will occur. Lastly, ample space will be given to the features which the strategic plan must adopt in accordance with the underlying approach which management has nticipated with regards to creation of value.

1.4.1. Economic model: analysis of several real cases

The various sectors, to which the companies belong, present specific economic logics which are often rather different, featuring peculiarities which change profoundly from one business to another.
In order to correctly estimate the financial prospects of a plan it becomes fundamental, as stated in the previous paragraph, to draw up an economic model (or rather a method representative of the company's economic logic) which permits the identification of the main directional levers which contribute towards determining the financial profile of the company.
More specifically, the economic model, within the chosen strategic approach, should focus itself on the characteristic corporate management activities, while for the financial, extraordinary and fiscal management activities simplifying assumptions can be adopted.

When disclosing its economic model, the company subject to listing gains manifold advantages, including the possibility of consistently improving the quality of the analysis of the profitability and the corporate financial trend. Furthermore, one should definitely not neglect the possibility of identifying the operational levers (growth, customer satisfaction, product innovation, control of the production yields, full utilization of the production capacities and so on) which most greatly effect profitability and growth, or rather the decisive initial positions of the corporate value (the so-called key value drivers) and the operating indicators, or decisive lasts, capable of gauging the performance (the so-called key performance indicators, KPIs).

The identification of the KPIs makes it possible, as more fully detailed in the "Management Control System Guide", to translate in operating terms the strategic aims in the strategic plan: the improvement of the operating profitability linked to the simultaneous improvement of the company's ability to innovate translates, for example, into a series of parameters which must be satisfied during the introduction and the launch of new products and into the portion of sales revenues which thanks to the latter must be achieved, elements easily controllable by management and which therefore make it possible to proceed on the basis of more firmly founded estimates. And not only, the KPIs also represent excellent instruments for monitoring the progress of the strategic plan since they make it possible to detect any variations with respect to the scheduled performances on a timely basis.

For the purpose of highlighting how the economic model is essential for grasping the specificities of each company in relation to the formation of the financial results, a number of examples have been worked out below. We will focus on three cases: that of the companies operating in the sector of largescale retailing, that of the companies who work to order and that of the companies who mass produce for the warehouse.

In relation to the **companies operating in large-scale retailing**, the predominant use of a bottom up[14] type economic model is noted, involving a final and prospective analysis of the financial results concentrated on the performance of the stores and on their ability to generate a margin which makes it possible to cover the costs of the central structure. The method for portraying the economic logic, and consequently the breakdown of the assumptions, should therefore start off, on the one hand, from the result of the network of stores and from the possible routes which ensure an improvement, on the other hand, as well as from the productivity of the HQ costs and from the lever for its increase. Specifically, attention on the store results implies:

— the analysis of the sales margin, linked to factors such as the price policy, the sales mix, the discount policy, the selection of the suppliers;

— the analysis of returns, or rather of the sales revenues by square/linear metre, which links up to variables such as the location of the stores, their characteristics;

— their related appeal, the merchandising action, the level of service guaranteed the customer, the abundance of the range;

— the analysis of the incidence of the fixed management costs of the stores, linked to the structure of the branch, the coverage (square metres per employees), the rent negotiated, the policies for the selection and management of personnel and so on.

With regards to the growth processes of the companies who operate in this sector, this involves distinguishing the growth where networks are equal (the so-called "like for like") and the growth following the opening of new stores. The first is the result of a progressive bringing onto stream of the stores or the increased competitiveness of the value proposition. The second is expressive of the structural growth of the company and therefore involves multiple investments: its analysis is concentrated on the expansion of the square/linear sales metres, on the trend in the margins, on the evolution of the working capital and the cash flows by square/linear metre and on the observance of the timescales from the bringing on stream of the stores.

In the event of a **company which works to order**, the procedure followed by the companies in the sector leads to the creation of the strategic plan based on the analysis of the book of job orders acquired and on the development of assumptions relating to its replenishment.

With regards to the job orders acquired, already partly executed or to be started, typically forming the subject matter of ad hoc estimates, it is possible to draw up, for the plan periods, a forecast of revenues, costs, margins and investments characterized by elevated visibility.

[14] The bottom up model is applicable on a general basis to the companies which sell to the end customer via their stores and to those who plan their sales on the basis of the customer portfolio (or the database of effective and potential customers), the ARPU and possibly the success factor of the "attempted sales" of its sellers.

With regards to the job orders not yet in the order book, it is necessary to draw up clear assumptions regarding the number, the characteristics, the timing breakdown and the value of those which could be acquired and executed during the plan period.

For this purpose, of particular use, on the one hand, is the analysis of the process for acquiring the job orders tried and tested by the company, its track record and its greater or lesser competitiveness vis-à-vis the various types of job orders which could emerge; on the other hand, so is the market analysis, so as to estimate both the sum total of the job orders which could be contracted out on the reference market of the company, and the characteristics of the possible companies awarded the contract.

In short, the breakdown of the plan of acquisitions is based on:

— the investment plan of government bodies, other public authorities, private parties, companies of public interest in the individual geographic areas of interest to the company being listed;

— the identification of projects which are interesting with regards to their amount, type and operating complexity;

— the valuation of the costs, the financial resources recoverable and the availability of human resources;

— the valuation of the timescales necessary for the awarding of the contract and the development of the various job orders;

— the type of commercial dealings with usual partners;

— historical trends of the success factor (percentage of bids won with regards to total participated in) for the various types of job order.

Following this analysis, the job orders which will be included among the new acquisitions anticipated in the plan are identified, for an amount which may be equal to the total value of the job order or to a lower value in the case of utilization of a participation ratio[15].

[15] Once the job orders to be introduced into the strategic plan have been identified, they must be divided up by SBU, type of job order and geographic area.

Naturally, the forecast relating to the characteristics of the job orders will also influence the estimate of the possible margins and the necessary investments in fixed and working capital. In conclusion, the assumptions relating to the handling of the claims, the insurance agreements (also with regards to job orders to be executed in developing countries), the evolution of the structure of the fixed costs and, in particular, the amortization/depreciation and structure costs, will have to be specified.

