

# Business plan - what is it for?

Example. After studying the business plan prepared by us, the client asked to calculate what would happen if:

- The cost of production equipment to increase 5 times;
- Production capacity - 5 times;
- Production areas and staff - 2 times;
- Costs for advertising and promotion - 2 times;
- The cost of electricity increased by 3 times;
- The time period for machine tools purchase - to reduce from 8 to 4 months;
- To reduce selling prices for the product by 25%;

And to recalculate the sales plan, based on the changed parameters.

As result, NPV (Net present value) increased as well as profits. But but the need for investment has grown as well as repayment period of borrowed funds

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Example. A key parameter for the project team, which planned to open a clothing store at its own expense, there was a rent cost. The rent cost determines the volume of purchased things, the cost of room cosmetic repairs and etc.

The cost of rent is obtained from the product of the rental rate for rentable area, that is, square meters and rubles per year.

A standard mark-up for the such business is a rate of 400%. It allows the store to lease space at a higher rate, in a more expensive and passable place, which in turn helps sell more goods.

On the other hand, a smaller area limits the production capacity of the store and amount of goods placed and reduces the planned profit.

The business plan made it possible to calculate the optimal proportion of the rental rate and the rented area

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Example. Positive, negative analysis

After discussing the business plan prepared by us, the potential investor asked us to calculate the pessimistic scenario as far as the project is resistant to negative changes:

- reduce the planned revenue by 30%,
- to increase by 30% current costs,
- increase the discount rate and the repayment period of investments to 5 years
- show how much will change NPV and profitability of project.

As calculated result:

- with an increase in current costs by 30%, the project does not pay off for a 5-year planning period;
- with any increase in current costs, project needs for additional initial investments.

# Business plan - what is it about?

**1st section.** Business plan summary.

To show for a banker or an investor benefits of this project financing.

Information about project initiator

Information on the company or project team:  
competences, certificates, patents

# Business plan - what is it about?

## Marketing plan.

This is the description of the market your project goes to, its cost and physical volume (that is, in rubles per year and, preferably, in tons or units of output per year).

Identify the top 5 market leaders, preferably their key operating indicators.

It is important to show at what stage of the life cycle (origin, development, stabilization, stagnation) the target market is located, to show the prospects for its growth, preferably for the entire planning period.

To show the mechanism of sales. Such data on many consumer markets can be purchased, they are collected and sold for this purpose by specialized companies. Some data can be viewed for free, for example, here:

<http://marketing.rbc.ru/>

# Business plan - what is it about?

## **Production plan.**

It is necessary to specify exactly how much and what you plan to produce, on what technology, from whom it is acquired, on what equipment. But it is not advisable to describe in detail the proposed technology and its secrets.

It is also important to show how many jobs will be created, with what salaries and deductions for social insurance of personnel, what possible synergistic effect can be achieved for the region (for example, by consuming products from related industries, intensifying transport, business ties, etc.)

# Business plan - what is it about?

## Organizational plan.

This is about the staff.

An important issue is also the way to find staff. Not to mention whether it exists in the region where business is planned.

And the essence boils down to the fact that if qualified or rare personnel are required, recruitment services may be required to hire it, which means that we must add one more line to the investment structure.

It is usually calculated as the number of employees involved, multiplied by the average salary. This can be a noticeable value, especially if an enterprise requires hundreds of employees.

# Business plan - what is it about?

## Investment plan.

This section shows all items of investment costs.

A potential investor should clearly see what the funds will be spent on, what assets will be created as a result.

Often the question is asked, where should we attribute these or other costs - to investment or current ones?

Investment are aimed at creating the material and technical base of the enterprise and for bringing production to the planned level.

Therefore, the investment costs are initial and one-off, they are covered at the expense of attracted financial resources (loans, loans) and, possibly, by refinancing profits.

Current costs should be covered from current revenues.



# Business plan - what is it about?

## **Risk analysis.**

This section gives the investor an opportunity to convince himself and convince co-investors and creditors that when the values of the project's main parameters are changed within reasonable limits (to the worst, of course, the side), catastrophic risks do not arise.

In this section, you can include the calculation of break-even sales, that is, the break-even point.

We conduct an analysis of the sensitivity of NPV on our author's models. As a result, the entrepreneur is already "on paper" receiving a tool that gives convincing quantitative answers to some questions?

# Business plan - what is it about?

## **Financial plan.**

This is the most important section of the business plan, which, as a rule, is the largest in terms of content and volume. All the items in this section in detail are discussed further.

# Business plan — what is not?

The business plan does not answer the question "how many customers will come to our store, and whether they will go at all." The business plan sets the parameter: in order to obtain the required net profit, the attendance of the store should be, for example, 400 people a day, while only 35% of them make a purchase, and the average check should be, for example, 1500 rubles.

Therefore, the typical questions of our customers: "And what can you give guarantees that we will receive financing and our project will take place, if we order a business plan from you?"

The answer is simple: "We do not guarantee. We only increase the chances of success, which depends on the prospects of the project itself and on the capabilities of the project team."

# Business plan — what is not

A business plan is just an economy and finance.

In addition to them, there should be a project team, experience, connections, knowledge of the pitfalls inherent in business, confidence in the product, understanding of its market and client, the ability to negotiate with suppliers, counteragents, market regulators, authorities, etc.

Finally, there must be access to resources, which in combination with competent planning ensures the success of the enterprise.