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Author: Technical University of Kosice

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1 Business plan development

1.1 Mission

The mission of this chapter is to offer the audience brief instruction on developing a sound, clear and efficient business plan.

1.2 Objectives

After having completed this chapter you should:

- Know what a business plan is and what purpose it serves,
- Be able to develop various stripped-down versions of a business plan,
- Be able to select the necessary and appropriate information for the future users/audience of a business plan,
- Be able to draw up the basic structure of a business plan,
- Be able to elaborate Sections 2–5 of a detail business plan.

1.3 Role and functions of a business plan and reasons for its development

A prospectus for a new company or a business plan (or B-plan) is one of the fundamental documents in business. There is no unified model or pattern how to prepare it. Its structure and depth depend mainly on, for instance:

1. Reasons why a business plan is to be drawn up,
2. Stage of business operation of a particular enterprise,
3. Industry where the enterprise operates,
4. Character of business activity (production, sales or provision of services), etc.

A well-prepared business plan is crucial for the success of business and business managers. This document is elaborated in writing by entrepreneurs themselves or by a third party. Business plans may be internally or externally focused. Whatever the plan, it should always serve the entrepreneurs and their in-house purposes. However, nowadays, a business plan is also part of documentation required in the application procedure for fundraising. Therefore, it also serves as an official document for external stakeholders: potential investors and financial institutions. Its purpose is to inform investors, owners, banks and all other stakeholders about the fact that your strategic goals are well-grounded and attainable with respect to its business, marketing, staffing, manufacturing and financial possibilities. It should provide the answers to the following three questions:

1. Where am I? – The question focused on the current status of a particular enterprise. This is a realistic view of the state-of-art of a particular business without any embellishments. Answering the question requires the detailed analysis of a business and its position.

2. Where do I want to be (Where am I going)? – The question focused on where a particular enterprise would like to go and how far. These are future business plans or intentions. They draw from the current status of a company and are formally stated as a set of **future business goals**.

3. How can I get there? – The question seeking the most effective means to reach these goals. When answering the question, an entrepreneur is looking for appropriate tools, methods and means that are necessary for the **achievement of their business goals**.

As a tool for making business development forecasts, a business plan is a draft of future business activities. When a business plan is used as a development tool, it is necessary to concentrate on the overall programme and key events. A plan functions as a detailed list of inevitable or unavoidable business-related steps. It helps to set realistic deadlines and delegate powers.

As a managing and planning tool, a business plan represents a certain instrument or instruction for business operation. When developing such a plan an entrepreneur will have to carefully consider their business plans and understand all the circumstances related to the start-up and operation of an enterprise. In the initial stages it will keep them in the set direction.

As a controlling tool, a business plan enables an entrepreneur to compare the actual performance with the original plan or conception. No plan corresponds exactly to reality; however, it can be used as a monitoring tool. Any deviations from the plan may signalise potential problems.

As a formal statement for the public or a specific audience, a modified business plan may serve as a brief description of an enterprise and its activities. An adjusted version of a business plan may be even used for making contacts with suppliers, informing consultants/advisors and other necessary professionals (such as lawyers or accountants). An entrepreneur should always be ready to offer a business plan to anybody who is interested in finding some information, experience or details about their business.

As a business document, a business plan serves as a proposal for various financial groups – financial institutions and potential investors. A business plan provides some information to such groups when they are deciding whether or not to support a particular project financially. Not all financial groups/stakeholders are interested in the same area; for instance, the banking sector will be more conservative and will be specifically interested in the guarantees an entrepreneur can offer. Bankers are primarily concerned about whether the enterprise will be able to pay back the loan they provide. Investors are more willing to take up risks. Nevertheless, they may demand; for example, some ownership equity and profits to cover the risk. In a business plan, they will be most interested in the financial data and future prospects of an enterprise.

1.3.1 What to take into account when drawing up a business plan

In drawing up a business plan the position an entrepreneur adopts on their business is essential. First and foremost, they need to be able to put themselves in the place of the people/ the audience to whom the plan will be presented. In most cases these are potential investors. Having respect for an investor’s psychology and needs in drawing up a business plan might help an entrepreneur to gain success. All investors and bankers pursue three main goals:

- Every investor wants to **recover** their investment,
- Every investor wants to **yield profit** on their investment:
    - in the event of a loan – a profit on interest,
    - in the event of direct investment – a profit on selling their business share/ dividend yield,
- Every investor wants, thanks to the money invested, to help a business grow more quickly and thus to gain quick returns on their investment.

Therefore, investors will judge a business plan or business conception by the three main criteria above. They will consider them from the following points of view:

1. ***Can a business idea further develop while saving costs?***

One of the business goals for a business is to be able to increase the volume of production and gradually decrease the production costs. This allows gaining greater profits without having to change the price of a given product. For an investor, the production which is capable of satisfying such conditions is their money-back guarantee. For illustration:

Business idea – From Grandma's Garden

You want to set up a company called "From Grandma's Garden", which would make fresh vegetable salads for fast food restaurants in shopping centres. Salads would be made from fresh vegetables only and directly in front of your customers choosing either from a selection of vegetables on special offer or making their own salad choices. With such a business idea you could meet the condition of business growth in parallel with its economy due to the fact that the purchase costs of the necessary material (vegetables) and production will be more economical with the growing number of fast food restaurants/salad bars. The vegetables would remain the same for all bars, so it should be possible to buy them in bulk, thus, with the constant selling prices, to gain lower costs and higher profits. If you wanted to start a specialised chain of fast food salad bars targeting a specific kind of salad; such as macrobiotic food etc., you might save costs in bulk purchases, but not in food preparation, as each bar or stand would require an experienced cook.

The "parallel growth-and-economy condition" would not be satisfied in the latter case. Take another example – suppose you have decided to start a company taking care of dogs.

Business idea – Grandma for Pets

Your company would take care of dogs. It might be called "Grandma for Pets". Its specificity would be special care of a kept animal directly in its home environment, plus care service during the time when the owner of an animal is at work. The portfolio of company's services makes it possible to lower the costs by buying dog food in bulk; however, the expansion of a supplier/client base requires taking on new people and covering their salaries, which may result in growing costs along with growing production.

In the case of this business the answer to the raised question is rather unclear and an investor would most probably require more information.

2. ***Has a business idea got some "USP"(Unique Selling Points)?***

Investors will be interested in how an entrepreneur's project differs from the existing projects on the market and whether or not it has some unique selling points. It is not entirely true that an idea which is conventional may not succeed; however, more time and capital may be necessary to sell it and investors may not feel very enthusiastic. Therefore, it is necessary for an entrepreneur to be able to formulate their uniqueness, the quality of their products or services being different from others on the market, in a single sentence. For instance: *It takes fewer steps to prepare our salad, which makes it ready 5 minutes earlier than our competitor's salad.* Another argument might be: *Our customers, besides the offered salad combinations, can make their own salad choices and not pay an extra cent.* In the case of an animal care centre, the argument is watertight: *There is nobody around providing services for dogs when people are at work.* Another argument might be: *Dogs are less stressed out if they are taken care of in their familiar environment, even if caretakers are unknown to them (if caretaking takes place in the home environment).*

3. ***Has a business idea been tested on the market yet?***

Here, it is important to persuade an investor that a product or service an entrepreneur intends to offer on the market will satisfy the real need of an end consumer. The so-called "Feature–Benefit–Proof Method" can be used for argumentation.

Example 1:

Feature: *Production of fresh vegetable salads in special packing/boxes.*

Benefit: *It saves consumers' time and enables them to eat tasty and healthy food.*

Proof: *500 boxes sold daily in a single retail fast-food unit.*

Example 2:

Feature: *Taking care of dogs in their home environment.*

Benefit: *Dogs are not stressed out, stay calm and their owners are highly satisfied.*

Proof: *40 clients using the service on a daily basis.*

4. ***Can a business idea solve somebody's problem?***

This point is related to the knowledge of customers. If entrepreneurs know their customers well, they know about their customers' problems and come up with solutions to these problems, which might be a way for go-getters with good business opportunities. A real response to your product will not be provided by your family. If you care about the real response, you have to ask consumers themselves. If you see that hardware stores have problems with badly-organised and confusing screw boxes, you should offer them durable, well-organized and well-marked transparent bags and wait for the retailers' response. You may well find out that the idea you have come up with has nothing to do with customers' wants and needs. In a salad bar business, it is all about a feeling you have that shopping centres lack stands with a healthier alternative to fast-food restaurants, so it is necessary to organise, for example, a small promotional campaign where visitors to shopping centres get a chance to try samples of your products and express their opinions. It is possible to take a similar approach to a "dog-sitting" service, i.e. prepare a small presentation of the service in an area where dog owners concentrate. Dog care will be demonstrated and dog owners will have a chance to raise questions and ask about details.

5. ***How far away is a business idea from the market?***

This concerns mainly brand new products having not yet appeared on the market. Most investors show no interest in the development and production of a prototype. Therefore, at this point, it is advisable to persuade them of your readiness to launch a product within a few weeks not years. In both business cases, i.e. a fresh salad bar and dog care service, the entrepreneurs should demonstrate they have enough experienced workers ready to start work immediately, they know where to buy food (vegetables or dog food) and all other necessary ingredients or accessories to put their ideas into practice, and launch their products within the shortest possible time.

6. ***Are your forecasts realistic?***

Every forecast, estimate or prediction depends on the underlying assumptions. No person working with finance and knowing the ropes will assume all their plans or predictions can fulfil to the letter. Nevertheless, the following areas must be analysed carefully:

- Price for a product/service » Does the price set correspond to the market conditions? What about competitors' reactions? Will your model compete favourably even if other players fight back by lowering their prices?
- Share of the market » Are the assumptions made realistic with respect to the market size, strength of existing players, costs of taking a market share and costs of fighting the competition? All plans of small entrepreneurs promising a market share over 5 percent in the foreseeable future will be regarded as unrealistic.
- Speed of penetration of the market » Are the assumptions made realistic with regard to time? If you expect to penetrate 4 percent of the market within the following two years, how will this fact reflect in the growing numbers of customers month by month?
- Infrastructure » Is there appropriate infrastructure for your product? If you offer, for example, a software solution demanding a quick Internet connection, to what percentage of customers is this available?
- Return of investment/profit » A sensible investor will rarely rely on your profit promising forecasts – moderation and sobriety in estimates matters more here than efforts to make an impression.

1.3.2 Most serious mistakes of business plans as seen through an investor's eye

Critical thinking is one of the most important capabilities in drawing up an interesting business plan. Experts state several mistakes frequently made in the development of a business plan that may strongly discourage investors from entering such business.

1. One single product/service

The smaller the diversification, the greater threat to a business model. Even a single product or service can have a number of versions to reduce the risk involved.

A bad model example:

- *A salad bar selling only one single kind of salad, which customers can buy in one single-weight dose/box, e.g. 250 grams.*
- *A company providing dog care services staffed with only one single person or focusing on one single dog breed.*

A good model example:

- *A salad bar offering only one single kind of salad; but in a variety of weights, e.g. 150, 250, 500 or 1,000 grams. Or, a bar offering salads in only one single-weight dose in grams, but in a variety of salad choices, which customers can choose from numerous vegetable combinations.*
- *A company offering care to various dog breeds on a number of occasions (the owners on holiday, ill or too busy etc.). A company staffed with a few trained professionals taking care of dogs.*

2. *Non-recurrent sale/Sale on an ad hoc basis*

Investors will be interested in the life cycle of a product from the point of view of sale frequency. It is essential for a small enterprise to maximise sales – a small enterprise must try to receive the maximum possible of every customer. A possibility of cross-selling is important, which means the sale of the whole portfolio or package of products/services. More questions or doubts will be raised about a product which can be sold just once, on an ad hoc basis and for which a new customer is always to be sought.

3. *Need and/or raison d'être for a product/service*

There is always an element of subjectivity in investors when evaluating this area. The better arguments you can find to prove there is a potential market for a product/service, the more likely you can raise the necessary capital. You might succeed with a convincing explanation that the area seemingly marginal may provide a unique opportunity to be the first on the market in a particular market segment.

Example:

- *On average, it takes 13 minutes to a current competitor to prepare their salads. Due to the advanced equipment and experience our salads are made in about 5 minutes faster, which is economy in time for the company and for customers as well (as they do not need to wait longer). In comparison with the current competitor, it means a greater number of customers being served, an increase in revenues, and at last, in profits.*
- *Dog care services in the home environment are provided only by two companies in the whole city of Vancouver, while neither of the companies operates in East Vancouver, where, according to the town hall information, there is the greatest concentration of dogs per one inhabitant in the area. More importantly, this city area is inhabited by 95 percent of middle-aged working people. It can be assumed that, due to their working load, these people will be interested in our dog care services.*

4. *Services/products are too simple*

If a product is too simple and easy to copy or imitate (which means it cannot be legally protected) and is also easy to introduce to the market, investors will worry that your competitive advantage is short-term and unsustainable with such a product even though you are a pioneer on the market. Ask and answer the following question: "What can prevent others from doing the same?"

Example:

- *In the case of a salad bar the acquired pre-paid ownership rights to use the technology for salad preparation will protect us for at least 3 years.*
- *In the case of dog care services our protection against the competitors is a good name we were able to make for ourselves thanks to the reliability and professionalism of our staff. These are essential attributes for our business, as we enter our clients' households and intrude on their privacy.*

Neither of the examples of business models mentioned above has such a strong specificity in their own field of business that would positively differentiate them from the competition. Nevertheless, these are examples of the majority of business ideas. On the other hand, it is always necessary to seek some characteristics of your business that would make even a subtle difference between you and your competitors.