Different again is the case of a company which mass **produces for the warehouse** (for example: companies which produce commodities, popular consumer goods, semiconductors, electronic micro components, sports articles, etc.). The logic normally utilized in the structuring of the plan in similar situations is "top down" in type and is based on assumptions and convictions (possibly backed by forecasts issued by accredited research institutes) which management have reached regarding the trend in the market demand of the products and/or services. This is without doubt the most delicate stage: it is necessary to pay the greatest attention when circumscribing the real reference market for the company on the basis of variables such as the geographic area, the customer type, the type of product/service and the distribution channels (see table no. 8). If this phase is carried out in an imprecise manner, one risks obtaining forecast data which is wholly unreliable.

	t -3	t -2	t-1	t	t +1	t +2	CAGR (t -3) - (t -1)	CAGR (t -1) - (t +2)
Asa 1								
ITALY large scale distribution normal trade								
UE large scale distribution normal trade								
USA large scale distribution normal trade								
Asa 2								
ITALY large scale distribution e-commerce								
UE large scale distribution e-commerce								
USA large scale distribution e-commerce								
Asa n.								
...								

Source: QMAT

TABLE 8: Analysis of demand - Size and trend

The subsequent step consists of the definition of the assumptions regarding the market shares which the company intends to achieve for each product/service line throughout the plan: the more these differ from the historical ones, the more it will be necessary to explain the methods by means of which these objectives will be achieved and market shares will be gained from the competitors (growth track record at greater rates than the market ones, particular key success factors which determine competitive advantages, etc.).

The afore-mentioned matters are preparatory for estimating the sales revenue for each main type of product/service, which must be further broken down by customer type, geographic area and distribution channel.

As far as costs are concerned, those associated with production are generally estimated on the basis of the standard costs (raw materials, labour, services), illustrating the reasons for any variations in terms of historical incidence on sales revenue.

The distribution costs, if possible, should be calculated individually: those of the sellers and the agents on the basis of the number of resources which will be utilized (explaining the relationship existing between the number of resources necessary, number of customers and sales revenue to be realized) and the fixed and variable remuneration (specifying the parameters to which the latter is linked); the promotional and advertising costs on the basis of the initiatives which are expected to be carried out; the costs of the sales structure on the basis of the facilities which the company will avail of (central structures, sales offices, etc.). The logistics costs, if the management control system permits as such, should be calculated by distinguishing those relating to personnel (specifying the number of resources and the average remuneration profile) and to the structures used (warehouses, means of transport, management software, etc.). The estimated cost items will then have to be divided up, as far as is possible (at any rate, at least the direct costs), by SBU, product, service and/or brand type, distribution channel, customer type and geographic area, so as to be able to determine the related prospective margins.

1.4.2. The various analysis lines

The description of the logics for creating the strategic plan cannot leave aside the indication of the lines along which it took place and along which it is expected that the growth of the company will occur. These lines, in fact, represent the basis for an accurate analysis of the performances achieved and awaited and, in particular, the trend in the main competitive and financial data.

The SBUs are only the first level of splitting up of the competitive and financial performances achieved by the company, which must be followed by a further breakdown on the basis of the variables which more fully represent the growth objectives and the way in which management formulates the strategies.

These variables can be: the type of customers served; the distribution channels which the company avails itself of; the geographical sphere (which can be represented as much by country, as by geographic area, provided that the choice is consistent with the strategy adopted by the company); the various product, service lines and/or brand sold. Therefore, once the relevant variables have been identified and made clear, it is necessary that the sales revenue, market shares, margins (gross of the overheads), capital employed, both fixed and working, and investments are split up also on the basis of the former (as well as by SBU). Without a similar level of detail it would be difficult to analyse the real sources of value creation: imagine, for example, a company which hypothesises an increase in profitability linked to a change in the customer mix. In the absence of a disaggregated analysis of the evolution of the sales revenue by customer category, it would be impossible to reunite the increase in profitability to the respective driver and, therefore, justify it. Once the analysis guidelines have been identified, it is also necessary that all the assumptions underlying the plan follows the same arrangement. Lastly, it is useful to remember that this approach makes it possible to analytically evaluate the level of visibility of the forecast data included in the strategic plan as well[16].

[16] See previous paragraph 1.2., point III).

SBU	CUSTOMER TYPES	DISTRIBUTION CHANNELS	GEOGRAPHIC AREAS	PRODUCT LINES/SERVICES
SBU 1	Customer type 1 Customer type 2 Customer type 3	Channel 1 Channel 2 Channel 3	Area 1 Area 2 Area 3	Product 1 Product 2 Product 3
SBU 2	Customer type 1 Customer type 2 Customer type 3	Channel 1 Channel 2 Channel 3	Area 1 Area 2 Area 3	Product 1 Product 2 Product 3
SBU 3	Customer type 1 Customer type 2 Customer type 3	Channel 1 Channel 2 Channel 3	Area 1 Area 2 Area 3	Product 1 Product 2 Product 3

Source: QMAT

TABLE 9: The possible analysis lines of the performances of the company being listed

1.4.3. Strategic approaches and features of the strategic plan

Again with a view to defining, on the one hand, what is expedient to include within the strategic plan and, on the other hand, the degree of detail to be developed when drafting the same, certain considerations remain to be dealt with on the delicate subject of the value, which influences the characteristics of the strategic plan to the extent it influences the strategic policies of the company subject to listing.

As a point of fact, the strategic plan assumes different features depending on the underlying approach which management has anticipated with regards to the creation of value. Specifically, in the case of the companies subject to listing what takes on great importance is not so much the existence of a positive spread between ROCE (net of taxation) and WACC, but rather the analysis and clarification of the key value drivers via which one intends to obtain an increase in the value created (EVA®), the latter effectively representing the expectation which the market directs towards the companies listed.

For this reason, the plan will have to contain a description of the strategic choices which make possible (singularly or jointly) **the increase in value** (see table no. 10), or rather the growth and the increase in the spread (acting on the costs, and therefore on the **ROS**, on **the capital employed** and on the **cost of capital** - WACC -).

An initial possible situation is that of a company being listed which concentrates on increasing the value by means of raising the EVA® **dimension being equal** (sales revenue), or rather the case of the **increase of the spread**. The strategic plan will therefore have to illustrate the action which permits the achievement of these objectives, or will have to describe the measures anticipated on the costs, on the **capital employed** and on the **cost of capital**.

