

PRACTICAL ASPECTS IN DOING INTERNATIONAL BUSINESS

editors Tomasz Dorożyński Janusz Świerkocki



Chapter 2

Business plan

Tomasz Dorożyński, Wojciech Urbaniak

2.1. Notion

To an enterprise, a business plan is a planning tool which describes future activities and the ways of delivering them, taking account of external and internal circumstances. It may also be defined as a document, which:

- a) sets out a work programme (plan) of an enterprise,
- b) shows whether the plan is feasible and realistic,
- c) demonstrates that its implementation may bring benefits to the enterprise.

It is clearly a future-oriented document. A business plan uses various predictions connected with the business environment, such as forecasts, programmes or plans. First of all, it formulates assessments with respect to the future performance of the enterprise in question, which will be attained as a result of the implementation of the planned development projects. The present situation is the starting point for considerations relating to the future.

The business plan is a realistic document. Usually it is developed to deliver concrete actions within an enterprise, not to meet formal requirements. The only exception is certain subsidies, for which a business plan must already be submitted in the application procedure to demonstrate that the project is feasible. The business plan should realistically assess the feasibility of the planned goals and the practical ways of reaching them. That is why it must be based on an analysis of the current economic

situation and its authors have to provide evidence that the goals can be attained in a given economic, legal and social environment.

The business plan demonstrates that the economic operator will benefit from implementing the tasks outlined in it, i.e. that at a specified time in the future, the operator will arrive at a planned and desired situation. As a rule, it means achieving adequately high profit under given circumstances. Sometimes, enterprises instigate actions to attain other objectives, such as environmental protection, improving employees' skills or health and safety conditions at work.

A business plan is always in writing. Thus, considerations on how to establish or develop a business may not be considered a business plan. A professionally written business plan draws knowledge from economics, especially microeconomics, finance, marketing, management and organisation, and risk. Legal aspects make its vital complement. The authors must have knowledge and practical information on the environment in which the project will be delivered.

The owners of small firms often choose to write a business plan themselves. The advantage of such an approach is that they have the vision of the project in question and the full set of data on how the business operates. A lack of knowledge and experience in writing business plans may be an issue, however, implying the need to involve someone from outside (e.g. a consultant), who could give advice while preparing the document and assess its final version. Business plans for bigger economic entities should be developed by a team, usually composed of owners, managers, key employees as well as representatives of organisations in the business environment (consulting firms, development agencies, entrepreneurship incubators and accelerators, industry and technology parks, universities, etc.).

2.2. Characteristics

A professionally written business plan should have certain characteristics to ensure the best efficacy and efficiency of the planned investment project. Hence a business plan must be:

- a) concrete i.e. based on facts and credible data,
- b) up to date,
- c) comprehensive and compact,

- d) honest and optimistic,
- e) attractive to read,
- f) flexible,
- g) verifiable,
- h) confidential.

A concrete business plan means it is based on facts and facts only, with goals being their natural outcome. Intuition or assumptions are not good foundations of a business plan. Facts in a business plan include a binding legal order, the economic situation at home and abroad, the market structure and mechanisms, costs of production, the labour market situation, and other factors. The goals in a business plan must be concrete, meaning they must be expressed in numbers and achieved within a clearly specified time limit. The document uses various figures which may come from statistical institutions (e.g. the Central Statistical Office of Poland – GUS, Eurostat), producers' associations and companies, business intelligence companies, the results of purchased surveys, own analyses, etc. The figures most often represent the prices of sold products and purchased materials, the size and structure of sales, and competitors' performance. The figures should be approached with a lot of criticism. You must find out the scope of the data concerning things such as sales (do they include illegal markets?). In international comparisons, you need to examine whether the calculation method is the same in all analysed countries (e.g., how the unemployment rate is estimated, as it may well be based on a different methodology in each EU Member State).

An **up to date** business plan means it is based on data that are not outdated, in particular on binding legal acts, data pertaining to the market and the latest forecasts and up to date figures.

At first glance, expecting a business plan to be **comprehensive** and **compact** at the same time might seem contradictory. Comprehensiveness (completeness) means the plan provides an exhaustive description of the project and makes references to all the key areas of business operations essential for the delivery. There is nothing like a partial business plan, one that could omit some of these areas. Such a document would be untrustworthy. A business plan that, e.g., disregards the market

situation is completely useless. Compactness does not mean you should not make a business plan as detailed as possible; primarily it should be written to such an extent that it demonstrates that a project is feasible and its implementation will bring the expected benefits. An in-depth exploration of other detailed aspects should be avoided. You may draft appendices with additional information, such as a detailed cost estimate for construction and assembly works, or the list of products sold in the shop. The length of a business plan depends on the complexity of the project and the size of an enterprise, and it usually varies from several to several dozen pages.

A business plan should also be both honest and optimistic. That may raise some concerns as it sounds rather puerile. What can you do with an honest document that reveals a pessimistic picture and demonstrates that a project stands no chance of being successful? The answer is simple: such a document is not a business plan, which is optimistic by nature (its role is to show that plans are feasible and their accomplishment will bring benefits). When you write it for yourself it must obviously be honest. Doubts may arise over business plans used when applying for external funding. People are sometimes tempted to present such a project as more attractive than it really is. However, we need to note that a loan, subsidy or borrowing is not a goal in itself, or at least it should not be one. They are tools helpful in the successful implementation of a project. If the plan is poor, the firm in question will not be successful and it will face problems in paying the subsidy back. Nowadays, product and outcome indicators are, as a rule, set too ambitiously in projects, and enterprises are unable to meet them.