5. ***Low quality***

Every serious investor is aware that the return on their investment depends on the quality of products sold or services provided. If a business goal is to offer "anything", when it comes to quality – whether at a high or low price, but with the clear intention of low quality – an investor's reaction will be rather negative. They will be put off by the hidden costs of complaints and sales returns, threatening legal proceedings or even by a risk of serious damage to their reputation.

6. ***Entrepreneurs lacking self-confidence***

Showing enough self-confidence is definitely better than undue modesty. Your self-presentation skills will have more impact on fundraising than anything else, including the history of results. As a good idea seller, consider the following fundamental principles of sale:

- Who will read your business plan?
- Who are you going to present it to –who are the audience?
- How can the vocabulary you use influence investors' understanding your product?
- How can your self-presentation (behaviour and clothing) influence your credibility in the eyes of potential investors?

7. ***Vulnerable entrepreneurs***

Be ready for a number of questions – your plan will be questioned in detail and critically analysed. Investors will make all efforts to verify if you have really identified yourselves with what is stated in the business plan and they will test your reactions. These will be a good signal for an investor you can work under stress. Do not become too vulnerable, you will be frequently asked tricky questions. Investors will regard highly the entrepreneurs who tend to react logically rather than emotionally.

8. ***Robbing Peter to pay Paul***

This is a recommendation not to use the newly raised funds in a company to pay for old debts or even to make personal guarantees of the present owners to banks. Although it is true that new investors are happy to see the enterprises they invest in having bank loans guaranteed for by entrepreneurs themselves, never imply that the funds raised from an investor might be used to cover old debts.

9. ***Valuation of businesses, business shares and/or entrepreneurs***

The valuation of your business should be based on the actual accountancy data not on your own estimate. Overestimation may result in an investor's financing another project and underestimation is a waste of an entrepreneur's money. In remuneration for the work performed, an investor will be put off by a plan where entrepreneurs are planning to reward themselves handsomely – the amount of remuneration should always correspond to the profitability/solvency of a company.

10. ***Hockey stick graphs***

Start-up ventures have no history and are seriously concerned that if they do not forecast the fast return on their capital, potential investors might be repelled. Therefore, the forecasts they make are overly optimistic and reflected in so-called hockey stick graphs showing a sharp increase.[1] Experienced investors perceive such statements as a warning.

1.4 Basic types of business plan

According to professionals, an entrepreneur needs to prepare several types of business plan. Of course, the facts and figures remain the same, differences will appear in presentation. Potential investors and banks are the most probable audience. Each group would like to have their money back, but they differ in all other aspects and objectives.

A bank will want to make sure that an entrepreneur is able to pay the principal and interest. However, this is not an investor's concern, as the payment of dividends, which are equivalent to interests, is unusual for small enterprises. So, an investor will have their investment returned only at the moment of sale of the enterprise, which may be on the horizon of several years. If a business stays solvent to pay back the principal and interests, a bank is not much interested whether the business is breaking even, doing well or excellently, unlike an investor. A business plan that is drawn up primarily for an investor will be orientated towards situations where the value of capital can be increased – such as various possibilities of selling a business to a big multinational enterprise, competitor etc.

There are also different investors: venture capital funds will invest passively unlike business angels (also known as angel investors) who will seek an active/managerial position. Therefore, if you can imagine that such investors will bring considerable benefits to a company's growth, they will be more likely to invest even though the primary investment indicators, for example, your historic results, do not seem so spectacular. Hence, try to put an emphasis on the area where business angels could have beneficial effects on your company; however, be careful, as the same words might have detrimental effects when presented in the negotiations with banks or venture capital funds.

Regardless of the category or audience a business plan is intended for – to serve its functions, it should be clearly presented and logically structured. As has been said at the beginning, there is no fixed content or format for a business plan. Every plan has some basic sections that should not be omitted, such as:

- Basic organisational and personal information,
- Detailed plan description including a marketing plan,
- Financial plan,
- Summary.

Each of these parts or sections may be more or less developed depending on the number of versions that differ in length and the data used. Professionals advise entrepreneurs to prepare the following forms of business plan:

[1] The term »*hockey stick*« was coined by the climatologist Jerry Mahlman, to describe the pattern, envisaging a graph that is relatively flat at the beginning as forming the hockey stick's "shaft", followed by a sharp increase corresponding to the "blade". (http://encyclopedia.thefreedictionary.com/hockey+stick+controversy)

1.4.1 Short presentation – "Elevator pitch"

It is a prepared verbal presentation lasting no longer than a minute. It is not necessary to have it in writing. The purpose of this presentation is not to serve as a substitute for a business plan, but to awake an interest in an investor who you meet by chance.

"Elevator pitch" – From Grandma's garden

„My company is called "From Grandma's Garden" and it is planning to open mobile stands in large business and shopping centres. Every morning I will offer my customers fresh vegetable salads made right in front of them. Salads will be served in practical plastic bowls that are easily transportable. I have already bought a special technology licence for salad preparation for a period of three years. Besides, I have a trial stand/a stand prototype and concession to start the business from the local authorities. At present there is great demand for such forms of catering services and less competition, especially in the shopping centres mentioned above, which concentrate numbers of people with dynamic life styles. So far I have financed all my business activities from my own resources, but to be able to accelerate the growth of my business and stop competitors from entering the market, I need another 15,000 euro to produce more stands. I have been employing my relatives mostly, so I can rely on a motivated and committed team. An investor who invests in my company will become a minority shareholder. Moreover, I will repurchase their share two years later with a 50% profit. In two years´ time they will be able to make 22,500 euro out of the original 15,000. So, if you give me your business card with personal contacts, I can send you my business plan in writing."

When looking for investors, you never know when and who you meet. The problem is you have only one chance. There is no second chance to make first impression. The way of communication will be very important. You should present yourselves with enthusiasm and trustworthiness.

The whole presentation should provide brief answers to the following questions:

1. What is my idea?
2. How far have I developed it?
3. What kind of market is there to put my idea into practice?
4. What is my advantage on these markets?
5. What is my competitive advantage?
6. How can I raise funds?
7. How much funds do I need in total?
8. How much/What part of the funds will be from external resources and what can I offer a potential investor?
9. Who forms my team?
10. What are potential profits for an investor?

1.4.2 Executive summary

Although an executive summary is the section in a business plan that is usually seen first by potential investors, it is recommended that you write it last. The objective of the document is to provide the audience with an overview of the key points of a business plan. It is necessary to see the executive summary as an introduction to your business. Do not forget to provide/describe:

- Name of a company including the description of its products and/or services,
- Business goal,
- Company management,
- Market and customers,
- Marketing a management,
- Competitors,
- Visions and financial plans.

In conclusion, you should add one or two “reassuring“ sentences that will convince the audience why your business is going to be the best. In spite of loads of information you need to consider, bear in mind it is only a one-page A4-format written document and it is the step that follows the “elevator pitch“ summary presentation.

Executive summary – Grandma for Pets

“Grandma for Pets“ offers dog care services. Our main product is professional care combined with great affection pet owners would show to their pets if they had enough opportunity.

Our clients are dog owners who have decided to leave their dogs at home while travelling or people seeking company for their pets while they have to work and can’t spend time with them at home. “Grandma for Pets“ offers a wide selection of dog care services – from everyday visits, through round-the-clock care up to full week care – and this all in the home environment of animals being taken care of.

In the last three years there has been a boost in the number of companies taking care of animals in Canada. In East Vancouver, especially, the number of dogs per inhabitant is really high. A market survey has shown that as many as 8 out of 10 animal owners in East Vancouver would prefer home care to any other sort of care outside home environment. People do not want to transport their animals and have them kept in kennels. 7 out of 10 respondents have also replied that they would like to have a professional to take care of their animal at the times when they have to work.

At the moment there are 10 companies in East Vancouver offering dog watching. Only two of them offer a possibility of watching dogs directly in their home environment; however, none of them offers its services to working owners. Our marketing strategy is to stress the quality of services provided (expressed even in the slogan of »Grandma for your pet!«) and the availability of our services. Imagine, for example, that after a long tiring day a dog owner is awaited by a friendly walked-out companion, not a restless animal.

All activities involved in taking care of animals will be carried out by a professional team trained in the field of animal care. In the initial phase of business, our team will consist of 4 members and will be enlarged within a year to include 5 more workers, if a source of financing can be found. In addition, we would like to hire a full-time receptionist this year, as my partner, Paul Petro, is now coordinating all our activities.

TO BE CONTINUED ON THE NEXT PAGE

Executive summary - CONTINUATION

The management of "Grandma for Pets" consists of two partners – Ingrid Milerse and Thomas Olswer. Both of them have wide experience in the field of animal care (Ingrid worked for a cat and dogs' home for over 18 years and Thomas as an animal keeper in a zoo for 14 years). Moreover, Ingrid has previous 10-year experience in management. We have close cooperation with "Olive&Kleopatra", a consulting company, and a veterinary clinic "Man's Friends".

Considering the size of our market and field of business, the annual sales are estimated at $340,000 and annual salaries of the two partners at $40,000 for each partner. We need to raise $150,000 to finance the growth of the company. The resources will be used for operational financing. The partners have invested their own $62,000 in the company so far.

We have contracted 40 clients up to now and will be shortly launching a strong advertising campaign in the local media and on the Internet to attract more customers. We believe that professional care taken in the same manner owners would themselves will definitely awaken the interest of busy dog owners in East Vancouver.

Source: Ward, S; 2012

As long as a potential investor shows a certain interest, they should be offered a version of the business plan capturing only the major points of your business. It may still be a person or entity that will look at your business plan and not agree to enter into cooperation. More importantly, it may still be a person or entity only seeking inspiration for their own business and possibly trying to abuse your naivety and take advantage of your joy of finding a potential investor.

1.4.3 Detail business plan

As a rule, this kind of plan is made available to such investors who have sufficient interest and trust to sign a non-disclosure agreement and accept special clauses and conditions prohibiting them to disclose any information contained in the plan to any third parties, and use the information only when considering potential cooperation with your company.

If you want to write a good business plan, it is advisable to obey the following structure, at the beginning, at least:

1. **Introductory data**
2. **Business description**
3. **Industry background**
4. **Market analysis**
5. **Consumer analysis**
6. **Product or service analysis**
7. **Competitor analysis**
8. **Marketing plan and strategy**
9. **Production schedule/Implementation plan**
10. **Organisational structure and management**
11. **Administration**
12. **Environmental impacts**
13. **Timetable/Milestones**
14. **Risk factors**

15. **Financial plan**
16. **Appendices**

This structure is not compulsory; however, it contains all essential and inevitable elements of a business plan. You should be noted that it is not possible to draw up a business plan exactly in the order mentioned in the structure. The given structure is intended for the final document. In the process of preparation the document it is advisable to do several items simultaneously – "jump" from one section to another as need may be, as the individual sections of the document are closely related and it may be necessary to start writing one section to be able to continue in another.

1.4.4 Self-assessment questions

1. What functions should a business plan perform?
2. What kinds of business plan can you draw up?
3. What should the individual types of business plan contain?

1.4.5 Activity

1. Create a business name for your business and check on the Internet whether or not there is the same name. Then think of a slogan to represent your company and its mission.
2. Draw up an elevator pitch for your company and try to present it to someone in your nearest surroundings.

1.5 Detail business plan – Individual parts

1. Introductory data

The introductory data of a business plan include: a title page, table of contents, executive summary and a fact file.

- A ***title page*** identifies the subject and purpose of the document and provides all other relevant information, such as the address of a company, telephone and fax numbers as well as the date of its elaboration. This page should be clear and attractive at the same time, but not highly decorative.
- A ***table of contents*** presents all main sections and subsections of the plan and the pages where these sections can be found. The purpose of the table of contents is to help the audience to orientate in the plan.
- An ***executive summary*** is one of the most significant parts of a business plan. It is to bring a short and clear overview of the whole business plan and awaken interest in decision-makers when they read it. After reading the executive summary they should be encouraged to read further and put themselves in the right mood for making a decision to cooperate with you. Unless you are able to grip their attention on the first two pages, they will go no further to explore why you could be unique and why

they should support you.

- A ***fact file*** should occur at the end of the summary, best as a separate page. In a nutshell it should provide the audience with the most important business information. If written as a separate document, it may be used for marketing and informative purposes.

It might seem a paradox, but the introductory data of a business plan are written at the very end when all other sections have been completed. It is quite logical as they summarise and reflect the overall effect of a business plan.

2. *Business description*

A business description should contain a business history, its current stage of development, and, of course, business plans for the future.

- A ***business history*** is the description of a company establishment (in the case of a start-up business) and some significant decisions preceding its establishment.
- The current status of a company, its ***current stage of development,*** describes the current position of a company on the market, the industry where it operates, its field of business, legal form and size of a company with respect to the national standards. Moreover, it should state a company's financial resources, whether readily available in cash or in property. When drawing up your own document, you should also make a list of partners and the amounts of their investment in your company. Briefly, you can describe what and how much you sell or what kind of service you provide including key buyers, suppliers and other partners.
- ***Future plans*** are the reflection of business mission. You should mention your goals and objectives for the next three to five years. Furthermore, you should describe how you are planning to achieve your goals and what amount of funds you need, and, possibly some improvements you are planning to make and hopes to increase market shares and business revenues.

