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CREATING A BUSINESS PLAN

How to write a business plan

Thesis

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ABSTRACT

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<p>My thesis is basically a guide which explains the main steps and stages of the effective business plan writing. The target of the thesis work is to prepare a short and clear overall material including instructions, tips and key success factors. Based in this instructions I've prepared my own official business plan of my medical tourism business idea.</p>		

<p>Key words Business plan, Business idea, Creating a business, New ventures, Start-up businesses,</p>

ABSTRACT

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1 INTRODUCTION

I would like to guide my readers in the World of business plan writing. The target of my thesis is to summarize all the important facts of the successful business plan and give an overview of the process. The main stages and steps of the business plan writing is summarized based on the best available books and internet sources available at the moment.

The first part of my thesis explains the points, rules and habits of the business plan. Primarily I concentrate on the start-up businesses as developing and expansion plans in operating companies may require different factors.

The second part of the thesis is to prepare my own official business plan based on the instruction worked-out in the first part. My medical tourism idea is based in market research and potential customers opinion. The final business plan is not attached to my thesis as it is confidential.

The business plan writing is the most important step while creating a new venture or establishing a business. It includes plenty of instruction which we can follow while investing in the real business. Furthermore we can learn a lot about our business idea during the preparation process. We can find the pitfalls and key success factors and we can face with difficulties before starting to spend the real money. We can use it later as an instructions-book and we can show it to outside readers like investors and banks to get some financial support.

” A goal without a Plan is just a Wish”

Antoine de Saint-Exupéry

2 CREATING A BUSINESS PLAN

2.1 Why we have a business plan?

.The business plan is a roadmap which help us to get through the scheduled and unscheduled actions while starting a business. The main function is to predict the profitability and potential of our business idea. Writing a business plan is a project where we need to collect all the influencing facts and relevant information to define the purpose of the business. It is an important part of the process of preparing for a business. Business plan help us to reveal the business concept, the targeted consumer group and the competition on the market. It give us the possibility to make mistakes on paper rather than in the real life marketplace. Business plan makes us confident, show how much money we need, what it is needed for and how long it is required. Plan writing give us an insight in the analyzing and planning processes. Studies confirm that companies with a strong planning skill outperform their competitors who neglect this method. In the business plan we deal with the long and short term goals, products or services we would like to market and we get an idea of the operation of our future business. This written document explains every aspects of the new business venture. To make an effective business plan we need to clarify the idea, screen the idea to get information about feasibility and prepare qualitative analysis. The three most common business idea based on changes in environmental trends, unsolved problems and on the unsupplied demands in the marketplace. (Harvard Business School Press 2007, 4 ; Barrow & Barrow & Brown 2008, 7-8.)

2.2 Executive Summary

The first item in the business plan which summarize everything that needs to be known. It provides the whole "information package" including the feasibility of the venture, the distinctive nature of the business idea, the market analysis and the resource possibilities. This section is written for the busy readers who would like to get a comprehensive overview to make quick decision on the proposal. (Barringer, 2015, 103-105 ;Harvard Business School Press, 2007, 24-26.)

The executive summary needs to include the following main points:

- **Industry and Market Analysis** (In which the opportunity will develop and evolve?)
- **The unique and exceptional Business opportunity** (The customer demand our product or service will serve?)
- **The key strategies for success** (What differentiates our product or service from the competitor's offering? Marketing and action plans.)
- **The resources being requested** (Resource planning and financial information.)

The format has to be clear, well-organized and not too long. Never waste words in this section. Investors and outside readers prefer a focused and concise single page overview. The most common is the section-by-section basis that highlights the main points. Even though this is the first item which appears in our business plan it has to be done, when the plan is finished. (Barringer, 2015, 103-105; Harvard Business School Press, 2007, 24-26.)

