BA 291 – BUSINESS PLAN

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Business Model

Example: Business Model

Subscription business model

Example: Business Model

Razor and blades (Bait and Hook) business model

Example: Business Model

Low cost carrier business model

Example: Business Model

3. (Online) Auction business model

ebay

Example: Business Model

Free business model:

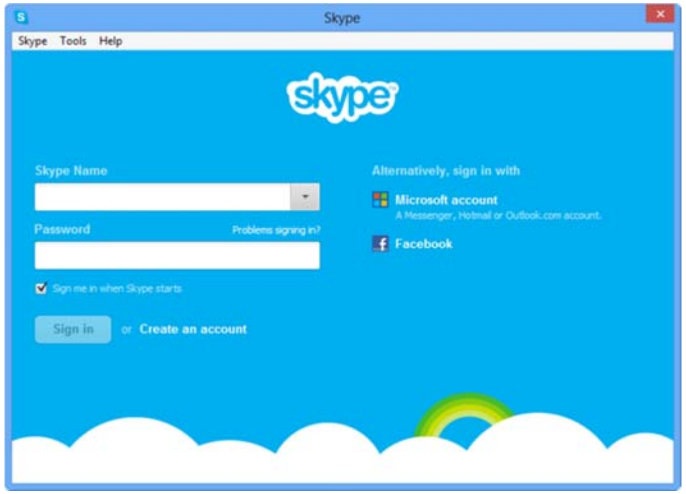
One substantial customer segment is able to benefit from a free-of-charge offer. They are financed by another part of the business model or another customer segment.

Example: Business Model

Freemuim as a business model

Free + Premium
=
Freemium

9



Example: Business Model

10

- Bricks and clicks Model
- Multi level marketing (MLM)

Example: Business Model

11

PRUKSA

Example: Business Model

12

Example: Business Model

Example: Business Model

Business Plan

A business plan is…

"A comprehensive planning document which clearly describes the developmental objectives of an existing or proposed business. The plan outlines what and from where the resources needed to accomplish with the objective will be obtained and utilized."

The use of business plan

- For external use

  Business plan is a key document when you are looking for business funding

For internal use

  Business plan guides direction. It commits the entire management to the same goals and provides the roadmaps what to be done and how the resource should be allocated.

The initial of business plan

The fundamental questions

- What are the long-term goals of your company? And the near-term?
- What do you wish to gain form your business plan?
- Who is your audience and what do they need?

A business plan serves a number of purposes and you may have to modify information depending on your target audience

Tailor your business plan to the target audience

Your bank will be interested in:

- how you intend to repay a loan or overdraft
- what you are going to do with the money
- how the loan will help the business to grow
- what other loan or debt commitments you have

Your investment funds will be interested in:

- Your management track records – the company, the market, the key executives
- The feasibility of achieving business goals and profits
- The expected return

Preparation steps for writing business plan

1. Gathering the right data

Business plans are only effective as the data on which they are based

The writing process will becomes much easier and quicker, if certain data is available before writing begins

The key data include

- company description, management and organization, market and competitors, products and services, financial information

Where can I get these data?

- use primary source, secondary source

Preparation steps for writing business plan

2. Outline the plan

The business plan should be well organized.

A clearly defined sections covering the different aspects of the company is necessary.

Outlining also requires to the executive to understand the level of detail.

Preparation steps for writing business plan

21

3. Determining the scope of the business plan

- The length of the business plan
- The depth of the business plan

There are 3 kinds of business plan

- A summery plan: contain the business information which enough to convince investors, 10-15 pages
- A full business plan: spell out a company's operation and projects in details, 20-40 pages, typically for financial purposes
- Operational business plan: serve as a blueprint for company operations and used as a guidance for managers

The key elements of business plan

22

- Executive summery
- Company description
- Management and organization
- Industry and market analysis
- Competitor analysis
- Product and services (operational issues)
- Marketing strategy
- Financial plan

The Executive Summary

23

- The most significant single section of the business plan
- describes all of the key elements of business plan <u>into 2-3 pages</u>
- appears first, but should be written at last.
- If the executive summery suggests a promising business for investment loans funds, then the expert will read further. If not they will quickly reject the plan.

An executive summery that is concise, well-written and convincing will capture attention. It makes the plan stand out from the crown and thus will make readers eager to learn more about the company.