Answering the following questions entrepreneurs should be able to develop the well-integrated structure of this section. Each section has its own auxiliary questions helping starting entrepreneurs to create a clear picture of their enterprise.

- When and where did you set up your business?
- What is the legal form of your organisation? Is it possible you might change it in the near future?
- Where is the company located/seated? Will you or have you changed the registered seat of your company?
- How long have you been in business?
- What was the origin of the seed capital needed to start the business?
- Who are the company's owners and managers, their abilities and practical experience?
- What is the current company status (the number of employees, turnovers, profits, production outputs etc.)?

Below are some questions to be answered in the section on the current company status:

- Why did you start your business?
- How long did it take?
- Which problems did you have to face?
- Which are the key milestones?

- How and when did you reach them?
- How do you identify your market?
- Have you had any dealings with your competitors?
- What are your strengths and weaknesses?
- How much money have you invested?
- What source of financing have you used?
- How did you spend the money?
- Are your investments insured?

In the section on future plans, entrepreneurs are recommended to answer the following questions:

- What are your future goals and the strategy to achieve them?
- To what extent is your company affected by the main economic, social, technological, ecological and regulatory trends?

3. Industry background

In this section of a business plan you should be able to prove that you understand the business industry and the market you are planning to operate on on a few pages. The objective of this section is also to demonstrate that you are able to penetrate the market and have an excellent grasp of the factors essentially determining the success of your business. Within this section you should analyse the following elements:

a) ***Main industrial characteristics*** – a brief description of the industry profile including its size and geographical stratification. It is suitable to add the sum of revenues and profits in the industry as well as the difference between the total amount of investment and loss. There should be some information about the history and current situation in the industry. To elaborate this section, it is necessary to make use of all available official statistics and/or data produced by the relevant national authorities. Do not forget to quote the sources where you draw the data from.

b) ***Major players in the industry*** – here, it is necessary to define who the participants in the industry are. To identify the participants, answer the following questions:

   - Who are the major players in the industry (competitors, suppliers, main customers, distributors etc.)?
   - What share do they take on the market?
   - What is your competitive advantage?
   - How will you capture the market they are trying to break into?

c) ***Future development trends*** – a list should be drawn up according to the recommendations of analysts working in the field. Some long-term forecasts concerning the position of your business in five or ten years' time should be given, analyses of future potential players etc. It is the analyses of specialists which enable entrepreneurs to forecast their business development realistically within the wider context of the estimated overall industrial development, which gives your description more relevance.

On the basis of all the statements and recommendations mentioned above, you can make SWOT analysis of the industry. It is the step that may help you evaluate whether the given industry will bring more positives or negatives into your business and whether or not you are able to establish yourselves in business and what strategy to adopt to reach your goal.

When writing Section 2 and Section 3 entrepreneurs frequently make the following mistakes:

- *They provide too many details and personal opinions about an enterprise, while, in contrast, they do not provide a sufficient amount of information about the important milestones and potential.*
- *They do not show they have thorough knowledge of the key players in the major business industry and the influence they may have on their business.*
- *Their document entices the audience to think their business is "a night flight".*
- *It is evident that the characteristics they provide lack direction and commitment.*
- *Entrepreneurs show a very little or limited knowledge of the business industry and current trends.*

4. Market analysis

First and foremost, a market analysis is documented investigation (identification and evaluation) of a market that should prove demand for your products or services. The areas it should concern include:

a) ***Potential market and its characteristics*** – it is the characterisation of the market you intend to penetrate or have already penetrated. This section of a business plan indicates that you know the environment where your business operates. When writing this section of the plan, it is important to be able to answer the following types of question:

- Who or what is your potential market? Are they individuals, enterprises (small, medium-sized or large ones), government agencies, or others? Here, apart from the subject selected, it is necessary to add its description.
- How big is your potential market?
- Can it be segmented (by industry, geography, AT...)?
- What is the profile of your potential customers (sex, age, occupation, income, education, etc.)?
- What are the main applications of your product?
- What are the benefits of your product when it is used? (How much can a consumer save when using it? What is the return of their investment? Will a consumer have to buy other products to use yours?)

b) ***Market share, trends and growth potential*** – again, when drawing up this section of a business plan, it is advisable to use the information sources of official statistics and government data so that the estimates are relevant and well-grounded. This, in particular, concerns trends relevant to your product or service. After the completion of this section, the audience should find the answers to the following questions:

- What market share would you like to capture?
- What is your (current and potential) market growth rate?
- What are market trends?
- What factors influence the market development?

- What are your costs for various levels of market penetration?
- How will you keep and increase your market share?
- Do other entrepreneurs buy your products or services and sell them to their customers? If so, what kind of business is it? Is it only resale or are your products further processed and then only sold again?

c) ***Sales and guarantee provisions*** – the last section is primarily focused on the mere sales of your product and the complexity of services provided relative to the basic product. In the elaboration of this section, answering the following questions should be of great help:
   - How will you distribute your product (directly, through a network of dealers, in wholesale or retail shops or in another way)?
   - Will your product be distributed under your own name or under the name of someone else?
   - Are your pricing, services and guarantee policies attractive and competitive on the market?
   - How much does it cost to sell each of your products or services?
   - What are the profit forecasts for the sales of your product or service?
   - What are the expected turnovers?

If market research was conducted and included in your business preparation procedure, quote the findings and other facts gained to prove there is a market niche for your product or service. Also, employ the data to show there is some potential market share and the revenue expectations are realistic.

<u>Several very frequent mistakes occur in this section, such as:</u>

- ➢ *Neglecting the uneven distribution of the size of the market; i.e. being convinced that the market size (a customer) is evenly distributed is all wrong and may lead to erroneous assumptions in the sales area; for instance, the majority of sales are realised only in one or two city or country locations;*
- ➢ *Making unrealistic expectations of market shares; for example, the conviction entrepreneurs can cover 100% of the market;*
- ➢ *Having limited understanding of the positives and negatives of the product being offered on the market and then drawing false conclusions;*
- ➢ *Inaccurate profitability estimates for each product/service provided;*
- ➢ *Mismatching the pricing policy and market needs, and the requirements or abilities to meet commercial obligations;*
- ➢ *Inaccurate forecasts for the overall market potential or changes caused by economic, social or other trends resulting from the unwillingness to search the information about the given market;*
- ➢ *Unfounded market potential assessments, missing data regarding technological progress, government regulations, demographic shifts and some economic forces (oil prices, interest rates etc.) to justify the forecasts.*
- ➢ *Ignoring the market segmentation into homogeneous groups of consumers and the construction of individual segment profiles – resulting from the fact that entrepreneurs do not work systematically but rather sporadically;*
- ➢ *Presenting facts in the manner that the market seems to be subordinated to a company's needs, not the opposite, a company's needs to the market forces.*

5. ***Consumer analysis***

Consumer analysis is very important. It is helpful in selecting the right marketing strategies, and in selecting the price and advertising in particular. You should present all the relevant facts about the size, profession, income, sex and age of the target group of consumers. In your business plan, you can mention what kind of benefit your product or service might bring to a particular consumer. (*Example 1: Vegetable salads – Our target group is mainly a young generation aged 14 – 35 and a middle-aged generation up to 50 years of age interested in healthy living, with middle or higher education backgrounds, high school or university students or workers who spend their free time in shopping centres. We assume to address more women than men in this category.* Such characterisation of the group is usually insufficient, more detail will be necessary. It is advisable, or frequently even desirable, to characterise the selected groups of consumers for all marketable goods – whether a product, product line or a service. To illustrate this point, in *Example 2: Watching dogs during their owners' working hours – our target group of customers includes mainly working people of secondary or higher education aged 25 to 55 who live on their own or with some other busy family members not having a possibility of looking after their dogs. These should be people who keep animals as pets not as guard dogs.)*

6. ***Product or service analysis***

This section of a business plan should present a brief description of a product or service including all its related features. It is possible to:

- Describe **a product or service,** i.e. to describe what it looks like, its packaging, composition, functionality, and all types of product (assortment);
- Describe **a product accessory**, if it is part of a product or service – similarly, like in the case of a product or service above, this description should provide some basic information regarding the accessory (or accessories), its (their) functionality(ies) and its (their) significance for a particular product or service,
- Make special mention of:
    - **Reliability of a product or service,** i.e. provide some test results, such as a series of loading tests or practical usage tests etc. If a product has been verified and a quality certificate awarded it by a certification company, it is advisable to present it in this section. If a service or a product has no certification or character of this kind, this is the section to mention the reliability of a product in terms of its good performance or utility, to describe the quality of a service provided, etc.
    - **Ownership relations**
    - **Future development plans for a product or service**

In this section of a business plan you should describe your product or service in detail, mention its purpose and operation, some of its distinguishing features and resulting benefits (economic, ecological, leisure time benefits etc.). If necessary, it is good to mention any regulatory or procedural requirements to be met for your product or service.

SWOT analysis should be used to highlight and identify the strengths, weaknesses, opportunities and threats of a particular product or service.

7. ***Competitor analysis***

The purpose of this section is to show that entrepreneurs are fully aware of the competition on the market. Here, you should bring a brief overview of other businesses manufacturing the same or similar products or providing the same or similar services. This section usually includes:

- Competitor profiles (who your competitors are, what type of business they do, what kind of management they have, how long they have been operating on the market, etc.),
- Product or service comparisons (what sort of product or service they offer, what quality, what response they have to their products or services on the market),
- Market position and share (how well-established competitor companies are on the market, what market share they take, etc.),
- Strengths and weaknesses comparisons (in which areas your competitors are stronger or weaker than your company, what changes they have managed to make – how they have been able to convert their disadvantages into advantages, etc).

You should make a thorough list of all your competitors and classify them according to the selected criteria. You should be able to estimate their approximate market shares. It is recommended to mention your strengths and weaknesses against your major competitors, i.e. to make a SWOT competitive analysis. It will be necessary to define and explain your strengths, the manner how to eliminate their advantages and compensate for or overcome your weaknesses.

8. Marketing plan and strategy

The marketing strategy section should clearly explain how entrepreneurs intend to penetrate the market, establish and keep their position and share on the market and achieve the planned revenues. Solid marketing strategy is the foundation of a well-written plan. When writing this section of a business plan, do not forget about the objectives of market penetration, pricing and packaging, sale and distribution, service and guarantee policies, public relations, advertising themes and promotional strategies.

You should develop and describe a plan identifying what activities you will undertake to gain success on the market. You may mention some anticipated sales opportunities and attractiveness of your products or services for a selected group of customers. Moreover, you should identify potential customers and methods to address them. Define a time frame you set for market penetration and how competitors can affect your plans and strategies.

This part of the plan should include a pricing policy. Write, in detail, about all possible impacts on the price of your product or service. Justify the prices, mainly if they are considerably lower or higher than the usual market prices of similar products or services. Describe the packaging, marking and attractiveness of your goods and do not forget about the instructions for use.

You should also make a mention of relationships with suppliers and distribution partners. Describe and precisely specify how you intend to distribute your products and what selling methods you would like to apply. You should also define service agreements, product support and guarantee conditions, and your customer orientation. Specify advertising techniques and media you want to use to address the public.

9. Production schedule/Implementation plan

The implementation section of a business plan should define how a product will be made or service provided and how you will organize your business and present your plans or prospects. It is suitable to make an implementation plan in the form of charts or spreadsheets and include various calculations regarding the costs and volumes of production.

In the production schedule, you should explain how your product will be manufactured and prepared for the market. The location of your manufacturing facilities should be mentioned, as well as manufacturing activities and operations, output, working aspects and the economic and ecological impacts of your production. You should prove you understand all manufacturing processes and operations in your company very well. When describing the facilities, it is suitable to mention whether you own or lease the property. SWOT analysis might be useful, focusing on the advantages and disadvantages of the company location in the light of its proximity to customers, transportation means, energy resources and other factors, such as the market, suppliers and/or capital. It is also reasonable to mention effective legislation – some standards and regulations concerning your product or service.

In terms of manufacturing operations, it is important to describe what an impact your company and its production may have on the local environment. Similarly, it is essential to think how you dispose of the waste produced. The plan should also take into account all legal and statutory restrictions regarding the environmental pollution.

The part describing your facilities should include their size, layout, structure and condition. Again, it is worth mentioning whether the facilities you make use of are your property or still the property of a leasing company. It is advisable to make a mention of special needs for premises or equipment and requirements for their maintenance.

You must not omit a detailed statement of methods you intend to use in manufacturing your products in the production schedule. You should provide some details about the manufacturing process and the individual operations. Besides, you should specify which part of production is going to be internal to your company and which is going to be supplied externally (in case there are sub-suppliers, it is a good idea to describe the relationships with your sub-suppliers or sub-contractors). Describe all materials and components used in production and add a description of supplies and stocks made.

Service is closely connected to production and effective and efficient after-sales service is an essential component of good marketing policy; therefore, you should make a note about the after-sales service you offer – whether you provide customer service internally or externally by another company.

10. Organisational structure and management

If you are a single owner of the company or a sole proprietor, it will not be difficult to describe the organisational structure and management of your business. If you have business partners or employ other people, this section of a business plan should provide evidence that the management and top executives of the company are capable and well-qualified to manage your business successfully. You should define the ownership structure – the owners and what part of equity they share. You might briefly outline the responsibilities of managers and benefits they bring to your business. At this point, it may not be amiss to mention their educational background, gained experience and business knowledge.