2.3 Description of the business

The description of the business plan must not only include the purpose and mission of the business but explicate our skills, aptitude and background for this enterprise. We need to decide what legal form we would like to choose and what resources we can achieve to turn our idea into a business. An entrepreneur's most important resources are his own skills and experience. Here we have the chance to introduce the competitive environment, the concerning background information and the actual market situation for our products or services. It's important to share our enthusiasm for the venture. We need to mention the customer needs, laws and changes in the business environment. (Harvard Business School Press, 2007, 24-26.)

It's recommended to take into consideration the most important environmental trends:

- Economic Trends
- Social Trends
- Technological Advances
- Political and Regulatory Changes

In addition we need to ensure that our staff will be motivated during the start-up period. We can enumerate the professional advisers we would like to bring in while establishing the business (lawyers, business consultants, accountants). Organization chart can be useful to make clear the responsibilities in the company. (Harvard Business School Press, 2007, 24-26; Barrow & Barrow & Brown 2008, 34-52.)

In the business description we need to find answers for the following questions:

- What market the business will serve?
- What kind of business is it?
- What products or services we provide?
- Why people will buy our products or services?
- Where the business will be located?
- What the financial situation is?
- What the legal form of the enterprise is?
- Who will manage the business?

Basically we need to present the possibilities and the positive background for the venture. We need to analyze the competitor's strength and weakness, the market situation and the demand for our products or services. (Harvard Business School Press, 2007, 24-26; Barrow & Barrow & Brown 2008, 34-52.)

2.4 Description of the product or service

Here we can describe what products or services we would like to market and what is special about our goods. We may have complicated, technical and special products or services which deserve its own section to explain for outside readers (investors, creditors), what is it and how it works. (Barrow & Barrow & Brown 2008, 76-78.)

We have to mention the stages of development:

- Is the product or service ready for the sale?
- What needs to be done to develop them?
- What resources we need to develop?

The competitive advantages and the uniqueness of our products or services has to be shown and confirmed. Let's be straightforward and avoid the boring jargon. We need to give a clear and catchy explanation of our idea without revealing the secrets which make our products or services inimitable. It is good to mention how we create an image of product (brand) quality in the consumers mind. It is indispensable to make a detailed comparison with competitive products and services. (Barrow & Barrow & Brown 2008, 76-82.)

2.5 Market research

In the following points we learn how to bring costumers, competitors and market place into focus. Small and start-up businesses has to prepare a really realistic market research to do not join the high first year failure statistics of new ventures. The market research takes time and costs money but as the President of the Harvard Business School said:

“If you think knowledge is expensive, try ignorance”

2.5.1 Customers

Without costumers no business can operate, let alone survive. We need to know our customers and consumers and their demands “before opening the door”. Find the potential customers and plan what to sell them seems so easy still, this is one of the reasons many new businesses fail. Recognizing customer needs can be a key factor for success.

The founder of a successful cosmetics firm, when asked he did replied:
 “In the factory we make perfume, in the shops we sell dreams”
 (Barrow & Barrow & Brown 2008, 76.)

It is not enough to concentrate on the physical terms of the product or service. The main value for customers is the ability to satisfy their needs. The US psychologist Abraham Maslow collected consumer needs into a five-stage pyramid so called hierarchy or needs:

- **Self – actualization:** Truth, wisdom, innovation, purpose, morality, justice
- **Esteem:** Attention, reputation, awareness, respect
- **Social Needs:** Love, belonging, friends, family, association
- **Safety:** Health, employment, property, finance
- **Physiological needs:** Sleep, food, water, homeostasis

This theory means that people buy products to solve problems and satisfy their needs. This can be used during the business planning but we need to take into consideration the social responsibility.

It is not enough to know the actual needs and problem but we need to follow and predict the environmental and social changes. Product or service feasibility analysis need to be done. Measurability, accessibility and size are the most important facts to decide if the chosen market segment is worth to sell into. Who are our target markets- individuals or companies?

We can define our target market based on the following points:

- Geography (Location, city, state, nation)
- Demography (Age, culture, gender, income)
- Costumer's behavior (Attitude and responses to products)

(Barrow & Barrow & Brown 2008, 76-82.)