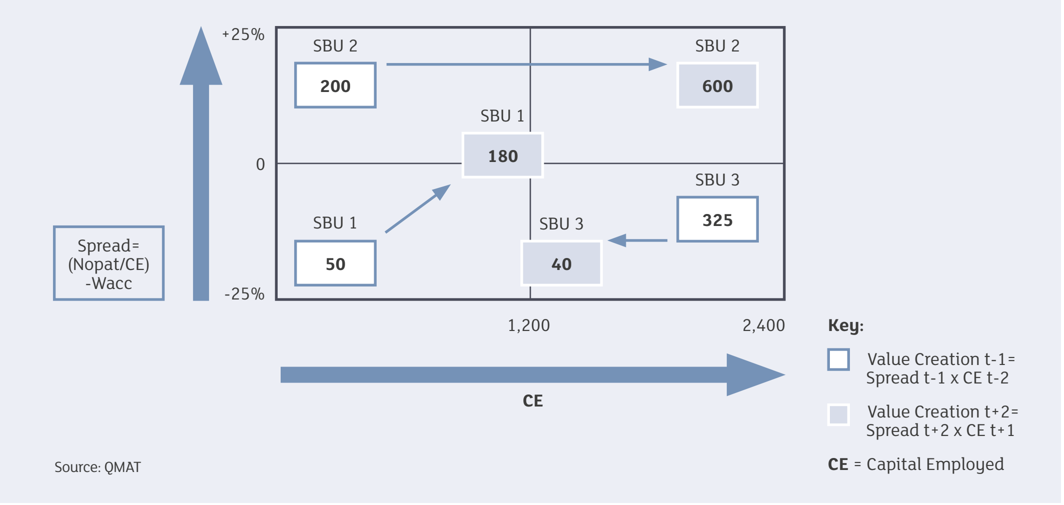


TABLE 10: The creation of value

With reference to the costs[17], it becomes fundamental to describe the areas of intervention within the plan, identifying the action intended to affect their sum total and the expected trend without altering the level of service offered to the customers. Within the SBUs concerned, the plan will have to specify if and to what extent the action will have an effect on the structure of the fixed costs rather that on that of the variable costs. The measures could have an effect on the degree of vertical integration, on the process technologies, on the abundance of the range of products and/or services offered to the customers, on the economies of scale and experience, on the incentive of the work force, on the utilization of the production capacity, on the re-engineering of the processes, on the layout of the installations, on the configuration of the product and on the exploitation of the links with the suppliers or customers along the value chain.

With reference to measures for the **reduction of the capital employed**, the plan will have to provide indications concerning the levers which management intends to activate, such as for example: the reduction of the degree of vertical integration; changes in the technologies adopted, on which the various levels of productivity of the installations depend; outsourcing policies for various phases of the Business Model; measures on the management processes which make it possible to reduce the working capital (the action targeted at improving the management of the warehouse deserves particular analysis, such as the reduction of the emergency stock level, the disposal of unsold stock, the rationalization of theproduct codes, etc.).

In relation to the measures for the **reduction of the cost of capital** (WACC), the strategic plan will have to focus on the assumptions for the modification of the financial structure, including the choices in terms of increase in borrowing, restructuring of the debt, issue of bonds and dividend policies.

In complete contrast is the case of the company which, in the presence of a positive spread, decides to increase the value created (EVA®) by means of **growth accompanied by an invariance or deterioration in the incidence of the costs** (and therefore of the ROS) and **the rotation of the capital employed** (understood as the ratio between the sales revenue and the capital employed). For this purpose, the company must consider the various growth opportunities which it can pursue both via the gaining of market shares inside and outside the competitive arena traditionally covered, and via the growth of the reference market, the market share being equal.

[17] Shank, J. K., and Govindarajan, V., The strategic management of costs. Executive accounting and competitive advantage, Milan, Il Sole 24 Ore, 1996.

Once the possible alternatives have been pinpointed, the resources necessary for achieving the growth (financial, human, technological, etc.) identified and the methods via which to trace them specified, it is advisable that indication is made in the strategic plan of whether the growth will be based on:

- the acquisition of new customers;
- via the expansion of the range of products, services and/or brands;
- entering into other geographic areas;
- using new distribution channels.

These strategic choices must then be declined in precise implementation actions, establishing for each of them the related investments, the timetable, the responsible managers, the conditions/restrictions and the financial impact.

For example, in the event that the company proposes to extend or change its products/services/brands portfolio, it is necessarily to clearly indicate within the strategic plan the objectives in terms of volumes, prices and number of target customers and the action already undertaken and to be undertaken for the achievement of these results.

The introduction of new products/services/brands into segments traditionally covered by the company may sometimes lead to a cannibalisation of the existing products whose effect must be estimated.
As far as the geographic areas are concerned, great attention must be paid to the timescales within which one anticipates entering into new areas or increasing the penetration in existing ones. In particular, any commercial joint venture and/or partnership agreements must be illustrated, together with the stage of completion of the plans for the opening of new sales branches/stores and for the tracing of sales agents and sellers (specifying the related incentive methods).

Even if complementary nature and overlapping can exist among the aforementioned growth lines, it is opportune that for each of these the company carries out separate reasoning in order to then grasp any synergies.

In conclusion, a company subject to listing may find itself in the position to increase the value via **growth routes accompanied by an improvement in the spread**. In such a circumstance, the strategic plan will have to contain the afore-mentioned elements, combined in different ways.

1.5. Sensitivity analysis

As described previously, the planning process which leads to the creation of a strategic plan is based on a series of assumptions and therefore by its very nature unfolds under conditions of uncertainty.
Therefore it is advisable to present a sensitivity analysis with respect to the main qualitative and quantitative variables, which can substantially affect the creation of value, hypothesising different scenarios with which probability ratios should be associated.
In substance, it would be desirable to concentrate the sensitivity analysis on the main key value drivers, on the most significant external sector-based variables[18], on the most relevant implementation actions and on the possible integration of the companies recently acquired.