11. Administration

The aim of this section should be to concentrate on how your business is controlled and organised, i.e. to describe effective standard administrative practices managers will follow. It is advisable to include an organisational chart illustrating the structure of your organisation, particularly showing which function/level each manager or worker is responsible for, and a chain of command throughout the organisation. This chart should offer a clear picture of the personnel structure of your company.

Here, it is also important to define the accountancy practices, how customer payments will be traced, accounting records of internal expenses, operational costs kept and other administrative and procedural matters tackled, such as recording orders, reminders, revenues, archiving documents, etc.

Moreover, a supporting team consisting of your lawyer, accountants, tax and financial consultants, etc. should be introduced in this section.

12. Environmental impacts

A description of the impact of an organisation's activities on the environment is essential and recently this section of a business plan has become of central importance to all end users of the plan. You should describe the process of production or service provision and the impacts it has on the environment; mention all legal norms regarding green issues and environmental protection. If there is any waste resulting from your activities, you should describe the measures you take in order to minimise or eliminate the amount of waste produced to ensure that the organisation has clear environmental policies. You may provide a list of institutions which have to approve your production schedule and attach all their approvals, certificates or authorisations.

13. Timetable /Milestones

A timetable should link all major business goals in time and provide important milestones for a company to reach. It is an outline of what has or is planned to be done, by whom, and how it will be done in a reasonable or available time. It is recommended to describe some possible alternatives to the company development. Basically, it is some kind of strategic planning, usually very challenging, since it greatly depends on forethought and business experience. All steps in strategic planning should be discussed with the relevant professionals.

14. Risk factors

Every human activity involves some elements of risk. This section of a business plan should indentify individual risk factors and how they affect a business. This section of the plan should focus on the identification of recent major problems, unavoidable and/or potential risks and problems, and worst-case scenarios. You should point to some possible negatives that might occur in your business. You should also specify how you are planning to avoid, minimise the risks or reverse the course of events in case they occur. A summary of some major problems you have had to face and overcome up to date may be helpful.

15. Financial plan

A financial plan forms an integral part of a business plan. Since it has its specific structure and is rather complex to draw up, it is presented in a separate chapter. Most probably you will need to ask an economist for help. However, this section should not be omitted, as a fundamental knowledge of finance is inevitable in every business. It does not necessarily follow that a business plan must contain all the mentioned elements. Its structure will obviously depend on the nature of business.

16. Appendices

All materials that might contribute or lend credibility to your business and forecasts should be attached to a business plan. You should include, for example, manufacturing or servicing documents (such as patents or trademark registrations, photographs of products and/or facilities), legal documents (copies of various agreements), marketing materials (various marketing and advertising materials, such as brochures, selected correspondence, customer orders or contracts, magazine, newspaper and professional journal articles, etc.), personal files of the staff (CVs of some important employees, references, job descriptions for key positions) and other documents (such as articles of inventory etc.).

Writing a business plan is not an activity to be completed within an hour or so, neither is it an activity an ordinary person will do every day. Therefore, authors make a lot of mistakes when drawing up business plans for their businesses. The commonest problems or mistakes that occur in the process of drawing up a business plan include:

- *Incomplete consumer and customer analyses*
- *Superficial market and competitor analyses*
- *Lacking or incomplete descriptions of utilising a company's capacities and descriptions of manufacturing processes and service descriptions*
- *Unclear pricing and marketing policies*
- *Unestablished or incomplete implementation plans or procedures*
- *Bad presentation of a business plan to the audience*
- *Formal errors and others*

Apart from the abovementioned mistakes, entrepreneurs tend to overuse technical specifications of their products and technologies or they concentrate too much on the economic indicators without any support or rationale.

1.6 Conclusion

There is no doubt about a business plan being one of the keys of success in business. Many small enterprises went to rack and ruin not because they had a shortage of financial resources, but had no business plan or had paid little attention to its development. Had an in-depth analysis of their activity been made, it could possibly have shown that they had no business conception and strategy how to detect problematic areas well in advance and then be able to avoid them. The success of a business plan is also based on trust in its feasibility, optimistic views, and its good presentation.

1.7 Assignment

1. Before starting a business, it is necessary to know about a company's market potential, its resource needs, cost effectiveness, competitiveness, and risks. To this end:

- Identify a market segment (from the point of view of market potential), its overall capacity, forecast market development trends (growth, decline), estimate your own market share, the volume of sales, price levels, development tendencies and possible risks of product substitution;
- In terms of resource needs, identify the individual resource components and their proportions, estimate the costs associated with the provision of these resource components and the overall level of investment (investment exigencies) in a start-up business; estimate the needs for other operational resources and the overall availability of resources. Establish a hierarchy of risks that may affect your business.
- From the point of economic efficiency, try to prove that you are capable of making payments and meeting all your obligations when they fall due and in the extent

stipulated, and try to predict when your business will break even and start making profit.

- In terms of your competitiveness, identify your major competitors; assess the strengths and weaknesses of your own business in comparison to your competitors'.
- In terms of risks involved, identify the areas you are mostly worried about and explain why.

2. Based on research and the data collected, make the following SWOT analyses:
   - SWOT analysis of your product,
   - SWOT analysis of your competitors,
   - SWOT analysis of your own business.
3. Following the guiding questions in the text, draw up the first four sections of a business plan for your company (Business description, Industry background, Market analysis, and Consumer analysis). Further develop these sections, provide more detail and make various summaries of business plan while deciding which type of summary will be used for which type of business plan.

2 How to write a business plan

2.1 Mission

The mission of this chapter is to develop a business plan step by step.

2.2 Objectives

After having completed this chapter you should be able to:

- Draw up Sections 6–14 of the detail business plan above,
- Draw up a detail business plan excluding exact figures.

2.3 Business plan development

In the previous section, all steps that are necessary to follow in collecting the data and background information for a business plan were mentioned. This section will go back to the individual parts or sections of a business plan and will show you how to write a plan in more detail, step by step. It should serve as an example and guide entrepreneurs in the development of their own business plans. In order to make the single steps simpler to follow, the guide was reorganised into the form of several sets of questions. Having answered the sets of questions, you will be able to draw up a particular section of a business plan. Some sections have previously been tackled for primary analytical reasons, so the authors of this module will not return to them, namely: *Business description, Industry background*, *Market analysis* and *Consumer analysis*. The section that follows is *Product or service analysis*.

2.3.1 Product or service analysis

The length of this section should not exceed four pages. It should contain a very detailed description of each product and related services and/or service, description of its distinguishing features, advantages and future development plans. As a whole, this section can be divided into the following subsections: *Product or service description, Ownership characteristics, Future development plans*, and *Product reliability*.

1. ***Product or service description***

This is the most detailed description of the properties of a product or service. When elaborating this section, the following questions should help:

- What is the purpose of a product or service?
- How can a product or service accomplish its purpose?
- Are your products luxurious items or items for everyday use?
- What are their special characteristics (design, quality, abilities, etc.)?
- What is the technological life of your product?

- How can it be compared to other similar products?
- How easily is it susceptible to obsolescence, changing fashion or style trends?
- Which development stage is your product at at the moment?
  You should consider whether
    - it is only an idea to be transformed into a viable prototype,
    - it is a ready-made prototype,
    - there are some product samples already available,
    - there is a production prototype, or
    - the full production is being prepared or has already started.
- How will your product be manufactured?
- Will the production be fully or partly subcontracted?
- Is it an item for final use or a component for another product?
- Will the company survival depend on anybody else?

To illustrate the point read a description of one of the products mentioned above – a product offered by a business called "*From Grandma's Garden*".

...

Product description – Fresh vegetable salad

From Grandma's Garden

Our salad is a unique combination of vitamins contained in natural substances of raw vegetables that help to prevent a variety of diseases. Various combinations of seasonal kinds of vegetable provide quick refreshment, make a healthy and tasty mid-morning or mid-afternoon snack or, when eaten as a big meal, can even replace a good and healthy lunch.

Our salads freshly prepared for a particular customer are easily digestible and can be taken away wherever customers want. We believe that they can easily become part of the daily menu of our customers.

Salads are always freshly-made, vegetables bought fresh every day and stored in a special cooling box during the day, which prevents them from rapid decay. The major parts of each salad are onion rings and lettuce leaves. Each salad offered as a ready-made mix contains at least three more kinds of seasonal vegetables.

There are no similar salads offered by any of the companies operating within the same shopping centre. However, we understand that a customer's interest in healthy living – for example, in eating vegetable salads, may be a fashion trend – still, "the mood" for such products at the moment is very optimistic.

Our competitive advantage is our self-sufficiency in all manufacturing activities. We only depend on vegetable suppliers. As we buy vegetables from three different suppliers, the risk is partly diversified.

...

2. *Ownership characteristics*

This section of a business plan is significant if a good or service your company offers stands on a patent or licence. To complete this section the following set of questions may be answered:

- Could your product be protected by a patent, copyright, trade or service mark?
- What kind of legal protection will be provided?
- What are the regulatory or authorising requirements stipulated by government agencies or industrial and/or commercial participants?

3. *Future development plans*

- What new products are you planning to develop in the future to reflect and satisfy the changing needs of the market in your or other industries?
- Is your product dependent on any production, industrial or market life cycles? What stage of cycle is it? (Define and describe it).
    - introduction stage

- growth stage
- maturity stage

4. ***Product reliability***

The final section of the description of a product or service is the section about the reliability of a product sold or service provided. Your text should bring answers to the following questions:

- Is there an independent professional, who could support or, to the contrary, cast doubt on your product due to any guarantees, responsibilities or image aspects?
- What are reliability guarantees for your product? What are the insurance requirements?
- What series of tests has your product been put to or what kind of engineering studies or evaluations has it been through?
- If there is more than one product, how will the production or application of one product affect another?
- How can your product be compared with similar products of your competitors?
- What are special manufacturing or technological aspects?
- What are maintenance or modernisation requirements?
- If it is a piece of equipment or device, what is its reliability factor? What is its idle time?
- What are the relevant services you provide?
- How can these services increase your company's profitability?

In drawing up a document like this, nobody can avoid making various mistakes. <u>Professionals advise how to avoid the most serious mistakes in this section:</u>

- *Description of a product/service is too technological, long-winded or ambiguous.*
- *This section does not define new, original or better qualities, characteristics or benefits of a product or service.*
- *There are too many corrections or uncertainties from regulatory agencies in this section.*
- *In terms of market needs and competition, entrepreneurs do not plan for the future development of their business carefully; have no plans for improving, expanding or keeping a leading position on the market.*
- *Entrepreneurs are unable to present reliability, maintenance and modernisation factors because of minimising the "idle time".*

2.3.2 Competitor analysis

No company can resist competition, whether in the short or long run. Competitive or competitor analysis, i.e. the analysis of competitors' products and their presentation on the market helps entrepreneurs understand market behaviour better and adapt to its operation. The Competitor analysis section should not be longer than two to three pages. It is to show that you are fully aware of competitive forces affecting your market. In general, this section includes:

1. Competitor profiling
2. Product/Service comparison
3. Strengths and weaknesses assessment.

Again, when completing this section, follow the set of questions below.

1. Competitor profiles

Competitor profiling is powerfully simple – economically, it should reveal who can have the greatest impact on your business.

- Who are your closest and biggest competitors?
- Are their businesses stable, growing or shrinking? Why?
- What is the size and number of employees of your competitors' companies?
- Do you have any information about their suppliers and numbers of customers?
- How big are their market shares?

Competitor profile – From Grandma's Garden

Our biggest competitor at the moment is Mr Chin and his company. It is a family-run restaurant with a varied assortment of Chinese meals. The company has been on the market for 10 years and situated in the same premises since its establishment – in the original, "old" wing of the shopping centre. It is a family business, owned by a single family. Apart from a few temporary workers, the company does not employ anybody outside the family.

The company started in the same shopping centre as a small fast-food stand 10 years ago. Four years later it leased one of the units in the shopping centre to open a small restaurant (approx. 16 seats for customers) with their own kitchen. During the following three years the business flourished so well that they were able to increase the number of seats from 16 to 40 and leased another unit. They have kept the number of seats up to date.

The staff of the restaurant is Mr Chin, working as a cook, Mrs Chin, another cook, their two children working as waiters, and a cashier. In summer they take up another temporary worker as a helping hand during the season.

Mr Chin's restaurant is supplied three times a week, mainly from a large store chain offering a variety of goods, and by several small traders.

Mr Chin's restaurant is the largest company of its kind in the shopping centre and his market share accounts for approximately 38%.

2. *Product/Service comparison*

When comparing your product or service with your competitors', not only should your comparisons be based on price, but also on promotion, strategy, image aspects etc. Do not forget to make a real comparison between the overall position of your company and your competitors' companies.

- What are similarities and differences between your company and your competitors?
- What is a basis for comparison?
  - superiority of your product
  - price
  - product or service promotion
  - technology/innovation
  - others
- In which aspects is your company better than your competitors?
- What have you learned while observing the competition?
- How is your product or service viewed by customers in comparison with your competitor's products or services?
- What do you know about other similar companies although they do not operate on the market yet?
- If you have no competitors, what kind of competitor (who) could possibly be more successful than you?
- Do you pose a threat for the major strategic goals or self-image of your competitors?
- Can you have a serious impact on their profits? (Will they attempt to beat you off by all means?)