Business plans should not avoid showing the potential threats and difficulties that may appear in the course of its delivery. They never automatically discredit a project since any economic activity involves an element of risk. Taking account of threats and difficulties is even required by those who assess business plans, however, the two should be accompanied by showing the ways of dealing with them. If no coping strategies are presented, and difficulties are linked to fundamental aspects (e.g., planned sales or lack of stability in supplies of basic materials), it is not worth getting a loan, since the project will produce losses.

When a business plan is written for its author (e.g., for a start-up) its attractiveness to the reader is marginal. However, if you want the management, investor, creditor, or borrower to read it, or when you are looking for partners, the document should be easy to read, stylistically

correct, and well edited. Obviously, one must always remember that attractiveness for the reader is an important quality of a business plan, but the most important are its substantive merits. Stylistic correctness is about clarity and unambiguous statements, especially pertinent to application procedures. The language of a business plan should be reserved and the description of a project should not be overly optimistic. When editing the text to facilitate the reading of a business plan, care should be taken to ensure its clear layout. To this end you may use technical solutions available in the software: various font sizes, using bold and underlined words, frames, etc. Text may also be written in different colours, although that is not necessary. An executive summary, usually placed at the beginning of a business plan, is an important part as it makes the reading easier.

A business plan should be **flexible**. It means its implementation should be possible even if not all assumptions with respect to the future are met, e.g., when achieved prices are below the expected level. Plans' resilience to changes in assumptions and implied risk remains an open issue.

A business plan does not have to be written just for one particular occasion. It is a document that should be **verified** if, in the course of implementation, new factors emerge that influence its delivery.

Business plans often include confidential information concerning, inter alia, the idea of the project, protection of intellectual property rights, promotion, sources of supply or unit cost. This is the reason why the document should be **confidential** and made available to a closed group of people.

2.3. Using a business plan

A business plan may be written for internal or external purposes. It is a document which supports business management and is a vital planning tool facilitating the implementation of a project. It delineates actions to be taken to achieve the goal. A business plan may be prepared at different stages of an enterprise's history:

 a) before it has been established, to verify the rationale behind starting a business and to attract financing for a start-up (granted once) (Example 1);

Example 1. Application form for start-up grant¹ – template

- I. Applicant data (e.g., her/his status on the labour market, participation in social integration centre workshops, social integration clubs);
- II. Information concerning planned business activities, including:
 - a) general description of planned business project,
 - b) type of planned activities (Polish PKD),
 - c) business location where the activities will be performed,
 - d) any previous business history including the reasons why it was ceased,
 - e) required licenses, authorisations, permits,
 - f) completed courses, including those in the area of starting and running a business,
 - g) documented skills and professional experience directly linked to the planned business activity,
 - h) possible contracts, references, preliminary cooperation declarations signed with suppliers, customers and subcontractors,
 - i) ways of securing the repayment of funds received to start up a business, e.g. a warranty, endorsed bill of exchange (an aval), bank guarantee, collateral, assets frozen in a bank account, notary act by means of which the debtor subjects himself to the creditor's recovery proceedings,
 - j) marketing analysis and market characteristics,
 - k) profitability and efficiency analysis of the project, including sales, costs, and profit forecasts.
- III. Financial analysis, including:
 - a) costs relating to starting a business and sources of its financing (own resources, external resources), including:
 - purchase of fixed assets, machinery and equipment,
 - purchase of operating assets,
 - purchase of means of transport,
 - purchase of advertising services and materials,
 - renting space for the business,
 - costs of legal assistance, advice and consultancy,
 - b) detailed specification of expenses to be borne from the grant, how they will be evidenced (VAT invoice, sales contract) and justification of outlays.
- IV. Appendices including declarations concerning:
 - a) refraining from taking up employment within 12 months of the starting of the business,
 - b) obligation to pursue business activities for the period of 12 months from its start date and not to apply for its suspension within the same period,
 - c) being free from any financial obligations vis-à-vis target funds,
 - d) de minimis aid.

Based on the documents of the County Labour Office in Lodz, www.pup-lodz.pl.

For grants financed by County Labour Offices under the Act on Employment Promotion and Labour Market Institutions (Journal of Laws – Dz.U. of 2015, item 149, 357, 1066), the amount may not exceed the average statutory salary multiplied by six.

b) when the business is up and running, to take decisions on the change of production profile, modernisation, development or remedy projects, etc. (Example 2):

Example 2. Business plan template for investment projects under the Regional Operating Programme for Lodz Voivodeship 2007-2013