Considering that the projections contained in the strategic plans are as a rule linked to the most probable scenario, the sensitivity analysis should be presented with respect to more optimist and more pessimistic scenarios, demonstrating the effect on the main financial data (for example: sales revenue, operating margin, net profit, net financial position, investments).
The simulations made will have to be supported by detailed and justifiable theories and the results will have to be comparable in terms of parameters/indexes utilized.

In the event that the logic underlying the strategic plan is “top down” in type, it is advisable to carry out a “what if” type analysis with respect to the trend in the market demand, the market shares potentially achievable by the company and the percentage-based incidence of the main operating costs. The companies which follow a “bottom up” type approach should focus instead on operating parameters such as the number of newly-opened stores, the sales revenue and the operating costs by square/linear metre.
Lastly, the companies who work to order should concentrate on the main job orders to be acquired and in particular on the success factor in the assignment of the job order and on the presumed profitability of the same.

[18] Trend in demand, reaction of the competitors, legislative amendments, technological innovations, measures by anti-trust authorities, etc.

1.6. Handling of critical aspects

In this paragraph we will deal with certain aspects which have considerable relevance within the process for the structuring of the strategic plan drawn up for admission to listing and which often are subject to far-reaching discussions due to their potential impact on the corporate operations and its results. An initial question greatly debated is if the strategic plan has to be drawn up pre or post-money. First and foremost, it is necessary to state that the plan should contain the financial reflections of all the strategic aims which management intends to pursue during the time period, with the exception of the acquisitions not yet concluded (as will be specified further on) and the strategic projects not completely outlined, in relation to which, in other words, it is not possible to define the implementation actions and therefore quantify the economics at the time of the preparation of the plan. On the other hand, the proceeds from the public offer for subscription[19] should not be included among the sources of funding and the costs associated with the listing process should not be included among the costs.

As far as the subject of acquisitions is concerned, it is necessary to underline that the strategic plan should not include the effects of the acquisitions not yet concluded or not yet subject to a letter of intent. By contrast, the strategic plan must focus on the companies acquired recently, representing the choices targeted at achieving the integration within the group concerned.

In this connection, the plan must start off from the description of the reasons at the basis of the acquisitions (strategic choices, tax reasons, etc.) and how the companies acquired will have an impact in terms of creation of the competitive advantage, Business Model and degree of vertical integration. Furthermore, it will be necessary to detail the synergies obtainable, maintaining a conservative approach (especially in the event that one does not have complete governance of the company acquired), distinguishing those relating to revenues from those relating to costs. With regards to the first, it will be necessary to indicate in what way the realization of the synergies will generate an increase in sales revenues (with respect to a pre-acquisition situation). Subsequently, all the information on the expansion of the product range, on the sharing of the sales channels and on the penetration into geographic areas not covered, must be provided. The same is valid for the costs: how much the saving obtainable in subsequent years amounts to and how it will be achieved will have to be indicated for each main item. Particular attention will have to be paid to the reduction of the workforce with respect to the contractual and trade union problems; information relating to the application of the most advantageous prices lists will have to be provided instead for raw material costs. Furthermore, ample space must be given to the organizational aspects relating to the integration of the companies acquired.

[18] Even if the strategic plan must always been drawn up pre-money, it is necessary to remember, as described in paragraph 1.2., that in the valuation of the financial sustainability it is also possible to consider the proceeds of the IPO.

The same is valid for disposals as well: it will be necessary to separate the potential ones from those already achieved or forming the subject matter of a letter of intent; only the effects of the latter should be included in the strategic plan and the majority of the information requested for the acquisitions should be provided, where applicable. The problem of intergroup transactions poses itself in the event that, within the sphere of the group which intends to achieve stock market listing, commercial and financial transactions take place between the various SBUs. In fact, as already clarified, the forecast data must firstly be broken down by SBU, whose identification should leave aside the corporate substratum existing and be supported by the analytical accounts (reconcilable with the general accounts[20] which are based, by contrast, on the companies present within the group). Generally, in the strategic plan, if the analytical accounts allow as such, the figures relating to each SBU should not include the revenues and costs generated by transactions between the same and, consequently, statements of reconciliation between the consolidated figures and the figures per SBU should not be included (bearing the balance-related column “intergroup adjustments”). More in detail, it would be necessary to include just the revenues realized in relation to external entities for each SBU, leaving aside those relating to internal transactions which do not generate real value for the shareholders; the same applies for the operating costs, whose charging to each SBU should be made on the basis of the effective use of the production factors (raw materials, personnel, services, plant costs, etc.)[21] and the pertinence to the revenues.

The approach proposed, although not binding, is the condition for being able to estimate the valued created by each SBU[22] and justifies itself by means of the consideration that the strategic plan should be the expression of the operating situations and not of the requirements of the general accounts (which by contrast should manage the presence of several companies with separate accounts).
In the event that the company subject to listing it not able to satisfy this approach, without prejudice to the breakdown of the figures by SBU, the plan must analyse:

— the type of transactions between SBUs included therein;
— the methods for determining the transfer prices applied;
— the statement of reconciliation between the consolidated figures and the figures per SBU (bearing the balance-related column “intergroup adjustments”).

[20] In the general accounts, the intergroup transactions are normally recorded by means of transfer prices which permit the realization of intergroup gains; within the sphere of the consolidation operations, as is known, the transactions in question are written off eliminating the gains realized as well.

[21] By way of example, in the event of a group with several SBUs who sell different products (or brands) created within a single plant, it will be necessary to charge, without transfer prices, the production costs (raw materials, personnel, services and amortization/depreciation) in the analytical accounts to the various SBUs on the basis of the effective utilization of the production structure.

[22] See table 10.

Another aspect worthy of attention is the exposure to the exchange rate risks, which must be described accurately in the plan highlighting the hedging polices and the assumptions adopted with regards to the exchange rates used; in the event of the lack of hedging, by contrast, the reasons for this choice must be illustrated. The hedging policies must be made clear both with regards to the short-term, and in relation to the need to neutralize any risks running between the date of invoicing and that of payment, and the medium-term. It is advisable to indicate the impact of any changes in the exchange rates on the results for the last few years, in terms of profitability, both operating and pre-tax, and organize a sensitivity analysis (on the sales revenue and on the main margins) with respect to the potential exchange rate trend, taking into consideration, with respect to the assumptions made, optimistic and pejorative scenarios.