<u>What are the most frequent mistakes in drawing up the Competitor analysis section? There are some good tips to take into account</u>:

- *Identify all known key competitors and assess their objectives, strategies, strengths and weaknesses.*
- *Do not underestimate competitive forces and their strong potential.*
- *Prove your competitive advantages – what makes your business special or better?*
- *Develop a strategy how to diminish current or arising competitive pressures.*
- *Do not assume there are no competitors in your market.*
- *Be able to show your knowledge of competitors' market plans and their business cycles.*

2.3.3 Marketing plan and marketing strategy

The section on marketing strategy should be about two to three pages long. Your goal is to explain in detail how you are planning to penetrate the market, build up your position, keep a particular market share and achieve the desired economic objectives.

As a rule, this section consists of the following subsections:

1. Market penetration objectives
2. Pricing and packaging
3. Sales and distribution
4. After-sales service and guarantee policies
5. Advertising and public relations

1. ***Market penetration objectives***

- What is the sales appeal of your product or service?
    - What is a specificity or novelty value of your product/service?
- How will you attract and maintain your customers?
    - How will you expand your market?
    - In what period?
- What are your marketing priorities among various segments and applications? (You cannot satisfy everybody's needs, whatever the opportunity).
- How will you identify potential customers?
- How will you make contacts with decision-makers?
- How will you decide who to make contacts with?
    - In which order?

2. ***Pricing and packaging***

- What does the packaging of your product look like? (Be as specific as possible.)
- Is the packaging design for your product clearly distinguishable from your competitor's packaging? (Describe the distinguishing features.)
- What is it that can attract customers about your product and make them buy it, even if it is only thanks to its packaging?
- What is your pricing strategy?
    - Will you operate with low or high margins (differences between the sales revenue and cost) when selling and buying your products or services?
    - What about your discount policy?
    - What about the margins of your dealer?
- How can you change your pricing policy over time?
    - How will you take research and development costs into account when pricing your goods?
    - What possible price wars with competitors do you assume?
    - What are, in terms of your own business, crucial supply and demand factors?
- What will your credit and debit policies be like?

3. ***Sales and distribution***

- Are you planning to have a retail shop, to sell your product/service through other shops or only on-line via the Internet?
    - Have you made your own website or will you use the web pages of other companies?
    - Do you have or are you planning to have your own domain?
        - ✓ Have you figured out how much it costs to register and maintain your own domain name?
        - ✓ Do you know how to register it?
    - If you have your own website, will it be possible to buy your product or service via an e-shop?

Example

Youb /Website – Grandma for Pets

"Grandma for Pets" has already registered under its domain name "starkapremilacikov.com" and it has its fully working website available on the Internet at www.starkapremilacikov.com. A click for an e-shop and on-line ordering service is part of the website. The only thing clients need to do is to fill in a short informative questionnaire presenting some basic data, a brief description of the service required while selecting among various options. Since checking and responding to e-mail messages and e-mail forms is a receptionist's responsibility, we are able to guarantee replies to our clients within a 3-hour's time of placing an order with us.

The domain costs 1.98$ a month. The highest cost incurred was the creation of our youb/website, namely 325.20$. At present all technical issues are taken care of by an external company with a monthly cost of 11.57$.

- How many salespeople are there directly in your company?
- How many members of in-house staff or producer's representatives?
- Are you planning to hire temporary workers?
- What is the contractual salary and sales effectiveness of each salesperson?
    - What is the commission structure?
    - What is the sales cycle?
    - Which milestones have you set for your company to meet its sales expectations?
- Estimate the average order size per customer.
- Estimate what kind of repeat orders you can expect.
- What geographical areas will you cover by selling your product?
- Will you provide transport for your product? How, which means of transport?

4. *After-sales service and guarantee policies*

- What kind and level of guarantee does your company offer?
    - How can you achieve this?
    - How can this policy influence your profits?
- Have you established a particular complaints procedure or order?
- How will you deal with customer complaints about your products/services?

5. *Advertising*

- What methods are you planning to use to promote your product or service?
    - How many means of advertising are you planning to use?
    - What kinds of advertising or promotional media are you going to use? (Mark and describe).
        - ✓ Newspapers – dailies, weeklies
        - ✓ Professional journals
        - ✓ Television
        - ✓ Radio
    - Will you arrange it by yourself or will you hire a professional advertising agency to do the job for you?
    - How much are you going to pay for the individual forms of advertising?
- Are you planning to present you product/service in exhibitions or trade fairs?
    - Which exhibitions or trade fairs are you going to attend in the following year?
    - What are the charges and/or other costs incurred in attending a trade fair or

exhibition?

Example:

Presentation at an exhibition – Grandma for Pets

Description:

Due to the character of our business, we are planning to attend three most important national dogs' exhibitions taking place in East Vancouver and two local dogs and cats exhibitions to offer our products and services. All exhibitions will be held this September and October and are scheduled as follows:

12th September – National Exhibition of Cocker Spaniels
16th September – National Exhibition of Cross-Breeds
25th September – "Sniffer" – a local exhibition and dog race of all dogs from near and far-away
3rd October – National Exhibition of Labradors
22nd October – "Dog's Bone" – Exhibition of Small Breeds
All exhibitions will take place in the area of local breeding kennels.

Costs:

It was possible to buy a so-called super-package for all national exhibitions in advance including the charges for booking exhibition space at all three exhibitions, energy costs, services and entrance fees for two employees of an exhibiting firm. The whole package was 7,589$. An additional amount of 259$ will be the costs of promotional brochures and catalogues that we are having produced for these exhibitions. The expected yield is 8,260 $.

Costs:

It was necessary to buy exhibition space for both local exhibitions. The costs of "Sniffer", a local exhibition, including the overall presentation costs and the costs of letting the space, amount to 220$. "Dog's Bone" will cost 356$, as it is a bigger and more prestigious exhibition. The expected yields on both local exhibitions are 790$.

Overall costs: 7,589 + 259 + 220 + 356 = 8,421
Expected yields: 8,260 + 790 = 9,050
Expected profit: 9,050 – 8,421 = 629

- Who will be responsible for public relations in your company?
- Will you use the Internet for sales promotion?
  - Have you had or are you planning to have your own youb/website created? Set a time frame.
  - Have you made yet or are you planning to make a company directory of electronic contacts and use it in promoting your products and services?
  - Are you planning to promote your product or service and boost its sales using social networks?

When drawing up this section of a business plan you should avoid making the following mistakes:

- *Misunderstanding the terms of "marketing" and "sales" – "sales" directly concerns your customers and it has developed as an artistic format, whereas "marketing" creates awareness of your product, builds up a relationship to it and desire to buy it and it is an applied discipline.*

- *Justifying your prices insufficiently – justify them on the grounds of manufacturing costs, marketing and sales promotion costs associated with your product or service. (A selling price is related to value only in the eyes of your customers. Prices that are too low may put off customers just like those that are too high.)*
- *Assuming mistakenly that you sell your product in a shop or a factory at a minimum time and minimum costs – salespeople usually need up to a year until they become familiar with a particular product and the sales area; start-up businesses should still consider employing experienced and reputable agencies/representative/distribution networks, as the learning curve and time necessary to complete it is considerably shorter.*
- *Assuming that your distribution network can provide your product or service with "the same" sales time, if you employ an independent agent or representative after all.*
- *Being unable to introduce 'marketable' differences into your product in comparison with your competition.*
- *Making sudden attempts to fill in several attractive but unrelated market niches.*
- *Developing a strategy that is too wide, irrational or unachievable.*
- *Underestimating the significance of packaging and a trade name.*

2.3.4 Implementation plan – Production schedule

The implementation section of your business plan presents a detailed specification of how your product will be made or service provided, how your business will be organised and your prospects and plans presented. This section should contain a lot more details and charts than the previous sections. The implementation plan consists of the following sections:

1. Production, process or operations – Production schedule
2. Management and ownership – Organisational structure and management
3. Administration and personnel
4. Major risks and problems
5. Financial data and financial forecasts (this subsection is part of the implementation plan but is drawn up as a separate section – in this document it is dealt with in a separate chapter).

Verbal descriptions in all individual sections are inevitable; nevertheless, in this section, more than ever before, it is necessary to show the most essential data and information in the summary form and in a clearly-organised and comprehensive manner at the end of the section. Various tables or charts are frequently used here for better comprehension.

Production, process, operations – Production schedule

In this section of a business plan you should devote three to five pages to explain how your product will be manufactured cost-effectively and how it will be prepared for the market. First and foremost, you should mention:

- **Location**
    - Where are you planning to manufacture your product?
    - Do you need any special premises/facilities to make your product?
    - How will these facilities be equipped? (Here, you could describe in detail the manufacturing facilities and plant you intend to use in production.)
    - Is it necessary to use a special place to make preparations for your service to be provided?
    - What do you need to provide your services? (If your business involves service provision, you should list all necessary permissions for service provision).
    - What are the advantages and disadvantages of your present or planned location

in terms of:

  - ✓ its proximity to customers?
  - ✓ its proximity to staff resources, suppliers and capital?
  - ✓ accessibility to transport, energy, and other facilities and resources?
  - ✓ legislation?

- ▪ What are your location characteristics as for its:
  - ✓ size?
  - ✓ structure?
  - ✓ environment? (Is the area where your company is seated stable or is it changing? Is it improving or deteriorating?)

- ▪ What are your short-term or long-term plans/your needs for:
  - ✓ facilities/location?
  - ✓ renovation and costs?
  - ✓ additional equipment or equipment replacement?
  - ✓ new facilities?

- ▪ How can your company location influence your operational costs?
- ▪ What other kinds of businesses are there in your area?
- ▪ What will be the costs and timing of any accruements?

- **Facilities and equipment**
  - ▪ Have you purchased the manufacturing equipment and facilities or are you leasing them?
  - ▪ Is there any mortgage or lien over the ownership or real estate you own?
  - ▪ Have you considered all the needs and requirements concerning the equipment and facilities for relaxation, hygienic facilities, offices, storage areas, reception rooms, production areas, assembly rooms and others?
  - ▪ When planning for the construction of your facilities and equipment, have you taken into account the future needs/plans for extension?
  - ▪ What are your plans regarding the equipment and building construction from the point of view of trouble-free production (with no temporary delays)?
  - ▪ What is the planned capacity/manufacturing output or operation level?
    - ✓ expressed in euro?
    - ✓ expressed in units?
    - ✓ how can it be increased?
    - ✓ what are the production cycles?
  - ▪ Will the operations be arranged for a construction process (the machinery lined up according to its function) or will it be a production line-up (the machinery lined up according to the needs of a product being produced)?
  - ▪ How is your company equipped with computers?
  - ▪ Is the Internet available in your company?
  - ▪ Have you built an internal communications network in your company?

- **Manufacturing activities and operations**
  - ▪ How are you going to achieve the anticipated output or to perform service operations?
    - ✓ Which part of the activities are you going to do internally?
    - ✓ What methods are you planning to use in doing your business?
    - ✓ What part of production will be subcontracted at the time of entry of your business to the market?

        - ✓ What part of production will be subcontracted after two or three years of operation on the market?
    - What materials and components are required for the production of your product?
        - ✓ Which components constitute the essential parts of your product?
        - ✓ Who/What are supply resources for these parts?
        - ✓ Are any of these component parts supplied by a single supplier only?
        - ✓ Have you arranged for any other retailers/suppliers or deliveries in replacement of the usual materials or suppliers in the event they fail?
        - ✓ What are the delivery times of these parts?
        - ✓ In terms of input production quality – what kind of quality of component parts are you willing to accept?
        - ✓ Have you set a particular sequence in which you have to perform the necessary operations at each of the working places?
        - ✓ Have you split the production costs for each production unit regarding materials and labour costs?
        - ✓ Have you quantified the indirect costs, such as inventory, utility equipment, management, administrative costs, insurance costs, taxes, deductions, interests, etc.?
        - ✓ What are your other production control procedures/measures?
        - ✓ What are your safety-at-work records and records of operational procedures?
        - ✓ What is your quality management system?
        - ✓ What are your inventory regulations?
        - ✓ What is the level of back-up stock necessary to absorb random demand fluctuations?
        - ✓ What kind of fixed or cycling stock control system will you use?
        - ✓ What is the shelf storage life of your product?
        - ✓ On the whole, what kind of manufacturing or operational advantage do you have?

- **Working aspects**
    - What are the impacts of possible strike actions or trade union activity? What are the training needs?
    - What are the impacts of changes in the compensatory/manufacturing structure or in quotas?
    - How can you use your labour forces most effectively?
    - Can your staff members operate more than one machine or perform more than one task/function?

- **Economic and ecological effects**

This section should describe what an impact your company and its manufacturing operations will have on the environment and community. Specify in detail how you will dispose of any waste and consider all the restrictions and regulations; for example, environmental pollution or noise level regulations. Clarify all benefits your company may bring to the community. Provide some details on the "push-out" effect of your company by supporting others, creating job opportunities, etc.

    - What economic or ecological consequences might the location of your operation or business have for the community in general? Identify and describe the benefits and impediments in the following major areas:

- ✓ job creation,
- ✓ improvement of suppliers' revenues in the area,
- ✓ existing companies moving into the area or emerging start-ups,
- ✓ others.