- 1. General Applicant-related data and information
 - 1.1. Applicant data
 - 1.2. Applicant's business activity
 - 1.3. Business profile
- 2. Marketing plan
 - 2.1. General product/service characteristics
 - 2.2. Market
 - 2.3. Competition
 - 2.4. Distribution and promotion
 - 2.5. Price
 - 2.6. Sales forecast
 - 2.7. Revenue
- 3. Project implementation
 - 3.1. Project description
 - 3.2. Project location
 - 3.3. Description of planned investment
 - 3.4. Project innovation
 - 3.5. Material scope of the project, cost estimates and implementation timetable
 - 3.6. Detailed cost estimation for eligible activities
 - 3.7. Justification of costs to be incurred
 - 3.8. Sources of funding eligible expenses within the project
 - 3.9. Resources enabling project implementation
 - 3.10. Institutional capacity to deliver the project
- 4. Applicant economic and financial analysis
 - 4.1. Simplified Balance Sheet (Appendix 1)
 - 4.2. Profit and Loss Account (Appendix 2)
 - 4.3. Cash Flow forecast (Appendix 3)
 - 4.4. Financial indicators
 - 4.5. Net Present Value (NPV2) and Internal Rate of Return (IRR3)

Based on the documents of the Marshal Office in Lodz, www.rpo.lodzkie.pl

² NPV =
$$\sum_{t=1}^{n} \frac{CF_t}{(1+r)^t}$$
, where:

r - discount rate,

CF. - net cash flow in t period,

t - subsequent periods (years) of the investment and project,

 I_0 – initial investment outlays, n – period (number of years) within which an investment project is carried out.

 3 IRR – internal rate of return (discount) for which NPV = 0; (equation result NPV = 0 with reference to unknown t).

- c) for ownership transformations in an enterprise;
- d) in relation to liquidation, to prepare the organisational side of the process.

A business plan may be useful for external entities (mainly financial institutions and potential investors) when:

- 1) an enterprise applies for loans, borrowings, grants, EU and similar funds to finance a project;
- 2) an enterprise is looking for partners to collaborate with;
- 3) assisting internationalisation of business by, e.g., co-financing the participation in fairs and missions abroad where usually an application and a business plan make one integrated document (Example 3).

Example 3. Application form for subsidies co-financing participation in fairs and missions abroad – template

- A. General data (scheme, priority, measure, type of financing);
- B. Applicant's (beneficiary's) data, including: enterprise contact data, project partners, type of business activity, products/services offered, revenue from business, factors influencing demand for products/services offered, beneficiary's market position, R&D department in the enterprise, human and technical resources ensuring proper delivery of the project;
- C. Project description, including: event place and time, project justification, detailed description of the course of the project, goal, sustainability, promotion, complementary links with other projects of the beneficiary, experience, preparedness to implement the project;
- Project performance indicators, including: measureable product and outcome indicators, ways of monitoring the project and frequency of calculating the indicators;
- E. Subsidy, including: amount and type of State aid and information on potential revenue generated by the project;
- F. Project impact upon horizontal policies, such as: equal opportunities, competition and public procurement, environmental and sustainable development, IT society, and employment policies;
- **G. Project financing**, including: amount of subsidy, VAT tax eligibility, expenses covered by flexibility mechanism (cross-financing), sources of funding, how the funding is secured, the use of advance payments system;
- H. Scheduling materials and finances;
- Applicant economic and financial analysis, including: balance sheet, profit
 and loss account, cash flows, financial indicators (current and fast liquidity,
 stock rotation, receivables and liabilities, indebtedness, profitability of sales
 and return on equity (ROE));

Based on the documents of Entrepreneurs' Service Centre in Lodz, www.cop.lodzkie.pl

Having a business plan is good irrespective of the size of an enterprise. We need to stress that:

- 1) writing a business plan is not a "miracle solution" that would automatically make a project successful but it reduces the risk of failure,
- 2) writing a business plan makes the entrepreneur re-think her/his plan once again, which will help them to better understand and implement it (or give up the project),
- 3) through the comprehensive approach typical of preparing a business plan, you may catch mistakes and gaps in project idea. If they can be rectified, the implementation of the project will be improved; if not, by giving the project up you can avoid additional losses,
- 4) a well-prepared business plan may become a "pass" to various types of financial assistance, even if initially the project was to be financed exclusively from the entrepreneur's own resources.

On top of that, for small (micro) economic operators, a good business plan represents other advantages:

- 1) it offers them psychological support and reinforces the motivation to deliver a project,
- 2) It teaches to think in longer-term periods since owners of such businesses often focus on short-term goals only.

2.4. Contents

As we have already stated, a business plan must be flexible. It also means its contents must be adjusted to the nature of both the project and the enterprise. A single universal layout of a business plan does not exist. The literature offers business plans that differ in structure while financial institutions have their own requirements vis-à-vis the layout and form. That, however, does not imply substantive diversity. In accordance with the definition, each business plan must be complete and discuss all factors relevant for the feasibility of the project and benefits related to it. That is why constituent elements are the same: a description of the business, project and products, market and promotional activities, evaluation of human resources, financial forecast of sales, initial outlays, costs,

and profitability. With respect to the above, we may say the document is standardised. The level of detail and sequence of elements are different in different business plans depending on the situation, goals, and requirements of institutions who grant funding or other types of support.

A complete business plan should include the following components:

- 1) executive summary,
- 2) business description,
- 3) short description of the project,
- 4) products and services which will be manufactured (rendered) as a result of project implementation,
- 5) business location,
- 6) initial outlays,
- 7) financing initial outlays,
- 8) market analysis,
- 9) promotion activities,
- 10) human resources,
- 11) supplies of raw materials for production (services),
- 12) other operating costs of production,
- 13) project timetable,
- 14) financial forecast,
- 15) risk factors.