The time-span of the plan is an aspect sorted out in the Rules which make explicit reference to the current accounting period and the two subsequent ones. Where the company considers it to be opportune, it is possible to extend the time-span of the plan to additional accounting periods: this emerges as useful if it is necessary to show the effects of the strategic choices which will come about in more ample periods of time (just think of the biotechnological companies), in the event of plans referring to start-up companies that may be listed on the MTAX or in the case that there are SBUs that find themselves in a start-up or turnaround phase.

In highly seasonable businesses and in the cases of SBUs just set up or which have been subject to a significant restructuring process, it would be opportune to provide an analysis of the quarterly or even monthly budget (in other words of the first year of the strategic plan); this would immediately facilitate Borsa Italiana and the other operators involved in the listing process with regards to the comparison with the actual data of the company being listed relating to homogeneous periods.

Another criteria to be observed when drawing up the strategic plan is the **uniformity** which is reflected, on the one hand, in the reclassification of the forecast data in a similar form to that used for the data relating to the last three accounting periods[23], and the other hand, in the need to adopt accounting standards in line with those of the last audited financial statements.

With regards to the **breakdown of the income schedules**, it is useful to remember that the operating costs, both fixed and variable, should be represented in relation to the phases of the Business Model to which they refer. Furthermore, they must be analytically clarified, providing the cross-section of the aggregate items, so as to be able to analyse the evolution of the individual cost items, in absolute value and in terms of percentage of the sales revenue.

[23] You are reminded that all the forecast data contained in the plan must be placed in comparison with the related final data concerning the last three accounting periods.

1.7. Some useful rules

During the planning process which leads to the creation of a strategic plan, it is necessary to observe some useful rules which can positively influence the plan's credibility. A number of examples are provided below which also serve as a memorandum in light of what has been discussed in previous paragraphs.

— The planning process must be consistent with the approach that management takes when conducting the corporate activities and must not take on the form of activities completely detached from the daily operations. The non-observance of this basic rule leads to abstract forecasts not supported by the effective operational performance.

— The strategic plan must always be accompanied by elementary assumptions which makes it possible to comprehend how one manages to obtain the quantitative forecasts from the strategic choices and from the implementation actions planned. Furthermore, the economic model used for creating the strategic plan must be illustrated.

— The initiatives or development plans must be compatible with the legislative- judicial-normative framework.

— The financial feasibility of the plan should not be underestimated, in other words the ability to finance both internally and externally all the investments anticipated.

— Consistency is required between sizing and the quality of the organizational set-up, on the one hand, and the development programmes presented in the strategic plan, on the other hand.

— All the choices regarding the entry into new SBUs or the entry into new geographic markets must be illustrated explaining how the company intends to find the human, organizational and technological resources and all the other skills necessary for achieving these objectives.

— It is necessary to always bear in mind the variability of the product life cycle, especially in the sectors subject to high risk of obsolescence of the same and those which are highly innovative.

— With a view to entry into attractive foreign markets, particular attention must be paid to the social-economic-politic situation of the country and its possible evolution which could seriously influence the business of the company itself to a greater or lesser extent.

— It is fundamental to make forecasts, the most realistic possible, of probable but not certain costs and investments (for example: advertising campaigns for the launch of a new product, recourse to personnel recruitment agencies, etc.).

— In the case of industrial-manufacturing entities, it is necessary to take into account special maintenance, whose costs may heavily weigh on the profit and loss account.

— All the components relating to both the ordinary operations and extraordinary operations must be considered, components which at times are believed to be of marginal importance, but which by contrast can have a considerable impact from a financial point of view (for example: it is necessary to consider all the start-up costs of investments for which permits, licences or even bureaucratically long realization timescales are required and whichsignificantly change the cash flow projections).

2. The structure of the strategic plan: a standard format

The previous chapter stopped to look at the contents of a strategic plan drawn up for the admission to listing on the stock exchange. Below, in order to facilitate the task of the companies subject to listing, the advisors and the Sponsors, a standard reference format will be provided which reflects the matters discussed in the first chapter. This effort has been made in the full awareness that any attempt would have run into company and sector-related specificities; consequently, the points in the format have been limited to those potentially applicable to each case in question, having also taken into account the examples relating to companies listed in the last five years, so as to create a "minimum level" which will then have to be "verticalised" for each company.

The standard format, also in the version proposed, must not be considered to be binding; any different structuring, adopted for the purpose of an improved representation of the corporate situation and the approach followed by management when conducting corporate activities, can be utilized, providing an illustration of the reasons behind said solutions.
In any event, it will not be possible to avoid providing the minimum content as requested by the Rules.

The standard scheme proposed is presented below:

— **1. Executive Summary**
  1.1. The strategic project proposed
  1.2. The main implementation actions
  1.3. Summary of the main financial data expected

— **2. The strategy pursued**
  2.1. The corporate competitive strategy
  2.2. The competitive strategy of each SBU
  2.3. Evolution of the main historical financial data by SBU

— **3. The strategic aims**
  3.1. Need and opportunity for a strategic renewal
  3.2. The strategic aims at corporate level
  3.3. The strategic aims at SBU level

— **4. The Action Plan**
  4.1. Action, timetable, responsible managers
  4.2. Financial impact of the action
  4.3. Investments and funding formalities
  4.4. Organizational impact
  4.5. Conditions and restrictions affecting implementation

— **5. The assumptions and the forecast financial data**
  5.1. Economic model
  5.2. The assumptions underlying the financial forecasts
  5.3. The forecast data compared with the historical data
  5.4. The analysis lines of the operating results
  5.5. Performance of the key value drivers
  5.6. Sensitivity analysis
  5.7. Key aspects to be highlighted

All the points present in the standard format have been fully illustrated in the first chapter, to which reference should be made, with the exception of the Executive Summary. In this chapter, the strategic project should be presented briefly, together with the guidelines of the Action Plan and the main results expected (by way of example see table 11 concerning a local utility). The purpose is to provide an overview of the content of the plan which will be detailed in subsequent points.

Specifically, with regards to the strategic project the elements which characterize it the most and are distinctive for determining the prospective validity must be indicated.