Similarly to the previous sections, there is a list of several commonly made mistakes entrepreneurs should be able to avoid in drawing up a business plan:

- *Inaccurate assessments of production process, operations and alternative methods with regard to the costs incurred (taxation, transport, installation and maintenance costs etc.), production capabilities, service, delivery times and other aspects.*
- *Inadequate identifications or provision of auxiliary means and/or devices, for instance, drainage requirements, ventilation systems, gripping fixtures, etc.*
- *Wrong planning of effective operational organisation, materials handling, working facilities, travel expenses and other similar aspects.*
- *Insufficient planning of staffing needs, hiring staff, shutdowns, overtime, extra shifts, sub-contractor relationships, and inventory.*
- *Missing optimisation of combinations of available capacities in a company to meet the requirements and sustainable maintenance of low costs.*
- *Inability to identify and keep accounts of all production costs (fixed, variable, and indirect costs).*
- *Inability to keep the right levels of stock-in-trade and a workable stock control system. Inadequate regulatory elements in the monitoring purchase function.*
- *Poor staff management and recruitment practices. Little attention paid to the process of staff recruitment and training, wages and allowances scales, trade union impacts, and to the explanation of the company policy and expectations.*
- *Underestimating the ecological (mainly relating to the legal regulations) and economic consequences.*
- *Inability to plan long-term needs and changes in a company's location, facilities and equipment.*

2.3.5 Implementation plan – Organisational structure and management

This section should be approximately two to three pages long and your goal in writing this section should be to provide sound evidence that the management and top executives of your company are capable and fully competent, and that they hold all the winning cards to be able to succeed in business.

- As the owner of a company, why have you decided to set up a business in this field?
  - What is your professional experience in this field of business?
  - What is your experience of managing a business?
  - Are you fit for your job?
  - Are you the only owner of the company?

Example

Company management – Grandma for Pets

I have decided to set up our company called "Grandma for Pets" because in my position of sales manager (for specialised foodstuffs for pure breeding animals) my customers often ask me for advice or a tip for a specialised company that will watch their pets when they are unable to do so for various (short-term or long-term) reasons. I had the same recurring requests when I worked for an animal shelter. Here, people would often bring their animals when they could not look after them, either temporarily or due to their busy lives.

In the last ten years I have worked at the three levels of lower and middle management positions:

- *2002 – 2005 in the position of area sales manager, in the area of Carra, East Vancouver – managing a team of 23 people;*
- *2005 – 2007 in the position of regional sales manager in the region of East Vancouver – managing a team of 59 people;*
- *Since 2008 up to now I have been working as a sales manager for the wider region of East Vancouver and its vicinity – managing a team of 167 people in a medium-sized company (245 employees, an annual turnover of 50 mil. euro).*

Besides, for more than 18 years I was employed or worked as a voluntary worker in the local animal shelter (for dogs and cats). As in my professional career I have combined both managerial and practical experience and worked in the same region for a long time (this giving me an opportunity to know the environment well and the people of the region, their needs and requirements), I believe I possess the necessary skills to do the job.

I do not manage the company only by myself, I have a partner whose business and managerial skills are not as large as mine, however, in the last two years he has worked as a subordinate manager in the Vancouver Zoo and has been responsible for the wild dogs department. My partner, Thomas Olswer, is a veterinary doctor by profession, and has been working as a keeper of canine population in the Vancouver Zoo for 14 years. In addition, he is a voluntary worker in the local animal shelter for dogs and cats and has been working there for five years.

- What is the organisation structure of your company?
  - Who is in your professional team? (A lawyer, accountant, banker, tax specialist, trade union leader, public relations officer, IT specialist, any

consultants – marketing, management, systems, etc.?)
    - Do your employees know who to report to?
    - Are their responsibilities and accountabilities clearly defined?
- What departments are there in your company?
- How are you planning to change the organisation structure in the first year?
- Who are your key managers?
    - What is the professional background of each of them?
    - Have you planned how to maintain the key members of your team?
    - Have you worked out a plan how to compensate for the loss of a key member of your team regarding taxation, knowledge and information aspects, the management continuity and the long-term learning curve?
    - To what extent are the key members included in the life insurance scheme where the company is the beneficiary of the sum insured?
- Who are your executives?
    - What can each of the executives bring to the company (length of professional service, new projects, business contacts ...)?
    - What is the role and responsibility of each executive?
        - ✓ What are their duties?
        - ✓ What are their competences?
        - ✓ What is the responsibility of each executive?
        - ✓ What amount of compensation will they receive (share of profits, social benefits ...)?
- Is there a board of directors in your company?
    - Who are the board members?
    - What kind of relationship do the board members have towards your company?
    - What is the primary goal of the present company owners and managers? (Is it the sale of the company in x-years' time, a purchase agreement with the investors, an idea for licensing fees, considerations about granting the rights to sell a company's product or provide a company's service, or another?)
- What organisation structures are you planning to add within the next five years?
- How do you intend to attract and remunerate some other key figures in the company in case it expands?
- Did any of your employees sign exclusive contracts with your predecessors, the previous owners of the company? Or did they enter into contracts with you?
- If you are a public limited company, how many company shares have been issued and authorised so far?
    - On which stock exchange do you trade your shares?
    - Who are your present shareholders?
    - How many shares in the company does each of them own?
    - What are guarantees and/or options?

<u>When drawing up this section of a business plan try to avoid making the following mistakes</u>:

- ➢ *Friends, relatives or any other people in key managerial positions not qualified for a company's specialised functions are not suitable and trustworthy for your business.*
- ➢ *Trying to persuade the audience that a successful manager working in another line of business will be equally successful in your company.*
- ➢ *Being unable to protect the ownership nature of your product or confidentiality of your operations as the people in key company positions have failed to sign non-competitive clauses in their employment contracts and/or employment contracts at all.*
- ➢ *Offering the given people too much ownership or other kinds of compensation when*

making too much effort to attract good people and win their favour. (Offer incentives based on performance – achieving the objectives set – so that the people in key positions are encouraged to work hard and pay up for themselves).

- *Being incapable of identifying and setting up a prestigious and active board of directors.*
- *Demonstrating the unwillingness to resign when the company has overgrown your business inspirations and needs more a manager of a "maintenance" type.*
- *Not having a successor plan or crisis management plan in the event of a sudden unexpected loss of some key members in the key company positions.*
- *Inability to provide some reserve ownership for use in the second-round financing of the company attracting other people into the company's board of directors or management with a minimum number of protests from the present owners.*
- *Locking the company in a wrong type of ownership in the light of tax adjustments, dividend payouts or other priorities of present or future owners.*
- *Being unable to find advice and supporting services of leading specialists.*

2.3.6 Implementation plan – Administration and personnel

This section should be approximately one to two pages long and your objective should be to demonstrate you have established some standard administrative functions in the company and control them. The subsections included in the section on administration, organisation and personnel contain:

1. Administrative procedures and controls
2. Staff training and staffing

1. Administrative procedures and controls

- Have you set up an accounting system for your company?
- What are your administrative methods, procedures and controls for:
  - invoicing, accounts payable and receivable?
  - management reporting?
  - recruiting new employees?
  - staff training?
  - introducing your staff to the safety and other regulations?
  - promoting and remunerating your staff?
  - disciplinary proceedings?
  - travelling on business?
  - using company telephones?
  - using company cars?
  - managing stocks, inventories and/or other expenses?

2. Staff training and staffing

- Are the people you need (as for their knowledge and/or qualifications) readily available on the market or will you have to train them on-the-job?
  - Do you cooperate with any of the training centres?
  - Will you train your staff yourselves?
  - Do you have your own training instructors or will you have to hire them?
  - Do you have your own training facilities or will you have to hire them?

    - Do you know how much it will cost to train one worker?

- How will the staff members know where they belong?
    - What do you expect them to do (job descriptions)?
    - When are they supposed to do their jobs?
    - How are they supposed to do their jobs?
    - What are the management expectations and promotion prospects?
- Do you assess performance periodically?
    - Who will assess the performance of your employees?

Some frequent mistakes entrepreneurs make include:

- *Imperfect or inadequate accounting and business administration systems.*
- *Lacking preliminary knowledge of how to manage and stimulate the best possible performance.*
- *Understaffed companies unable to perform such tasks.*
- *Overstaffed companies – too many workers doing too little work.*
- *Badly or unclearly defined responsibilities and/or powers in a company.*
- *Poor management and control systems.*
- *Inadequate need planning of future staff members in terms of their growth/personal development or other changes.*
- *Insufficient staff training and orientation procedures.*

2.3.7 Implementation plan – Crucial risks and problems

This section of a business plan should be approximately one to two pages long and it should prove you are aware of all inherent and potential problems and risks. You should demonstrate your will to face them and deal with them directly. In this section it is advisable to mention what problems have you encountered in your profession, management or in your job and how you have solved them. Do not stray too far from the subject, but strictly stick to the scope of your business.

- In which areas can you see some inherent or potential problems, risks or other negatives your business might be confronted with?
- Try to anticipate the most serious problems your company might face.
    - What activities, processes and procedures has your company established to be able to avoid similar problems?
    - In which areas of your business is there a high probability of the occurrence of similar problems?
    - How is it possible to minimise the impacts of such problems?
    - What can you learn when solving such problems?
    - Is it possible to reverse these problems and convert them into opportunities?
- Is your company or any of its top executives involved in any imminent or ongoing process of assuming responsibility for something or disciplinary proceedings?
- Is your company insured?
- Does the company have to face any strict regulatory requirements?
- Does the company have to accept legal liability for any damages or face any other insurance problems?

Similar to the previous sections, it is necessary to avoid some mistakes in this section, namely:

- *Inability to identify market barriers.*
- *Inability to identify uncontrollable variables.*
- *Inability to protect your trade secret (if your company has no patent or non-competitive clause included in the employment contracts and one of the key members of your team makes a decision to join a competitor's company).*
- *Inability to predict a threat of bankruptcy honestly.*
- *Withholding or covering up the information concerning the ongoing legal proceedings in order to recover damages or any other problems of material responsibility.*

2.3.8 Timetable

This section of a business plan should contain approximately one or two pages outlining the main objectives of your company and a timetable stating how and when these objectives will be met.

- What action is necessary to put your company into real operation?
    - What has to be done in order to increase the capital?
    - What has to be done in order to identify the market and penetrate it?
    - What has to be done in order to identify, recruit, position and train the management and staff?
    - What action is necessary to introduce the company in the market, to attract suppliers, etc.?
    - What is necessary to do to become operational?
    - Who will carry out all these tasks?
    - When are they expected to be completed?
- Which are the critical milestones and/or crossroads your company must reach to be able to achieve its objectives?
- Have you developed any strategic plans for your company?
- What professional and consultancy services have you arranged for the company (or will you need in the future) to keep it correctly orientated according to the timetable set and help your company to achieve its objectives?
- Do your objectives "down to earth" or are they only hopes or forecasts?
- Are your objectives up-to-date and are they attainable within the specified time frame?
- How can you ensure the achievement of your objectives with a minimal error coefficient?
- What will you do if/when you meet your objectives?
- Have you joined up and coordinated your efforts to achieve these objectives?

<u>The most frequent mistakes you should avoid when writing this section include</u>:

- *Inability to identify and prioritise truly important or significant milestones.*
- *Inadequate descriptions of methods to achieve your company's objectives and responsibilities.*
- *Unrealistic milestones with regard to the availability of resources or the time frames to reach them.*
- *Inability to offer alternative action plans when the milestones cannot be reached within the specified time frame.*
- *Inability to look ahead and plan some methods of sales improvements and operations.*
- *Believing that everything will go according to plan.*

This section is the final development section of a business plan. It should be followed by a financial plan, which is going to be dealt with in the next chapter. The conclusion should contain some appendices and supplementary materials.

2.3.9 Appendices

This section of your business plan about supplementary documents or appendices to the plan should contain all materials that may enhance the credibility of your business. They may include any document mentioned below, such as:

- patents, copyright or trademark licences related to your product/products;
- photographs of your product (products) and your facilities or premises;
- partnership agreements;
- employment contracts;
- lease agreements;
- supply contracts;
- marketing materials, such as brochures and correspondence;
- signed customer orders;
- articles from professional journals, newspapers or magazines about your market;
- curricula vitae of the leading members of your management team and other central figures in the company;
- recommendations or references;
- the organisational chart;
- job descriptions for some key company positions;
- staff and system specifications for accounting and purchasing procedures;
- stock and other control systems;
- financial documents. (PP, 2008)

After having completed all single sections of your business plan, you can draw up an executive summary, fact file and a title page of your document.

2.3.10 Executive summary

When you start concentrating the information for an executive summary, the following questions should be of some help in selecting all relevant information that should be included in the executive summary. If you are unsure about the answers to some questions, omit them and do the following questions. You will return to the unanswered questions later.

- What type of business is your company? (Describe it.)
    - A trading company?
    - A manufacturing/processing company?
    - A distribution company?
    - A service provider?
    - Another?
- What kinds of product or service will you offer?
    - What makes them specific or unique?
    - Can they solve a serious problem?
    - What are their chances of success?
- What is the position of your company entering the market? (Identify and describe it.)
    - Is it a start-up company?
    - Is it a merged or acquired company?