2.4.1. Executive summary

An executive summary (abstract) is usually placed at the beginning of the business plan, but it is written after all elements have been finalized. It facilitates the reading of the document and understanding the goal of the project. An executive summary is especially important when you want to attract the interest of bankers, potential investors, and evaluators. Its task is to encourage them to read the entire document. Hence, a summary should be especially attractive and relatively short. It should not exceed two pages (Skrzypek, Filar 2007, p. 59). To ensure text clarity and transparency, it is advisable to write it in paragraphs. The summary should give a concise picture of the project, demonstrate its feasibility and identify potential effects.

Table 2.1. Substantive scope of an executive summary

No.	Required data
1.	Brief description of the project for which the business plan has been written, including its goal, products (services) that will be placed in the market, initial outlays
2.	Target market
3.	Management of the enterprise including the team who will deliver the business plan
4.	Factors of comparative advantage compared to other entities offering the product (service)
5.	Financial forecasts

Source: Authors' studies.

2.4.2. Business description

This part of the business plan presents basic data about the enterprise. Usually, the business description is divided into components relating to the historical and present situation (Pasieczny 2007, pp. 27–28). The part also includes data that identify the enterprise (Skrzypek, Filar 2007, pp. 59–60).

Table 2.2. Basic data and information about the enterprise

No.	Required data
1.	Enterprise data including: name, contact data, organisational and legal status, owners
2.	History – date of establishment, products or services, major achievements, financial standing within not longer than the last 3–5 years
3.	Present situation – description of assets, products and/or services, market position, current financial standing
4.	Major strengths and weaknesses of the enterprise

Source: Authors' studies.

2.4.3. Short description of the project

An introductory part, which includes basic information about the project:

- 1) identification of project idea,
- 2) reasons why the project will be delivered,
- 3) possible actions undertaken before the beginning of the project.

2.4.4. Products and services covered by the project

This section describes products (services) that will be manufactured (rendered) as a result of the implementation of the project. The way they are described depends on what kind of products or services you are dealing with. When a product is common (e.g., clothes), you must focus on characteristics that distinguish it from other products available on the market. If it is a specialist product (e.g., a complex system to be installed in a machine or equipment), explaining what it is used for needs to be stressed (Pasieczny 2007, p. 55).

Differences in description will also come up when we are dealing with a standard or tailor-made (individualised) product. In the first case, its characteristics are the same as those of products offered by competitors (within a given standard, e.g. mineral raw materials). Tailor-made products (e.g. passenger cars) represent qualities that differentiate them from products offered by competitors and they need to be highlighted in a business plan. This is particularly relevant for services which are extremely tailor-made. Identification of the stage in a product's lifecycle is vital for forecasting demand dynamics and developing a promotional plan in accordance with marketing mix rules.

Table 2.3. Products and services

No.	Required data
1	2
1.	Product (service) in accordance with statistical classification of GUS
2.	Product (service) – description, structure, parameters, technology, use

Table 2.3. (cond.)

1	2
3.	Is a product (service) standard or tailor-made, how does it impact technical progress; what will the varieties of the product (service) be; to what extent is the assortment differentiated
4.	Characteristics that distinguish a product (service) from those already available on the market
5.	Product (service) lifecycle stage

Source: Authors' studies.

2.4.5. Business location

Business location is crucial as it may seriously influence sales opportunities, effective promotion or costs. When choosing a new business location or a location for a branch of an already existing enterprise, account should be taken of the following factors: rent (leasing), availability of the place, competition, access to markets, business-specific factors (e.g., burden to local residents, environment) (Pasieczny 2007, pp. 40–41). When it comes to services, location is vital when they are rendered in the firm's premises (e.g., hospitals, schools, retail trade).

2.4.6. Initial outlays

This section of a business plan is an extended project description. You are expected to present briefly the production technology (how services will be rendered), identify other available technologies and justify the choice. Discussing stages of the production process (service) is recommended. In addition, here you can find information on additional production (service) capacity that will be achieved as a result of the project.

Individual items of initial expenses need to be described by assigning concrete values, features and purchase justification. In particular, you must provide precise data for more valuable machinery, equipment and devices. Usually we give the name and type of the equipment, manufacturer (brand), place and value of the planned purchase. If you are buying second hand equipment, the date of production is required. If the purchase is subject to the procedure laid down by the Public Procurement

Law or similar, you may not specify the manufacturer, supplier, contracting party, etc. upfront. The selection will be decided in a bidding procedure which will decide who will be awarded the contract for supplies, services, or construction works.

To deliver the project, you need not only fixed but also operating assets. Hence, initial outlays also include the cash necessary to maintain liquidity at the beginning stages. Cash may be needed, e.g., to pay for materials used in production before any sales revenue has been earned. It is convenient to list investment expenditure using the scheme from Table 2.4.

Table 2.4. Initial outlays – structure

No.	ltem	Value in PLN (or other currency)
1.	Real estate purchase	
2.	Construction, assembly and adaptation works	
3.	Machines, equipment, devices	
4.	Intangible assets	
5.	Other investment expenditure	
6.	Total investment outlays	
7.	Operating resources at the start	
8.	Total initial outlays	

Source: Authors' studies.