With regards to the implementation actions, these involve expressing in summary form the main action lines via which one intends to implement the strategic project: by way of example, investment logics, possible action aimed at extending the SBU portfolio, the levers for rationalizing the capital employed and so on, can be indicated.

In conclusion, as far as the presentation of the expected results is concerned, it is necessary to indicate the probable evolution of the main performance indicators, where possible expressed not only in economic terms (or value terms), but also in competitive terms.

THE STRATEGIC PROJECT PROPOSED

Growth in the core business

Growth in the production of electricity and in the sale of electricity and gas, transforming itself from a predominantly local operator to a national operator

THE MAIN IMPLEMENTING ACTION

- Generation:
  - Repowering of the A and D power stations (Capex 115 mln of €)
  - New combined cycles (Capex 600 mln of €)

- Sale of electricity and gas:
  - Marketing of part of the energy produced by Eurogen
  - Additional gas availability via participation in the Everest purchasing consortium

SUMMARY OF THE MAIN FINANCIAL DATA EXPECTED (mln of €)

	2002A	2003E	2004E	2005E
Revenues	1,050	1,282	1,794	2,105
Ebitda	241	295	413	505
Ebit	136	166	233	295
Net profit	84	109	143	168
Capital employed	1,890	2,106	2,410	2,650
Net financial position	813	1,011	1,325	1,510

TABLE 11: Executive Summary

3. Due diligence: areas of analysis and the process phases

This chapter deals with the subject of the checks to be carried out on the strategic plan drawn up by the issuer; a number of specific examples of possible activities to be carried out by the Sponsor as part of the overall due diligence activities on the company being listed will be highlighted, on the basis of the experience matured by Borsa Italiana over the last few years.

Three areas of analysis are proposed, focused respectively on:

— the requisites of a strategic plan;
— the organizational sustainability of the plan;
— the standard format proposed by Borsa Italiana for the creation of the strategic plan.

The requisites of a strategic plan have already been dealt with in chapter 1; by contrast, the subsequent paragraph will focus on the analysis process which could be useful for assessing the related presence. Furthermore, some strategic plan examples lacking requisites will be illustrated, whose risks will also be indicated.

The subject of organizational sustainability, albeit strictly pertaining to that of the requisites (and in particular to the requisites of consistency and financial sustainability), will be dealt with separately, given its specific nature. Lastly, the significance which Borsa Italiana attaches to the standard presented previously will be highlighted.

3.1. Analysis of the requisites

The checks on the strategic plan should start off from the analysis of the requisites illustrated in chapter 1, in other words the financial sustainability, the consistency and the reliability.

I) Financial sustainability
The analysis of the financial sustainability of a strategic plan starts off with the correct estimate of the cash flows hypothesised by the issuer and with the coverage of the latter by means of secure sources of funding. The end objective is to verify that, in their entirety, the financial dynamics support the achievement of the strategic objectives anticipated by the plan.

The cash flows generated by operations and those absorbed by investments take on significance for a careful estimate of the cash flows, with particular regard to the outflows anticipated.

It may be useful to evaluate - also by means of a sensitivity analysis - the evolution of the working capital requirements with respect to the sales forecasts, the conditions reserved for customers and obtained from suppliers, the changes to the logistics set-up and the variations in the sales channel mix and the product/services portfolio. For example: if the company presents ambitious growth objectives for the sales revenues on stable markets characterized by heavy competition, it would be advisable to consider the evolution of the payment extensions granted to the customers, which may, on the one hand, become an instrument essential for competing (and, therefore, for gaining market shares), but, on the other hand, negatively influence the free cash flow.

With regards to investments (technological, marketing, organizational, etc.), on the contrary, the amounts set aside, the timing of the financial flows, the impact of concessions and the operative and finance leasing agreements existing could have particular importance.

Following the analysis of the cash flows, it is useful to check, as indicated in paragraph 1.2., point I), on the one hand, if a balance exists between types of funding and uses, and on the other hand, the reasonable traceability of the sources of funding anticipated by the issuer.

It is advisable to pay particular attention to the strategic plans which anticipate further recourse to the stock market during the three prospective accounting periods in order to finance the investments anticipated, in that the experience gained over the last few years has shown that these are choices difficult to carry out.

If the strategic plan by contrast contemplates considerable use of lending from banks, the fact that the company being listed has carefully assessed its borrowing capacity and its "creditworthiness" will be important.

Furthermore, it is necessary that transactions which are complex, somewhat unclear and scarcely pertinent to the development of the company, are carefully examined so as to comprehend the objectives and the possible impacts.

Lastly, another area of the due diligence activities should comprise the analysis of the intergroup financial relations with associated companies and those in which investments are held.
For example, the amounts which the company is obliged to guarantee, the referrability to the strategic design, the timing of the payments and the potential impact on the financial situation will have to be compatible with the status of listed company (and therefore with the objectives for the creation of value for all the shareholders).

II) Consistency
As already seen previously, the consistency is a requisite of the strategic plan to be considered in a twofold dimension: the "internal" one (alignment existing between the various components of the plan) and that regarding the realizable nature of the Action Plan. As already mentioned, in paragraph 3.2. "Organizational sustainability" the theme of the analysis of the "organizational consistency" of the plan will be resumed so as to evaluate the consistency between strategic aims and precise organizational actions and, therefore, if the organizational framework and the structure of the Business Model support the strategic objectives.

“Internal” consistency of the strategic plan

The due diligence activities are performed within a context where it is important that the strategy pursued, strategic aims, action plan, assumptions and, finally, forecast data are aligned together.

Problems of consistency could occur, first and foremost, if the Action Plan is out of line with respect to the strategic aims or in the cases where precise strategic aims do not correspond with related action (investments, tracing of resources, organizational changes, etc.).

Another critical situation could occur with a plan which presents strategic aims and an Action Plan which are consistent, although without adequate reflection within the assumptions and the forecast data. Potential risks could emerge if a plan anticipates the realization of sharp growth in the sales revenues of certain products over short spaces of time, by means of an enhancement of the promotional and advertising activities, without demonstrating adequate growth in the marketing costs.

In the cases in question, it is advisable to make the necessary adjustments to the strategic plan, so as to re-establish the congruence between the various parts of the same.