    - Is it a company extending its portfolio?
    - Another?
- What stage of development is your company at? (Identify and describe it.)
    - Research and development?
    - Prototype?
    - Operational?
- How long has the business lasted? (Or is it in the process of development?)
- What form will the organisation take? (Identify and describe it.)
    - Ownership?
    - Partnership? (What type?)
    - Corporation? (What type?)
- Where will the business be located?
- What are the advantages of this location?
- Who and what is the target market?
- What percentage of the available market will you cover?
- What is your plan and strategy for the entry to the market?
- Who are your competitors?
    - Which are their strengths and weaknesses?
    - What is their market share?
- Who will manage the company?
    - What qualifications are necessary for the person managing your business?
    - What kind of experience, education and background have the top managers acquired?
- What time frame have you set for achieving the immediate and long-term goals?
- How much money is necessary to
    - lead this business to success?
    - improve its products?
    - for marketing?
    - for operations?
- What kind of financing are you striving for? (Identify and describe it.)
    - Debt financing?
    - Share financing?
- What do you offer in return? (Identify and describe it.)
    - Ownership? (What proportion?)
    - Share of profits? (Anticipated profits for the next 3 to 5 years)?
    - Other?
- What is the investment recovery period?
- What amount of investment has been made up to date?
- What are your interest (financial or other) and a long-range goal?
- What are your business strengths? (Identify and describe them.)
    - The management?
    - The experienced and capable staff?
    - A unique product or service?
    - A reliable source of supplies?
    - Low manufacturing and overhead costs?
    - A considerable difference between the receipts and expenses (net cash flow)?
    - Good service?
    - Emphasis on quality?
    - Other?
- What are your business restrictions? (Identify and describe them.)

    - Capital?
    - Managing resources? Personnel?
    - Other?
- What is a long-range company goal regarding its growth and expansion?
  (Chodasová – Bujnová, 2001)

An executive summary is a single complete module. It can be changed and some specific content or elements emphasised depending on your target audience. By changing it and addressing a particular audience the same business plan can be used for a number of purposes. It is highly recommended to include a fact file page in the executive summary.

The summary should be clear and to the point. Its language should be simple and able to prove that the management representatives know the company's objectives. First of all, it should demonstrate a business opportunity.

On the whole, it is suitable to arrange the single items of information in the following structure:

1. Concept

The introductory statement/preamble should catch attention. Perhaps, you should state that you are the first launching this product or something in the sense that customers' demands are really high and you have come up to the market with an idea generated as a result of initial market survey. Describe the character of your business (its location, form, years in business and current status), all recently achieved objectives and financial results.

2. Product/Service

Describe your product or service. Add specifications, significant or unique characteristics. State clearly where you are or where you would like to be located and give the advantages of this location. If the product is going to be sold or distributed through some other channels, identify them and describe the distributors and distribution processes. Mention all preliminary purchasing and selling operations or contractual relationships with producers and/or distributors of your product.

3. Market

Describe the market for your product or service, present and expected market shares, and an overall potential. Mention your competitors and your competitive advantages. Present your plans for the introduction of your product or service to the market and your strategy how to gain acceptance and loyalty on the market. In addition, mention any letters of intention of future cooperation with your customers or clients.

4. Manufacturing operations

Describe the manufacturing process of your product or service and the way it will reach the market. Explain all the specializations and technologies you first used in production or implemented in the product or service. If you are planning to become a subcontractor and sell manufacturing or operational licences, describe this method and its positives.

5. Management

Describe the team working in a company, the managerial experience and capability of its members. Put emphasis on their specific and exclusive competences. Mention the supporting personnel who will be necessary when the company expands. Demonstrate that the people involved in your company's activities are all well-qualified and committed.

6. *Financial requirements and investment conditions*

State how much finance you have invested up to date and what other funds are necessary and how you are going to use them. Mention what you offer in return for the money offered, the payback period and the potential length of the investment recovery period. State the earning possibilities for a period of the next three to five years and all tax reliefs arising from the investments.

7. *Objectives and time frames*

State what has to be done and expected deadlines to give your business a go-ahead. Describe its phasing and timing, name all exclusive advantages and strengths that will contribute to the success of your business.

An executive summary must provide enough information to arouse interest in the audience and encourage them to read the whole business plan and familiarise with further details.

8. *Fact file*

A fact file is a separate sheet and is usually put into a business plan at the end along with the summary. It enables the audience to skim through the most important information regarding the company.

A fact file, being part of a business plan and a separate document as well, can find a variety of uses, for example, for informative or marketing purposes, etc.

Fill in the following information and write it down on a separate sheet to compile your own company fact file.

A FACT FILE ABOUT (Name of your company)

Name of your company:
Location/Registered seat: (a full address, phone and fax numbers)
Type of business:
Form of business:
Sort of product or service:
Patent, trademark or service mark: (registration number and date of issue)
Years in business:
Number of founding members, partners, employees: (provide some well-known names)
Present and expected market share:
Investment made so far: (estimated equipment, stock and time investments)
Nett value:
Further financing needs: (estimate the overall amount of finance)
Minimum investment:
Terms and conditions and payback period:
Overall rating:
Legal counselling:
Financial counselling:
Managerial counselling:
Description of any related transactions, agreements or relations the company is engaged in:

The last sections of a business plan are a title page and table of contents.

9. Title page

A title page should be lucid and appealing, but not decorated. The information about the company, such as its logo (if any), name, address, and telephone and fax numbers should be concentrated at the top third of the page.

The middle third of the title page should contain the following information about the owners of the company: the name(s) of the owner(s) or company representatives, their academic degree(s), the address(es) of the owner(s) or company representatives, the telephone number(s) of the owner(s) or company representatives.

At the bottom third of the title page there should be some information about a company's business plan: the month and year of its development, number of its issue, and the name of the person who developed the plan.

If you intend to use the plan as a loan request or for a start-up seeking venture finance, make a specific title page for each purpose, i.e. for each source of financing and add a specific line where you mention who the plan is intended for.

10. Table of contents

A table of contents contains all main sections and subsections of your business plan and the pages where these sections and subsections can be found.

The purpose of the table of contents is help the readers find quickly their area of interest in your business plan. It is up to your company to decide what to include in the table of contents, and it depends on the organisation and structure of the plan.

When sorting out the contents, do not forget to include the sections in the same order as they appear in your business plan. Give the numbers of pages for all main sections and subsections on the right page margin.

2.4 Conclusion

There is no doubt about a business plan being the cornerstone of success in business. A lot of small enterprises went to the wall not because they lacked finances, but because they had no business plan or had not paid serious attention to its development. Had it been possible now to make an in-depth analysis of their activities, it could possibly have shown that they had no business conception helping them to identify in advance all problem areas in business and find solutions to eliminate them. The success of a business plan is also due to the strong belief and optimism of its presenters that it is feasible and in its good presentation.

2.5 Assignment

Based on the given instructions, draw up your own business plan.

3 Financial planning

3.1 Mission

The mission of this chapter of a business plan is to show single steps and procedures for financial planning as one of the key elements of business activity.

3.2 Objectives

After having completed this chapter, you should be able to:

- Characterise financial planning and a financial plan and say what purpose they serve,
- Establish a procedure and draw up a financial plan.

3.3 Financial planning

Financial decision-making affects our lives every day. Financial planning is important for a household; however, it seems even more important for a business. In the previous chapters you have planned all individual activities, procedures, products and services for your company. Well, it is impossible to go ahead with and implement your plans without financial resources. Now you came to the section that can boldly be called the core issue of your business. Financial planning is an area that is associated with business immediately from the start – from the very idea of doing business. Among the most frequently asked questions related to business as such there are: Can I afford it? Will I be able to afford it? Do I have enough resources? Will it bring me profit? Will I not go bankrupt? If so, what will I do then? Will I suffer terrible deprivation (my flat or house taken away from me) or will I be imprisoned? You can find the answers to these questions when drawing up a financial plan for your business.

Financial planning is a process of formulating short-term and long-term plans in financial terms for the purposes of establishing goals for a company and sets of measures to achieve these goals. The result of financial planning is a financial plan. It is a document in which the present and future needs for financial resources are placed against the currently existing and prospective sources to cover them, i.e. there are the budgeted receipts and expenses for a specific period. By means of a financial plan or analysis it is possible to anticipate/verify the financial consequences of the decisions adopted in all other partial plans and thus obtain a financial expression of your business intentions.

There is a general rule – the shorter the planning period, the more precise the plan. The planning period for a financial plan determines all tasks, structure, content, methods/techniques used in the development of a financial plan, and the sources of financing.

3.3.1 Planning period, planning calendar and company records/financial statements

When planning finance, you should consider two time dimensions, or two moments in particular. One concerns a planning period and the other a planning calendar.

1. ***Planning period*** – it is a period the company management should consider. Over time two methods of planning have been established – periodical planning and projective planning.

   By periodical planning it is possible to plan, check and evaluate a business's position in relatively short and continuous periods. You create some sort of timetables resulting in periodical financial plans, profit plans and reports on the company's activities and monitor and evaluate the company operations. You formulate both long-term and short-term financial plans.

2. ***Planning calendar*** – it is the coordination of regular updates of periodical plans, their postponements and development of new projects. It pertains to their contents, timescales, and the responsibilities of the individual management levels. The main advantage of this calendar is that it is possible to draw up plans effectively and ensure their timely completion.

3.4 Development of a financial plan

Just like there is not one single correct step-by-step procedure for the development of a business plan, there is not one unvarying practice or standard for the development of a financial plan. Some steps to be followed might be as illustrated by the following figure:

Figure: Series of steps in the development of a financial plan

11. Financial analysis of a company

12. Formulation of a company's objectives

13. Basic strategy

14. Long-term financial plan
15. Short-term financial plan and budgets
16. Operational financial plan
17. Implementation of the financial plan
18. Evaluation, adjustments and alterations

In the following section the individual steps in developing a financial plan are analysed in detail:

1st step – Financial analysis

Financial analysis provides information about the internal position of a company. It speaks about the extent to which a company's assets are liquid, i.e. about the ability of the company to pay its debts when they fall due in the amount payable. Moreover, it says a lot about a company's profitability and/or viability. Another area is the company's activity, which means how fast (the number of times in a year) a company can "turn over" its stock. It can provide a complex picture of the actual company's performance, or of its desired performance in the future. Using various methods and tools entrepreneurs are trying to find answers to the following questions in particular:

- What is hidden behind the current financial performance of a company?
- What has had the greatest impact on this result?
- What is the financial position of a company?

Financial analysis is the first step of any financial planning, therefore, there is more attention devoted to it in a separate section.

2nd step – Formulation of a company's objectives

In the past the essential and basically the only acceptable goal of a company was to maximise profits. Nowadays, as experience has taught us, the main financial goal of a company should be to maximise the market value of a company rather then its profit, and, in the case of a public limited company, to maximise the market price of its shares. This approach is characteristic particularly of American companies. However, the approach of a German concern, Daimler – Benz, is worth mentioning. It has set the main financial objectives as follows:

- profits and profitability of the capital employed;
- liquidity;
- cash-flow.

b) Formulation of broad objectives

Broad objectives are usually formulated only verbally, not numerically. One of the fundamental broad objectives you should never forget about is a steady growth of the market value of your company. It should be accompanied by another objective: building up a broad base of customers. This objective will be your genuine motivation for manufacturing high quality products (and for a well-thought out system of their distribution) and providing services at the highest possible level.

c) Formulation of specific objectives

Specific objectives are then focused on specific areas of a company's activities. They are stated numerically and reflect your economic prospects regarding the company's market share, expected returns on the capital invested, etc. as well as the timeframes involved. For example, a four percent yearly growth in sales in the period of the next five years; the product "Z" will go into production at the beginning of 201x, two years later it will penetrate the Asian markets and then, in five years' time, the American market; the return on investment in the first year is estimated at 20 percent; etc.. The significance of formulating such objectives is not only in taking some first steps in the development process of a financial plan, but this formulation works as a motivator and standard for the measurement of the performance of those in charge.

3rd step – Cash flow planning

This section should contain the above-mentioned planning calendar. The following table could serve as an example of such planning calendar:

Steps	What will be done	By whom	How it will be done	Deadline
Step 1	"Panama" salad sales project creation	Sales manager	Main project areas are put down. The individual project tasks are delegated to the persons responsible.	1 January 2014
Step 2	Salad preparation plan development	Cook	A list of basic ingredients to make the salad is drawn up. All necessary procedures to process the individual kinds of vegetable are established. The process of making the salad is defined.	1 February 2014
Step 3	Salad distribution plan development	Cook	Storage procedures for all the necessary salad ingredients are written down. Methods and possibilities of serving the salad are developed.	1 February 2014
Step 10	Final report elaboration and	Financial department	The financial manager presents the final report at an	30 April 2014

	presentation		evaluation meeting.	

A long-term financial plan focuses on some selected areas and provides a data summary. As a rule, it consists of the following components: a plan project, capital expenditure plan, profit plan, balance plan, and a cash-flow plan. The most significant part is a capital expenditure plan, since it is a decision about an investment to be capitalised, i.e. about the capital that will bring profits only in the future. Along with the investment analysis you will have to analyse the financial resources you can employ. Besides, the plan must make allowances for all its inherent limitations or dangers.

4^th^ step – Plan evaluation and revision

The evaluation and revision of a financial plan mean the overall comparison of the assumptions and forecasts with the real implementation of the plan, and the real financial performance and position of a company.

3.4.1 Self-assessment questions

1. Which are the basic documents describing a company's activities?
2. What are the single steps in financial planning?
3. What methods of raising external resources for a business are there?

3.4.2 Activity

1. Make a market survey in your business location focusing on the banking sector – find out which banks have branches in your area and which products they offer to small start-up companies.
2. Draw up your own planning calendar while drawing attention to the three most important processes in your company.
3. Write down the most serious risk in your business and find a rationale to support your views. If you mention several risks, order them hierarchically. Put the risk you are most worried about to the first place.
4. Develop a risk management plan to deal with the risks involved in your business mentioned above.