2.4.7. Financing initial outlays

Initial outlays may be financed from different sources, which may include: own resources, borrowings, loans, subsidies or EU funds. A business plan should explain the structure of these sources. It may be done in a table. For loans and borrowings, you need to specify the expected terms on which they will be granted. You also must provide the timetable for repaying instalments and interests.

Table 2.5. Initial outlays – sources of funding. Timetable for repaying loans and borrowings (in PLN)*

Item	Before Q1 2016	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017	2018
Sources of funding							
Own resources							
Subsidies							
EU funds							
Loans and borrowings							
Other sources of funding initial outlays							
Repayments of loans and borrowings							
Paying interests on loans and borrowings							

^{*} For forecasts in this chapter we assumed that the business will start at the beginning of 2016 and the timeline for the forecast is 3 years.

Source: Authors' studies.

2.4.8. Market analysis

Having a good product or being able to offer a top quality service gives no guarantee of successful sales. There must be people willing to buy them, meaning they must be attractive in terms of characteristics and price. Market analysis gives information about sales opportunities for particular products/services.

Thus you need to estimate, even roughly, the size of the market, identify the population of buyers and sales. Then, you continue with market segmentation. When the offer is addressed to consumers, segments (niches) are usually identified based on domicile – the geographical criterion (town or countryside), the distance from the firm and demographic criteria: sex and age. These may be complemented with other criteria, such as education, profession, income, interests or lifestyle. Enterprises which export their products base segmentation on countries and regions of the world. Having selected the segment which will be

your target market (while identifying the plan of market activities in paragraph 2.4.9) you must provide in-depth characteristics. Brief characteristics of individual segments are also attached.

Next, you must identify your competitors. List them first and divide them into principal, secondary and potential, who might pose threat in the future (Kowalczyk 2001, p. 100). Activities of principal competitors require a thorough analysis to estimate their sales, the products (services) that they offer, the quality, prices and terms of sales. The analysis should also cover distribution channels, promotion, financial resources, stock and business reputation. You need to highlight the strengths and weaknesses of at least some principal competitors.

When analysing market development perspectives, attention is paid mostly to future trends in demand size and structure, the potential evolution of customer preferences (e.g. influenced by technological progress), the stability of legal regulations and competitors' behaviour.

What methods should be applied in market analysis? Information about the market and its prospective development can be obtained primarily from secondary sources: websites, papers, and reports. Market data are also available from specialist business intelligence companies. This is how international market data are often received. When it comes to primary research, large firms receive precise market data from their own extensive direct studies and in-depth interviews. It is recommended that small economic entities watch their competitors – their outlets and offer.

Table 2.6. Market analysis in a business plan

No.	Scope of market analysis	Necessary data
1.	Size of the market	estimated population of market participants and sales
2.	Market segment	capacity, general characteristics, customers' needs and expectations
3.	Target segment	clients' characteristics, sales, potential capacity of the segment, customers' needs and expectations, factors decisive for purchase decisions
4.	Competitors' characteristics	List of competitors, estimated sales, operational strategies, strengths and weaknesses
5.	Market development forecast	demand directions and trends

Source: Authors' studies.

2.4.9. Market activities plan

Market analysis allows for the selection of the segment (or niche) that will become the enterprise's target market for the project.

Then, the enterprise needs to identify the marketing objectives and plan activities that will help to achieve them and use marketing instruments in the areas of product, price, distribution, and promotion (the marketing mix). Marketing objectives belong to the fields of sales and meeting customer needs over shorter or longer periods. Short-term objectives may be related to, e.g., participating in trade events and establishing business contacts; long-term ones include, e.g., arriving at a target market share, extension of the distribution network, or creating an appropriate image of the business and its products (services).

Achieving the planned level of sales is the primary marketing objective. It is identified based on the forecasting revenue from sales, one of the key components of a business plan. How future sales are estimated is decisive for variable costs and also, to some extent, overheads. Sales are decisive for future profit. Drafting a sales forecast is not an easy task and it is highly uncertain. Some estimation methods are available but none can eliminate the uncertainty. Forecasting sales for a new business may be based on previous trends in sales, experience, competitors' sales or orders (if a business has already received any). You may also calculate the so-called free market share by deducting competitors' sales from potential demand (Pasieczny 2007, pp. 98–107).

A sales forecast is conditional, its trustworthiness depending on the accuracy of adopted assumptions concerning sales prices, sales structure broken down by products (services), seasonality, market development directions, adopted competition strategy and other factors. A sales forecast can be conveniently presented in a table as shown in the example below.

Among the product-related activities that assist in achieving marketing objectives, the following are worth our attention:

- 1) ensuring that the quality profile of products (services) is satisfactory for clients from the target market,
- 2) equipping products with characteristics that will distinguish them from competitors' products (design, sizes, packaging, labels),
- 3) adoption and implementation of brand strategy,
- 4) ensuring appropriate service and warranty terms.

Table 2.7. Sales revenue forecast for products and services (in PLN)

ltem	Price				20	2016				2017	17	20	2018
		1st qı	1st quarter	2nd q	2nd quarter	3rd qı	3rd quarter	4th quarter	ıarter				
		amo- unt	value	amo- unt	value	amo- unt	value	amo- unt	value	amo- unt	value	amo- unt	value
Product (service) A													
Product (service) B													
Product (service) C													
Product (service) Y													
Total													

Source: Authors' studies.