Realizable nature of the Action Plan

Another aspect which may influence the consistency of a strategic plan is the realizable nature of the Action Plan with respect to the current or prospective resources which the company avails of or will endow itself with (see in this connection paragraph 3.2. for further details), the timetable proposed and any conditions and restrictions.

For the companies who work to order, for example, the plan could anticipate the realization of the job order acquired in time periods too short to then be observed. Other cases of an Action Plan of dubious realization according to the timetable hypothesised can be identified in those strategic plans based on the exploitation of a wealth of resources and distinctive competencies not yet possessed or on the achievement of consistent performances, in restricted periods of time, in new SBAs or in new geographic areas: the long timescales which in general are necessary for the realization of these options make significant results in a short space of time improbable. The situation just described has sometimes been seen for distributor companies in the Information & Communication Technology sector who aim to increase within a short space of time the sales revenue deriving from the supply of services “with added value” to their customers, underestimating the need to equip themselves with an adequate number of qualified human resources, project-related ability and knowledge management.

In conclusion, the strategic plans which anticipate strong penetration into new geographic areas can lead to heavy implementation risks if it is not demonstrated that the achievement of these strategic choices is entrusted to managers who have similar experience behind them.

III) Reliability

The reliability of the strategic plan, as already indicated in the first chapter, should be analysed with respect to as series of dimensions pertaining to the competitive context, the historical results, the visibility and the sensitivity analysis.

If elements are noted which can undermine the reliability of the plan, it will be important to discuss these aspects with the company's top management.

The model proposed for the verification of the reliability will be analysed below, indicating, among other things, some illustrative cases of situations which may lead to the emergence of risks.

Compatibility with the dynamics of the competitive context

The first element of reliability of a strategic plan is the credibility of its contents with respect to the characteristics and trends of the sector it belongs to. For an analysis of this aspect, one can consider the qualitative and quantitative content of the third chapter of the QMAT (a document which, as already stated previously, must be considered to be an integral part of the strategic plan) and verify, from a critical standpoint, that the competitive dynamics and the legislative and technological context do not negatively influence the reliability of the strategic aims, the Action Plan, the assumptions and the forecast data.

A possible critical situation concerns the overestimation of the market demand - which leads to sales revenue forecasts which at times are not very reliable - caused by an erroneous identification of the related competitive sphere for the company (this is sometimes noted for companies belonging to the Information & Communication Technology sector). As already mentioned previously and in the QMAT, so as to achieve a significant estimate, the reference market for a company will have to be limited, as far as is possible, in relation to the operating variables which are relevant to it: product, channel, customer and geographic area.

Another problematic case can concern companies who base their growth strategies on the launch of new products, services and/or brands which, however, are in contrast with the trend underway with regards to consumer needs. In this situation, it is desirable that the strategic aims are well supported by an accurate study of the target customers and therefore, for example, by market research and any trend already underway on foreign markets.

Other potential criticalities may arise if the company has not performed a satisfactory analysis of the competitors (benchmark analysis): sometimes, the intention to increase one's market share does not take into account the possible reactions of the competitors based on the respective competitive advantages; in other cases, by contrast, the strategic portfolio/channel/customer aims of the company subject to listing are out of line with respect to those of the best in class competitors and markets leaders. In such situations, in order to deal with potential alarm signals, it is desirable to check what type of attention has been reserved by the company for the analysis of the competitors during the planning process and, possibly, invite a review of the strategic objectives in light of the inputs which could emerge from the analysis just described.

Potential risks could occur if the negotiating power of the suppliers and the distributors is underestimated (see for example the companies which manufacture popular consumer goods sold via large retail chains); this may lead to erroneous forecasts regarding the supply prices, the sales prices, the payment extensions obtained from suppliers and those granted to distributors, with the effect of producing unreliable contribution margin and working capital estimates.

In such circumstances, and above all else if the estimates differ with respect to the figures of the last few accounting periods (price and duration of the extensions), it would be opportune to carry out further analysis to check the reliability. The evolution of the technological market context is also an important aspect in the analysis of the strategic plan, in that it reflects on the effective competitivecapacity of the company and, therefore, both on the ability to innovate and on its possible vulnerability.

In the locomotive sector, for example, the introduction onto the market, at competitive costs, of “inter-operable” means of transport - capable of being used on the various European networks and of adapting themselves instantly to the various voltages and signalling systems - represents innovation of great purport which changes the competitive dynamics, cancelling the planning times and making the new means of transport rapidly deliverable to the purchasers.

Comparability with the historical results

The results achieved by the issuer over the last few years represent the starting point for future strategic aims. The historical dimension, and therefore the financial and competitive performances achieved, may highly influence the reliability of the strategic plan, if the “misalignment” with the hypothesised future is abundant and hard to justify.

A case study is presented below, by no means exhaustive, in relation to which particular attention should be paid to:

- prospective growth rates of the sales revenue considerably high than those achieved in the last few years;
- prospective growth assumptions of the sales revenue in new geographic areas not supported by cases of entry with success in new geographic areas in previous years;
- growth assumptions of the sales revenue more than proportional with respect to the growth expected in demand, if the company being listed has never obtained this result in previous years;
- prospects of considerable improvement in the efficiency and/or rationalization of the central structures not supported by similar results obtained in the past or by a convincing restructuring project;
- heavy prospective reduction in the net working capital not validated by a similar historical trend.

Visibility of the forecast data

Generally, the targets hypothesised for the first year cannot ignore the analysis of the trend in the months already elapsed during the current accounting period and therefore how the implementation of the Action Plan is proceeding. These aspects, in fact, may validate the forecasts made or otherwise.

One could consider, for example, the strategic actions already being achieved, the performance of the operating activities, the competitive and financial performances which are emerging and the evolution of the financial data relating to the interim period elapsed (sales revenue, operating costs, overheads, margins, working capital and investments). Furthermore, for the companies who work to order it is important to compare the forecast sales revenue with the order portfolio as of the most recent date (also considering the portfolio in the same period in previous years) and the trend in the negotiations underway for future orders.

In the afore-mentioned cases, elements could emerge capable of rendering the estimates fairly incredible and capable of requiring a review of the strategic plan.