3.5 Conclusion

Drawing up a good financial plan requires time, experience and a good knowledge of your business environment, in particular. It is both the in-company environment and the environment surrounding it. If you feel unsure about some of its sections, it is always advisable to ask a financial consultant for advice at this point.

4 Role of a bank in the process of business planning

4.1 Mission

The mission of this chapter is to point to a rather specific role of a commercial bank in business for any business entity. Simply, a bank cannot be left out in business planning, neither its services nor the obligations of a business to a bank.

4.2 Objectives

After having studied this chapter you should be able to:

- Make a list of documents and reference material necessary in the negotiations with a bank about loan applications,
- Realise and recognize all single procedural steps of a bank in the evaluation of a loan application.

4.3 Introduction

A bank is a financial institution whose primary role is to serve as an agent for a client and is concerned mainly with accepting deposits and making loans. Many other financial operations have been added over time, for instance, banks today present very important financial “players“ on financial markets and their portfolios include such elements as investment funds.

4.3.1 Negotiations in a bank

Knowing its financial and investment plans, etc., a company identifies its financial needs. These will determine whether a company needs a short-term loan for a specified time to finance its stock in trade, debts etc. or long-term funds for investments.

The questions you might be asked when negotiating a bank loan are as follows:

- How are you getting on in your business?

- Who has a share in your company? What share? What is the memorandum of association outlining the main features of your business?
- Are partners in your company well off?
- Have you submitted the latest balance sheet? What is the current status?
- What are the greatest changes in the balance sheet? Why?
- What are your recent turnover data (up to date)?
- What annual turnover do you expect for the current year?
- What annual turnover do you estimate for the next year?
- What are the profits like? So far? In the following year?
- What radical changes have there been in turnovers and profits compared to the previous year?
- Why is your turnover/profit falling/has fallen?
- What are you doing/have you done to tackle the problem?
- What is your market position?
- Who are your main buyers/clients? What share do they have? Is it fine?
- Do you trade with foreign countries?
- How large are your personal withdrawals? Have they affected the amounts of equity capital of your company?
- How much can partners withdraw?
- Do you keep part of your profits in the company?
- Are you planning any investments? Which ones? Why?
- Are there any investment plans in your company?
- Is the return on investment ensured?
- How are you going to raise funds for investment?
- Can a bank assist you in any way?
- How big is a loan your company will need and how soon? Will the existing credit line suffice?
- If you need more credit, why?
- How have you spent the funds so far?
- Are you making use of any other credits from any other banks? What extent of credit/what credit lines are available? How much have you used yet?
- When did you last have a tax inspection in your company?
- What was the outcome? Do you need to count on any further tax liabilities?
- Why (if possibly) is the balance in your bank account going down?
- Why have you (not) used the credit available in full?
- If you need a higher amount of credit or a new loan, how can you arrange it?
- What is the loan repayment period? How are you going to repay it? Where will you draw the finance?
- What are your total assets apart from those stated in the balance sheet?
- Can your offer them as security?
- To which extent is your corporate or personal property encumbered? With what kind of loans?
- Which substantial suppliers and buyers’ liabilities have you had to assume?
- Do you make use of leasing or factoring?
- How much do pay for leasing?
- Which other major companies belong to your group? What is their current yield?

Some useful advice for negotiating in a bank

Every company representative must prepare properly for the negotiations with a bank. Below you can find some useful tips that might help you during the negotiations.

1. Prepare carefully for the loan negotiations and do not let yourself to be pushed into a corner, into a defensive position.
2. Have a clear and definite conception of further planning.
3. Have an overview of all previous business relations with the bank.
4. Take your own initiative in an interview.
5. Plan the negotiations for the time when you will be able to provide the bank with the latest data of adequate strength.
6. If you need a loan, start negotiations well in advance.
7. Get the right partners for the negotiations, know their powers and competences.
8. Take another person (an accountant, tax advisor, or auditor) with you for the most serious negotiations.
9. Make yourself clear what you expect from the bank, what extent of credit you need, and what terms and conditions you will accept.
10. Work out your credit limit.
11. If you need a greater amount of credit than previously arranged, inform the bank in advance and ask for a binding commitment to grant you the amount required.
12. Explain your balance sheets/your company's financial position.
13. Do not withhold any important aggravating factors.
14. Try to understand that banks need information. Open up to the bank, trust bank secrecy.
15. Try to stay professional and interpret the data strictly from the professional viewpoint.
16. Regard your bank as an advisor, discuss your investment plans.
17. Enquire about the best credit facilities for you.
18. Consider carefully the offer of your bank and compare it with other options from other banks.
19. Compare the rate of interest for a bank loan with the rates for other business transactions you make with the bank.
20. Ask for better interest rates in case of higher loans.
21. Bear in mind you should discuss all charges and rates.
22. Keep contact with other banks (including those you have no accounts with at present).
23. In adverse conditions go over to another bank offering better conditions and ask it for a loan.
24. Do not change banks too often.
25. In the event of long-term loans, ask a bank, inter alia, how it collects interest rates and how amortization is set off against the debt over a loan period.
26. When a bank requires some form of security, stand on ceremony, but do not react disapprovingly.
27. Offer your company's property to guarantee for a loan.
28. Banks usually do not offer loans to cover the full amount of security.
29. Make loan arrangements for the longest possible loan period.
30. Try to obtain cheap loans with low rates of interest.
31. If the interest rates are too high, postpone your investment plans until later.
32. Even if you have been provided a bank loan, keep the bank informed about your company's financial position.
33. Maintain regular contacts with the bank.

34. Discuss the matters inside your company and let the bank know about it.
35. Absolutely adhere to the terms of your agreement, never go beyond your credit limit.

Submitting a loan application

A client must submit a formal written application for each individual loan. With every loan application, a client fills in an application form and submits it to the bank. All municipalities have to complete the application with the required addenda:

- Client's budget for the current year including the loan requested
- Brief description of the object to be financed
- Method of repaying the instalments and interest rates
- Extract of the Municipal Council of the decision on the loan and security provision
- Income and expenditure statement for the last quarter of the current year
- Balance sheet or statements of assets and liabilities for the last half of the current year
- Last-year income and expenditure statement and balance sheet
- Summary budget (estimate of costs) for the investment activity planned
- Title deeds proving a client's right of ownership of property not older than two months
- Expert opinion/Survey not older than two months on the cost of property to guarantee a minimum value of 13 percent of the loan granted.

4.3.2 Self-assessment questions

1. In view of your line of business, write down all kinds of loan you might apply for to a bank.

2. Based on the list of questions and tips for negotiations with a bank, draw up a document that you would give your company's representative before the similar negotiations.

3. Make a financial analysis of your company as if you were a bank deciding about a loan agreement.

4.4 Conclusion

Banks and businesses are inseparably linked in today's world – not only are start-up businesses but also well-established companies with an economic history longer than several decades. Banks will always act as ardent protectors of funds and profits; therefore, they will insist that their clients provide clear evidence of being able to repay the agreed amount of loan granted. It is obvious you have to realise that if a business entity hopes to succeed in getting a loan, they must be prepared for the detailed monitoring of their business's economy and analysing potential risks on the part of a bank. Moreover, banks will require some form of guarantee – whether in the form of tangible or intangible assets.

4.4.1 Self-assessment questions

1. What aspects will a bank consider when assessing the credit rating (creditworthiness) of a client applying for a bank loan?

5 Test

1. What is the practical use of a business plan?

    a) At any rate, it is to be a business document serving to present a company's intentions and plans to the public.

    b) Not only is it to be a business document, but also an in-company tool for internal control and management, and a company's future development forecasts.

    c) It is to be a document serving the needs of a bank only, or of another financial institution in a situation when a company needs to raise funds.

2. Every business plan should contain:

    a) A financial plan, a daily schedule and duty chart at the doorkeeper's room in a company, a detailed marketing plan, and personal information.

    b) A financial plan, information about an organisation, detailed marketing plan and personal information.

    c) A financial plan for breeding two dogs, daily schedule and duty chart at the doorkeeper's room in a company, detailed marketing plan, and personal information.

3. Decide whether the following statements are true or false:

    a) The simpler and easier to copy your product, the more likely it will be copied and used by competitors. (**True**)

    b) An executive summary is the part of a business plan that potential investors can see first; therefore, it is also written first. (**False**)

    c) SWOT analysis can be also used for the analysis of a product or service. (**True**)

    d) No information regarding how a product will be manufactured should be provided in a manufacturing plan. (**False**)

4. Which operations present the individual steps in financial planning?

    a) Financial analysis of a company, formulation of a company's objectives, a long-term financial plan, short-term financial plan, and a balance sheet.

    b) Financial analysis of a company, formulation of a company's objectives, a long-term financial plan, short-term financial plan, and an operational financial plan.

c) Financial analysis of a company, formulation of a company's objectives, SWOT analysis of a company, a long-term financial plan, and a short-term financial plan.

5. Two fundamental resources a company can use to finance its business activities are .... resources and .... resources. (**external/foreign and internal/company's own**)

6. Decide which statement is true and which is false:

   a) At present two procedures are distinguished in financial planning: periodical planning and projective planning. (**True**)

   b) In the past the essential and basically the only acceptable goal of a company was to maximise the market value of a company. (**False**)

   c) A German concern Daimler–Benz regards liquidity as one of its main financial objectives. (**True**)

7. What types of activity are undertaken by banks? When they grant loans, we can speak about .... operations, and when they accept deposits, we speak about .... operations. (**active, passive**)

6 Glossary

Price – is an amount of money or an asset that is required or paid in exchange for something; at the same time, it is the cost incurred if a person desires to acquire something.

Executive summary – is a short document or part of a document drawn up for commercial purposes summarising the most important facts of a long document, proposal or a set of proposals to such an extent that the audience can quickly familiarise themselves with the contents of the whole document without necessarily reading it all.

Financial plan – generally speaking, it is a sequence of steps or measures developed by an individual or company that is to be taken to achieve their financial objectives or to set the conditions for their achievement, e.g. debt elimination.

Investor – is a person who invests their capital in an investment product(s) with a primary view to their financial return, either as income or capital gain.

Bankruptcy order – is a measure that has to be taken if a company is unable to pay its debts and the debtor has gone bankrupt; bankruptcy proceedings are started by a bankruptcy petition, i.e. a proposal presented to the court by the statutory body of a company on the grounds that the company appears unable to pay its debts or has reasonable prospects of doing so.

Liquidity – the level of a company at which it can purchase or sell assets or securities held on the market without any impact on the price of the assets; the ability to turn these assets readily (or within a very short period) into cash.

Liquidation (winding-up) – is bringing the life of a company to an end; it is understood as the collection of a company's assets, payment of its debts to a company's creditors and distribution of any surplus to its members prior to its dissolution.

Entrepreneur – is a person with overall responsibility for decision-taking in a company, engaged in a number of company activities, whether commercial or manufacturing, with the aim of generating income using a combination of human, financial and physical capital.

Business plan – represents the formal expression of business objectives a company sets for itself, reasons why these should be attainable and plans developed to achieve these objectives. In addition, it may contain the background information about a company and the team attempting to reach the objectives set.

Primary insolvency – is the inability of a debtor/company to pay their instalments or debts when they fall due as it has no funds to do so.

Implementation plan – is a sequence of single steps when putting a particular business plan/activity (production, sales, administration) into operation. The plan includes all components (staff, facilities) that are going to participate in its implementation.

Profitability – means the capacity or potential of a company to generate revenues (profits etc.) based on the capital invested.

Market competition – is a process in which various entities (such as companies or households) meet in the market, while each of them is striving to gain the greatest possible material advantage in this environment.

Loan/Credit – is a specified sum of money which one person (a creditor) lends to another person (a debtor) providing that the debtor will pay back the money borrowed within a specified period, usually together with an additional amount of money, i.e. interest, as the charge made for borrowing or another form of compensation.

Manufacturing plan – is a production schedule agreed in advance as a result of sales and operational (manufacturing) planning functions and a specific overall level of planned production outputs.

7 Activities

- Invent your own business name and using the Internet try to find out if the same name already exists or not. Then, think of a slogan, a short easily remembered phrase that could represent your company and its mission. Verbally justify your actions.

- Draw up a so-called “elevator pitch“, a short summary of your business plan, and present it to somebody from your immediate vicinity.

- Conduct a market survey in your business area focusing on the banking sector – find out which banks have their branches in your location and which products they offer to small, start-up businesses.

- Develop your own planning calendar while drawing your attention to the three most important processes in your company.

- Write down the most serious risk you need to face in your business. If you state more than one risk, order them hierarchically. Put the risk you most worry about to the first place.

- Explore the most significant aspects of the risk you most worry about in your business.

- Develop a risk management plan to deal with the risks you stated in you business plan.

- Calculate the basic ratios to monitor and evaluate your company’s financial performance and try to analyse your company’s financial position.

- Choose some present elements where you know you have to make changes and characterise which changes you are going to make.

- Draw up a complete financial plan for your company.

- Make an overview of all banking products banks in your location offer.

- In view of your line of business, put down these kinds of loans you would like to apply for or could be granted by a bank.

- Based on the list of questions and tips for negotiations with a bank, elaborate a document which you would give your company’s representative prior to the similar negotiations with your bank.

- Make a financial analysis of your business as if you were a bank deciding on a loan application.