While using marketing tools with respect to price, first you need to learn the prices offered by competitors. The key issue to be addressed here is the comparison of prices of the enterprise in question with those of its competitors. Setting prices too low may yield very little profit and make a business go bankrupt while too high prices may discourage clients. When pricing your products, take various factors into consideration: costs, product quality, buyers' taste and habits, effect of competition, market situation, seasonality, price elasticity of demand and the enterprise's goals.

To be able to sell its products, a business must find customers and reach them via appropriate distribution channels. In the service industry, direct channels are of specific relevance as they imply direct personal contact between a service provider and the client. In production, the distribution channels may vary. Direct ones include door-to-door canvassing and mail order sales. Indirect distribution channels are, inter alia, retail and wholesale trade. Some of the factors to consider when selecting a distribution channel are the type of products (services), customer expectations with respect to how products are sold, shaping the image of a company and costs.

Other project success factors include proper planning and the execution of promotion activities. Their goal is to inform potential buyers about the firm's offer. Promotion must be well thought over and tailored to the specificity of the target market. It should be discussed in concrete terms in the business plan (e.g., an ad in "Gazeta Łódzka" newspaper, the size of 30 cm² published every Friday in the first year of business). The scope of promotion is usually dictated by costs. Hence, you need to carefully forecast the cost of promotion.

Table 2.8. Market activities programme

No.	Activities
1.	Select target markets (from among the segments described in the previous paragraph)
2.	Adopt assumptions for sales forecast (preferably in paragraphs)
3.	Sales forecast (sales objectives)
4.	Other marketing objectives
5.	Product-related policy
6.	Pricing policy
7.	Distribution channels
8.	Promotion activities

Source: Authors' studies.

2.4.10. Human resources

The quality of human capital (resources) plays a key role in the success of a project, in particular, in services based on direct contact between an economic operator and its customers. This section of the business plan should introduce the management team and stress their capabilities (competence) to run the business and manage the enterprise. Their characteristics should provide data concerning education, previous business career and professional achievements.

People who will be employed as a result of the project are characterised more generally by giving their number and desired skills. You also assess the possibility of recruiting such people. The remuneration policy needs to be identified together with a forecast of the cost of employment. This section outlines the organisational chart of an enterprise after the completion of the project.

Table 2.9. Human resources in business plan

No.	Required data			
1.	Management team presentation (top)			
2.	Demand for people with adequate skills (employees)			
3.	Forecast of the gross cost of employment			
4.	Organisational chart			

Source: Authors' studies.

2.4.11. Supplies of materials for production (services)

Materials for production may include raw materials, materials or components. To start with, you need to divide them into basic and auxiliary and focus on the first group in the analysis. When materials for production are generally available and offered by many operators, you do not need to analyse suppliers. Otherwise, suppliers must be described and you must demonstrate that they will be willing to maintain business relations with the firm (preliminary contracts are an asset). The calculation of the costs of materials, raw materials and components are performed based on unit consumption and sales revenue forecast.

Table 2.10. Supplies of materials for production (services)

No.	Required data
1.	Types of materials for production
2.	Availability of basic and auxiliary materials for production
3.	Suppliers
4.	Forecast of material costs

Source: Authors' studies.

2.4.12. Other operating costs of production and their forecast

The above discussed business plan sections include cost forecasts of granted loans and borrowings, promotion, materials for production, salaries and costs related with them. This section presents the calculations of the remaining operating costs. Care should be taken not to overlook any cost element in the forecast. You should also allow for unexpected costs, which are calculated as a percentage of overall costs. Table 2.11 is an example of cost components in an enterprise.

Table 2.11. Major production cost components – forecast (in PLN)

Item	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017	2018
1	2	3	4	5	6	7
Raw materials, materials, components						
Energy, water, gas						
Gross employment costs						
External services						
Administrative costs						
Cost of promotion						

Table 2.11. (cont.)

1	2	3	4	5	6	7
Other costs of sales						
Major repairs, repairs						
Insurance						
Rent and lease costs						
Transport						
Fixed costs taxes (land tax, property tax)						
Depreciation						
Interests						
Other (please specify)						
Total						
Provision for unexpected costs (e.g., 10% of "Total")						
Total (final)						

Source: Authors' studies.

2.4.13. Project timetable

The timetable is a structured schedule of activities necessary to deliver a project. It helps to establish the sequence of individual operations, identify how long they will take, and strengthen discipline in the implementation stage. The timetable lists planned dates of the beginning and completion of the project and delivery dates of its major tasks. The timetable must be continuous and the time assigned for individual tasks should be realistic and adequate for their complexity. Some time must be provided to acquire the necessary permits and administrative decisions, to make settlements connected with subsidies and other projects financed from public resources, and public procurement procedures. Usually these stages cause delays in the implementation of investment projects.

2.4.14 Financial forecast

The financial forecast is the core of a business plan. It informs the reader whether a project is profitable and will bring adequate benefits. The financial forecast uses data included in various sections of a business plan. Special attention is paid to data concerning initial outlays, production cost forecast and planned revenue from sales.