Sensitivity analysis

It would be appropriate if the due diligence activities also involved the sensitivity analysis which, as indicated in paragraph 1.5., should form part of the plan. In this connection, it would be desirable if the variables on which the company has set the sensitivity analysis are the most relevant in terms of creation of value and if the process which has lead the company being listed to formulate various alternative scenarios (probable, optimistic and pessimistic) is clear and correct.

By way of example, for a company involved in the distribution/sale of electricity or gas, it would be advisable to base the sensitivity analysis on the number of customers and on sales volumes (see table no. 12).

Other examples concern: airline companies, who should always carry out a sensitivity analysis on the load factor and on the introduction of new routes; the companies who operate in the large-scale distribution by sales revenue per linear metre; the companies who work to order, on the “success ratio” regarding the awarding of the new contracts; football companies, on the number of spectators and on the admittance to subsequent stages of the European competitions.

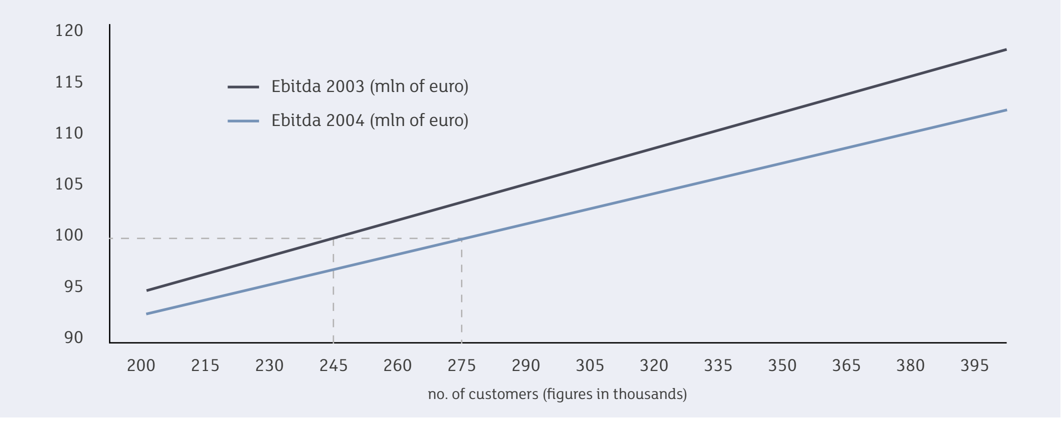


TABLE 12: Sensitivity analysis of the Ebitda on the variation of the number of customers

3.2. Organizational sustainability

The analysis of the organizational sustainability of the strategic plan, as already mentioned, is one of the phases of the due diligence process. In particular, it will be useful to stop and look at factors such as:

- the consistency between the strategic aims and the organizational actions;
- the realizable nature of the Action Plan with respect to the current and prospective resources which the company will endow itself with;
- the presence of the effects of the organizational choices on the assumptions and on forecast data;
- the estimate of the cash flows linked to organizational investments.

A number of checks to be carried out vis-à-vis the companies being listed are suggested in this paragraph, relating to:

- consistency between the strategic aims, organizational structure, Business Model and main processes;
- adequacy of the procedures for providing incentive for the human resources which the company will avail itself of.

Consistency between the strategic aims, organizational structure, Business Model and main processes

A strategic plan is consistent if it can be pursued via the organizational scheme proposed by the issuer. For this purpose, it is advisable that the strategic plan indicates, with sufficient clarity, the relationships between the strategic aims and organizational actions and the consequent effects on the corporate structure (organizational structure, manufacturing processes, patents, technologies possessed and/or acquirable) and on the Business Model.

Risky situations could occur, for example, in the presence of strategic plans where the strategy for penetration into specific geographic areas is not accompanied by the description of the necessary organizational actions (for example: opening of sales branches, the hiring of area managers, agents or sellers); plans which concentrate on the innovation of the product/services portfolio without illustrating the investments necessary in research and development (individuals and structures); choices which aim at improving the efficiency of the manufacturing processes and therefore a reduction of the costs without highlighting the organizational actions to be achieved.

The organizational sustainability of the strategic plan also concerns the consistency relating to the processes, or rather the alignment between the strategic objectives and the elements listed below by way of example: the structuring of the operating and decision-making processes (“tree of processes”), the definition of the corporate roles and the managerial responsibilities and the criteria for the allocation of the resources.

Adequacy of the procedures for providing incentive for the human resources

As part of the organizational sustainability of the strategic plan, an aspect not to be underestimated is the efficacy of the incentive system for management and the corporate resources and the related methods for assessing the performances. In detail, it would be opportune to analyse the existence of a reward system, the corporate figures involved, the variables to which the incentives are linked and the alignment of the latter to the key value drivers and therefore to the objectives for creating value for the shareholders.

In conclusion, it is necessary that a strategic plan indicates, if present, any liabilities of the company towards its management, any potential costs (including redundancy costs), the stock option agreements and the existence of specific in-house agreements which may restrict future decisions and therefore the ability to create the strategic aims.

3.3. Comparison with the standard format

The format presented by Borsa Italiana has the aim of facilitating the creation and drawing up of a strategic plan which has a precise and logical structure.
Often, in fact, one comes across the error of presenting incoherent plans, at times heavily focused on the description of the strategic aims and the portrayal of the prospective financial data, neglecting significant aspects such as the Action Plan, the formulation of the assumptions and the economic model followed.

Starting off from the document drawn up by the company, it is necessary to act in such a way so that all the components of the strategic plan described in the first chapter are illustrated in a detailed and thorough manner.

In the second chapter, we have sought to provide a standard reference format for facilitating the task of the Sponsors, the companies subject to listing andthe advisors. This standard strategic plan format, as already mentioned, must not be considered to be binding, but be seen as a flexible instrument, applicable to heterogeneous corporate entities.

The principles indicated in this document represent a guide aiding the listing process, mainly addressing the issuers, the brokers who assist them, as well as the independent auditing firms and outside consultants who take part in the stock market listing process.

The objectives of the guide are the definition of principles in line with the best practices, the adoption of conduct recognized and approved by the financial community and the spreading of a consistent language between the parties. The use of the guide may therefore contribute towards the improvement and the simplification of the listing procedures, at the same time raising the quality of the market and its growth prospects.

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