Company description

24

A story telling about your company

- Business mission (the reason for existing)
- Company background – motivating factors
- Past – present - future
- Historical success

A company description provides an overview about business establishment, the background of the business. Interesting story will encourage the reader to read the next chapters of the plan.

Management and Organization

- Describe how the company is organized and what each individual's duties and responsibility are
- Introduce the management team – who they are and what are their qualifications and key competence
- Describe the compensation package offered to the key management team
- Describe the current and future human resources plan – recruiting, developing and retaining human resources plan

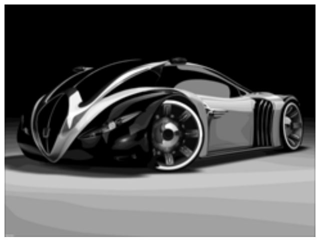
The Product and Services

- Describe products or services and explain how they are produced or delivered
- Pinpoint how your product or service differs from that of the competition
- Describe the product development process, the manufacture process, how do you plan the production – site selection, capacity, manufacturing processes and suppliers and how about your quality control policy
- Identify manufacturing cost
- Explain any government regulations or risks that may effect your business

The Market and Competitors

You can create such a fantastic and brilliant product, but it is worthless, unless there is a market for your product.

Your business must be **commercial.**



The Market and Competitors

Identify the market

- The recent trend in the industry
- What is your market segment and target market? Who are yours customers?
- Why should people buy your products?
- How do you position your business?
- How is the competition? Who are competitor? What are their strength and weakness?

- Market, Industry, Competitor Analysis
- Tools: SWOT, PESTEL, Porter 5 Forces Analysis, Benchmarking

Marketing and sales

29

Marketing involves increasing customer awareness, delivering message about your product or service and identify customer prospects.

Selling involve the efforts to convince those potential customers to buy.

So we do the marketing to provide product information to customers and use sales promotion to make them decide for our product.

- Identify marketing strategies (product, price, promotion, distribution): how you will position your product and service and promote
- Identify selling strategies: how you will sell and deliver product
- Explain why you use these strategies and determine your marketing budget

The Financial Information

30

- It is written last , after key data on cost and potential revenues have been assembled.
- The financial plan should be realistic and comply with the other plans.
- The financial information includes balance sheet, the statement of cash-flow, the income statement, ratio analysis
- Time frame of the financial forecast should be over 3 years
- Identify sales, costs and revenues

Financial Plan

31

1. Income statement

Phil's Parachute Palace

	2008	2009	2010	2011	2012	LTM 09/30/13
Revenue	$100,000	$175,000	$300,000	$458,000	$678,000	$590,000
Cost of Goods Sold	70,000	120,000	190,000	300,000	415,000	400,000
Credit Card Fees	3,000	5,250	9,000	13,740	20,340	17,700
Gross Profit	$27,000	$49,750	$101,000	$144,260	$242,660	$172,300
Operating Expenses						
Advertising	$1,000	$2,000	$3,000	$4,000	$5,000	$5,500
Salaries and Wages	15,000	25,000	30,000	35,000	40,000	42,500
Phone and Internet	1,000	1,000	1,000	1,000	8,000	1,000
Website Expense	3,000	500	500	500	500	1,200
Depreciation Expense	-	-	-	-	-	-
Office Supplies	50	100	50	100	50	100
Operating Profit	**$6,950**	**$21,150**	**$66,450**	**$103,660**	**$189,110**	**$122,000**
Interest Expense	4,000	3,500	3,000	2,500	2,000	1,500
Interest Income	-	-	-	-	-	-
Non-Recurring Expenses	-	-	5,000	-	20,000	-
Total Income	$2,950	$17,650	$58,450	$101,160	$167,110	$120,500
Income Tax	1,033	6,178	20,458	35,406	58,489	42,175
Net Income	**$1,918**	**$11,473**	**$37,993**	**$65,754**	**$108,622**	**$78,325**

Financial Plan

32

2. Payback period

A period of time required for the return on an investment to “repay” the sum of the original investment.

Example 1: a 1000$ investment which returned 500$ per year. The pay back period would be 2 years.

Example 2: a project cost 100,000 and it is expected to return 20,000 annually, the payback period will be ………………… years.