A business plan needs to make assumptions about prices used in forecasts and take account of inflation. Two methods can be applied in this case. Firstly, you may assume a specific rate of inflation for the period covered by the forecast (e.g., based on official government or national bank forecasts for a particular country). Having little credible inflation estimates for periods covering several years are a major disadvantage of this method. The second method consists in ignoring inflation and using current prices from the period when the forecast is made. This simpler solution may, however, distort future estimates of income and based profitability of initial outlays, and for these reasons it is applied, first and foremost, in periods of low and stable inflation.

The business plan must specify the time horizon of the forecast. Institutions which offer grants usually require that the entire repayment period be covered. In other cases, several years, often three, is a typical time limit. You also need to identify sub-periods for which you will prepare the forecast. Sub-periods depend on the sector, the type of project, the need to account for seasonal fluctuations, and other factors. Usually, the first year of the forecast is divided into quarters or months. For subsequent years, projections are most often made for annual periods.

The financial section of an extensive business plan includes the forecasts of the Profit and Loss Account, Balance Sheet, Cash Flow, and financial indicators. All of them use data from previous sections of the business plan. Profitability thresholds, and the overall profitability of the investment project in question, are also analysed. Financial forecasts should be presented with a comment.

Special importance is attached to the Profit and Loss Account as it gives a synthetic picture of how profit is created in a business. By comparing revenue from sales with costs, it shows the end financial results of the planned project in individual periods. In other words, it demonstrates the profitability of the project. The Profit and Loss Account may take different forms. When projects are developed for small enterprises, the financial forecast does not enter into more detail.

Table 2.12. Profit and Loss Account forecast4

	Item	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017	2018
Α	Revenue from sales						
В	Cost of production						
С	Gross profit (A–B)						
D	Insurance: retirement, pension, sickness, accident						
E	Sickness insurance (9% of base amount)						
F	Tax base (C – D)						
G	Income tax F*18% – tax-free amount – health insurance premium (7.75% of base amount) ⁵						
Н	Net profit (C–D–E–F)						

Source: Authors' studies.

2.4.15. Risk factor

Risk can be defined as a probable (potential) and undesirable event that may prevent a business from accomplishing its goals (Ciechan-Kujawa 2007, p. 176). It implies the probability of occurrences that will adversely affect business performance and its development perspectives. Risk is a part of any business activity.

The business plan should list risk factors and ways of coping with them. Risks can be divided into systematic and business-specific. Systematic (external) risk cannot be controlled by the economic entity. It may be connected with forces of nature, the economic situation, technological progress or competition. Business-specific (internal) risk emerges in the area at least partly controlled by the business. Examples of such risks include business management, access to materials for production, the likelihood of losing liquidity or ineffective promotion. Specific risk may be particularly intense in the first periods of business activity.

⁴ For an individual who runs a business and fully owns the revenue.

⁵ Calculations for the lowest income tax rate.

Risk factors are often presented when conducting SWOT analysis. In accordance with its principles, based on data from the business plan, you identify key factors essential for the success of a project and divide them into internal, including strengths and weaknesses, and external, i.e., opportunities and threats.

The analysis should not be limited to the listing of risk factors. You need to explain how you will cope with them based on information included in the business plan.

The business plan is one of the most important tools used in planning and developing business activity. As you have learnt from this Chapter, entrepreneurs may benefit from having a business plan. It provides a structure for business activities, helps to focus on specific goals and ensures a comprehensive approach to a project. On top of that, it facilitates the selection of realistic product and outcome indicators, moderates risk and helps to manage the investment project.

A business plan is also indispensable when you apply for external funding. It may also be used as a base document in granting start-up grants or subsidising investment projects in already existing businesses. Business plans are used by financial market institutions, regional development agencies and institutions entrusted with the management of EU financed programmes.

Obviously, a business plan is not an ideal tool. It may have disadvantages or inflict negative consequences upon an entrepreneur. Firstly, to prepare it you need the time and resources to cover additional costs. In the case of big investment projects, the preparing of a business plan may take some months and cost from over a few thousand to several tens of thousands of zloty. Secondly, the procedure may unnecessarily expand the team of people who get access to often innovative business ideas (e.g., consultants, business advisors, experts, assessors, representatives of institutions that operate subsidy schemes). Thirdly, business plan assessment procedures applied by various subsidy schemes raise objections. Sometimes entrepreneurs adopt very demanding, unrealistic indicators to improve the assessment of their projects. On the other hand, criteria are unclear and ambiguous, often leading to subjective assessments. Fourthly, quite often business plans are treated instrumentally and are disregarded in everyday business operations.

Summing up, knowing how to prepare a business plan may be useful when you run a business. Current business development opportunities through internationalisation, among others, have increased the importance of the instrument. That is why it is important for graduates of economic courses to have knowledge and practical skills in this area.

Questions and assignments

- 1. What is a business plan?
- 2. What knowledge is necessary to write a business plan?
- 3. What does it mean that a business plan should be comprehensive and concise at the same time?
- 4. When is a business plan drafted?
- 5. What does it mean that a business plan is a standard document?
- 6. What are the main components of a business plan?
- 7. How are purchases of machinery, equipment and devices described in a business plan?
- 8. What methods are applied in market analyses conducted to write a business plan for a small business?
- 9. How is a sales forecast compiled?
- 10. What data concerning the owner is given in a business plan?
- 11. Why are costs increased with a cost reserve?
- 12. List the components of a Profit and Loss Account.