Example 3: A project requires an investment of 200,000$ and it generates cash as follows:

1st year 20,000$, 2nd year 60,000$, 3rd year 80,000$, 4th year 100,000$ and 70,000 in the 5th year.

What is the payback period?

(20,000+60,000+80,000 = 160,000 in the first three years, 40,000/100,00 in the fourth year, therefore payback period 3.4.

Example 4: A project requires an investment of 20,000 Bath. and it generates cash as follows:

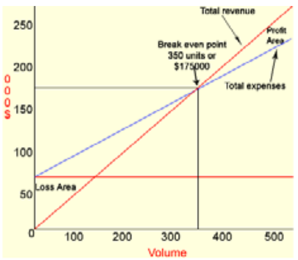
1st year 10,000$, 2nd year 8,000$, 3rd year 6,000$, 4th year 2,000$.

What is the payback period?

3. Break-Even point

B.E. is the level of sales at which profit is zero. At break -even point total sales are equal to total cost (variable + fixed).

If a firm cannot manage sales to cover variable as well as fixed costs it will have to bear losses. The following is the further explanation of this concept:



Example:

Sales price per unit = $500

variable cost per unit = $300

Total fixed expenses = $70,000

At Break Even point, Revenues – Total cost = 0

In this example, quantity at break even point is ....Unit.

4. Sales Break – Even Point

The break-even point in sales dollars can be calculated by dividing a company's fixed expenses by the company's contribution margin ratio.

The contribution margin is sales minus variable expenses. When the contribution margin is expressed as a percentage of sales it is referred to as the contribution margin ratio.

Break-even Sales = [Fixed Cost / 1 – (Variable Cost / Sales)]

Example: A company has fixed expenses of $100,000 per year. Its variable expenses are approximately 80% of sales. (This means that the contribution margin ratio is 20%)

Therefore, break even point in sales is 100,000 / 0.2 = 50,000 $

Let's check the answer:

Sales – total cost = 0

500,000 – (100,000+400,000) = 0

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500,000 – (100,000+400,000) = 0

Example:

- A travel agency is organizing weekend trips to different cities. The package includes the transfer by coach and the overnight stay in a B&B. It is offered for 99 € per person. The coach costs 500 € per weekend, fuel 300 €, the driver 350 € per weekend; administration is charged at 100 € per weekend trip. The B&B costs 55 € per person, the salespersons get a commission of 10 € per passenger.

a. Calculate the fixed and the variable costs of a trip.

b. How many passengers will the agency have to find in order to break even?

c. The target profit per trip is 100 €. What happens to the break-even-point?

d. If the travel agency expects 45 passengers. What are the margins of safety?

Financial Plan

Example:

A company producing felt-tip pen estimates its monthly sales at 30,000 pens. Its fix cost is 250,000 baht/month. Its variable cost is 3.70 baht per pen.

a. If the sales price is 10 baht/pen. How many pens this company should sell in order to reach break-even point?

b. If this company wants to achieve 150,000 baht profit. How many pens should this company sell to its customer?

Financial Plan

Example:

At Oil Change Co. The fix and variable cost is shown as follow:

Motor oil	$ 5.00
Oil filter	3.00
Grease, washer fluid	0.50
Supplies	0.20
Disposal service	0.30
Total variable expenses *per car*	$ 9.00

Labor including payroll taxes and benefits	$1,200
Rent and utilities for the building it uses	700
Depreciation, office and professional, training, other	500
Total fixed expenses *per week*	$2,400

Oil Change Co. charges one flat fee of $24 for performing the oil change service.

How many car this company has to service in order to reach break-even point? Or how much is the sales break-even?

Financial Plan

Example:

A restaurant sells variety of food, from noodle, spaghetti to fried rice. Average fix cost per month is 35,000 baht. Ingredients and raw material for cooking account for 60% of sales. How much sales this restaurant has to generate monthly to stay survive?

Check your business plan

- ✓ Is your business concept solid and feasible?
- ✓ Is your management experience and capable?
- ✓ Does your product or service create value to the customer?
- ✓ Does a real market exist?
- ✓ What are your target markets and are they large enough to support your business plan?
- ✓ Have you thoroughly and honestly evaluate your business and your competitors?
- ✓ Are your goals focused and are your strategy competitive?
- ✓ Is your financial plan realistic?
- ✓ How and when will the investors get their investment back?

Characters of effective business plan