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Appendices

- Appendix 1. Simplified Balance Sheet
- Appendix 2. Profit and Loss Account
- Appendix 3. Cash Flow Forecast

Appendix 1. Simplified Balance Sheet (in thousands of PLN)		Yeav.	-tuorat	ı	Vesy	YeoV	yeo/	Voor	YeoV	VeoV
Assets	rear (n – 2) 	rear (n – 1) 	period 	Year n	rear (n+1)	rear (n+2) 	rear (n+3) 	rear (n+4) 	rear (n+5) 	rear (n+)
A. FIXED ASSETS (I + II + III):										
I. Intangible assets										
II. Fixed assets by type										
1. Land (including long-term land lease)										
2. Buildings, premises, and establishments										
3. Technical machinery and equipment										
4. Means of transport										
5. Other fixed assets										
III. Receivables, long-term investments, long-term accruals										
B. CURRENT ASSETS (I + II + III + IV):										
I. Inventory										
II. Short-term receivables										
III. Short-term investments (including cash)										
IV. Other current assets										
TOTAL ASSETS (A + B)										
Liabilities	Year (n – 2) 	Year (n – 1) 	Current period 	Year n	Year (n+1) 	Year (n+2) 	Year (n+3) 	Year (n+4)	Year (n+5)	Year (n+)
C. EQUITY (Capital)										
D. LIABILITIES AND PROVISIONS FOR LIABILITIES										
I. Provisions for liabilities										
II. Long-term liabilities (1+2)										
1. Loans and borrowings										
2. Other										
III. Short-term liabilities (3+4+5)										
3. For supplies and services										
4. Loans and borrowings										
5. Other short-term liabilities										
IV. Accruals										
TOTAL LIABILITIES (C + D)										

Based on the documents of the Marshal's Office in Lodz, www.rpo.lodzkie.pl

Appendix 2. Profit and Loss Account (in thousands of PLN)										
ltem	Year (n – 2)	Year (n – 1) 	Current period	Year n	Year (n+1)	Year (n+2) 	Year (n+3)	Year (n+4)	Year (n+5)	Year (n+)
A.Net sales										
I. Net sales of products and services										
II. Net sales of materials and goods										
B. Operating costs:										
Depreciation										
Materials and energy										
External services										
Taxes and charges										
Wages, salaries and staff related costs										
Other costs by type										
Goods and materials sold										
C. Profit (loss) on sales (A - B)										
D. Other operating revenue										
Subsidies										
Other operating revenue										
E. Other operating costs										
F. Operating profit (loss) (C+D-E)										
G. Financial revenue										
H. Financial costs										
I. Gross profit (loss) (F + G - H)										
J. Income tax										
K. Other mandatory deductions from profit										
L. Net profit (loss) (I – J - K)										

Based on the documents of the Marshal's Office in Lodz, www.rpo.lodzkie.pl

Amounting Carly Flores Forester												
Appendix 3. Cash Flow Forecast												
	Year (n – 2) 	Year (n – 1) 	Current period 	Year n	Year (n+1)	Year (n+2) 	Year (n+3) 	Year (n+4)	Year (n+5)	Year (n+7)	Year (n+8)	Year (n+)
A. Cash flow in operating activities												
1. Net profit (loss)												
2. Depreciation												
3. Changes in inventory												
4. Changes in receivables												
5. Changes in short-term liabilities except borrowings and loans												
6. Other adjustments												
1. Total (1+2+3+4+5+6)												
B. Cash flow in investments												
1. Fixed assets sold												
2. Fixed assets purchased												
3. Other												
II. Total (1+2+3)												
C. Cash flow in financial operations												
1. Loans and borrowings received												
2. Loans and borrowings paid back												
3. Subsidies												
4. Owners' withdrawal												
5. Cash paid in by owners												
6. Other												
III. Total (1+2+3+4+5+6)												
D. Total net cash flow (I + II + III)												
F. Cash position (beginning of month)												
G. Cash position (end of month) (F + D)												

Based on the documents of the Marshal's Office in Lodz, www.rpo.lodzkie.pl

Running a business on an international scale requires not only a substantial body of knowledge but also the ability to apply it in practice. That is why our textbook, with a vast collection of practical examples, discusses a wide variety of pertinent issues connected with business operations in international markets, from international market analysis, drafting business plans, concluding business transactions and the insurance of goods through to customs clearance procedures and professional etiquette. We also explain the specificity of doing business online.

The book is addressed primarily to students of courses in economics and management. We hope it will also make interesting reading for entrepreneurs and people indirectly involved in international business, who work in its immediate environment in banks, chambers of commerce and consulting companies and those who have dealings with public administration at different levels in foreign countries.





Project: The creation of new interdisciplinary curricula in the field of economics of environmental protection (in Polish and English) at the University of Łódź. Project supported by a grant from Norway through the Norway Grants and co-financed by the Polish funds.

The aim of the project is to improve the knowledge and awareness of Polish and foreign students, the faculty and alumni of the University of Łódź in the fields of sustainable development, ecology, international business and finance.

Grant amount: 533 083 PLN



www.wydawnictwo.uni.lodz.pl e-mail: ksiegarnia@uni.lodz.pl tel. (42) 665 58 63, faks (42) 665 58 62