2.5.2 Competitors

Competitors are generally companies producing similar products or services. It means they operate on the same target-market. Investors and outside-readers want to know the direct and potential competitors which can threat the business. Understanding who our customers are can reduce the risk of failure and it helps to get clear view on the market share. Here we identify the strength and weakness of competitor's, analyze their marketing strategy and the key success factors. Let's compare our products and mention the differences. Describe it in a new, unique and useful way. Remember, just because a company sells the same or similar product or service, that doesn't mean they are competitors as they may sell it on a totally different market. We can rank our competitors as direct, indirect and potential (future competitors). (Harvard Business School Press, 2007, 40-42.)

2.5.3 Market Analysis

The two most important considerations for any venture are that how large the market for our products or services is and how fast is it growing. The researches about market growth and competition should be supported by realistic and verifiable information. What is the value which solves the customer's problems? Can the market expand to include us?

We need to ensure we have sufficient information on customers, competitors and the target-market. We can include the competition of the market place, the potential sales and the market share.

We can summarize the market research based on the following points:

- Customer – Who will buy our products or services?
- Competitors – Direct, indirect and potential (future) competitor. Their strength and weakness.
- Product, Good or Service – How to develop to meet customer's needs.
- Price – Value for money? Comparison of competitors.
- Promotion – Reach customers, promote the product or service.
- Demand – Customers' problems and needs to be solved and satisfied.

The seven steps to effective market research:

Step 1. Identification and definition of the problem

Before starting to invest time and money in a complicated market research we have the possibility to reduce the research field. We should set clear and precise objectives instead of collecting general information. This is called market segmentation. Clear identification of the problem help us to determinate the techniques or tools to be used and to set the proper research objectives. This is the step where we need to define what information we need and how we are going to find it. Finally we need to expound how we will use this data to develop our venture? (Barrow & Barrow & Brown 2008, 91-96.)

Step 2. Determine the information needs

Here we can outline the research objectives and the goals of the market research. By collecting the right information we can keep the research focused and effective. When we know what we are expecting from the market research, we are ready to formulate the research design. (Barrow & Barrow & Brown 2008, 91-96.)

Step 3. Information acquisition

Let's combine desk and field research. We can go to library, read relevant books and magazines or use the internet-based sources. In case of field research, we go out and ask our questions directly. These techniques are good and generally enough for start-up and home-based businesses. Industries and big businesses may employ professional research companies which can be really expensive. (Barrow & Barrow & Brown 2008, 91-96.)

Step 4. Decide the Budget

Even if we choose the "do-yourself techniques" we need to calculate with costs. The budget has to include the phone-calls, fuel, costs of company visits and the price of the books or other resources we need to buy. To do the research by ourselves may save money while it may limit the objectivity of the research. (Barrow & Barrow & Brown 2008, 91-96.)

Step 5. Data Collection

The preparation and plans are ready. Now we can start to make the customer interviews, questionnaires, customer panels so basically the field research. We have to be really careful to record the data and information correctly as these enforces the market research. (Barrow & Barrow & Brown 2008, 91-96.)

Step 6. Data Analysis

Here we summarize the results of the fieldwork and the research. To get an easy to understand final extension, we can use numerous software to help us. The collected data has to be turned into information to guide our decisions on the important facts as price, value, promotion and location. (Barrow & Barrow & Brown 2008, 91-96.)

Step 7. Data Presentation:

Graphs and charts can be helpful to present the final result of the market-research. It is a really important part of the business plan, as investors and outside readers want to know the actual market possibilities of the venture. This is the opportunity to draw conclusion and explain the results. (Barrow & Barrow & Brown 2008, 91-96.)

The Market research includes all the areas of the market information so it can be classified according to different aspects. This help us to present the far-reaching and multilayered nature of the market re-search FIGURE 1. (Barrow & Barrow & Brown 2008, 91-96; <http://www.insightstrategy.eu/blog/101-7-stages-of-market-research>, 26.01.2016.)

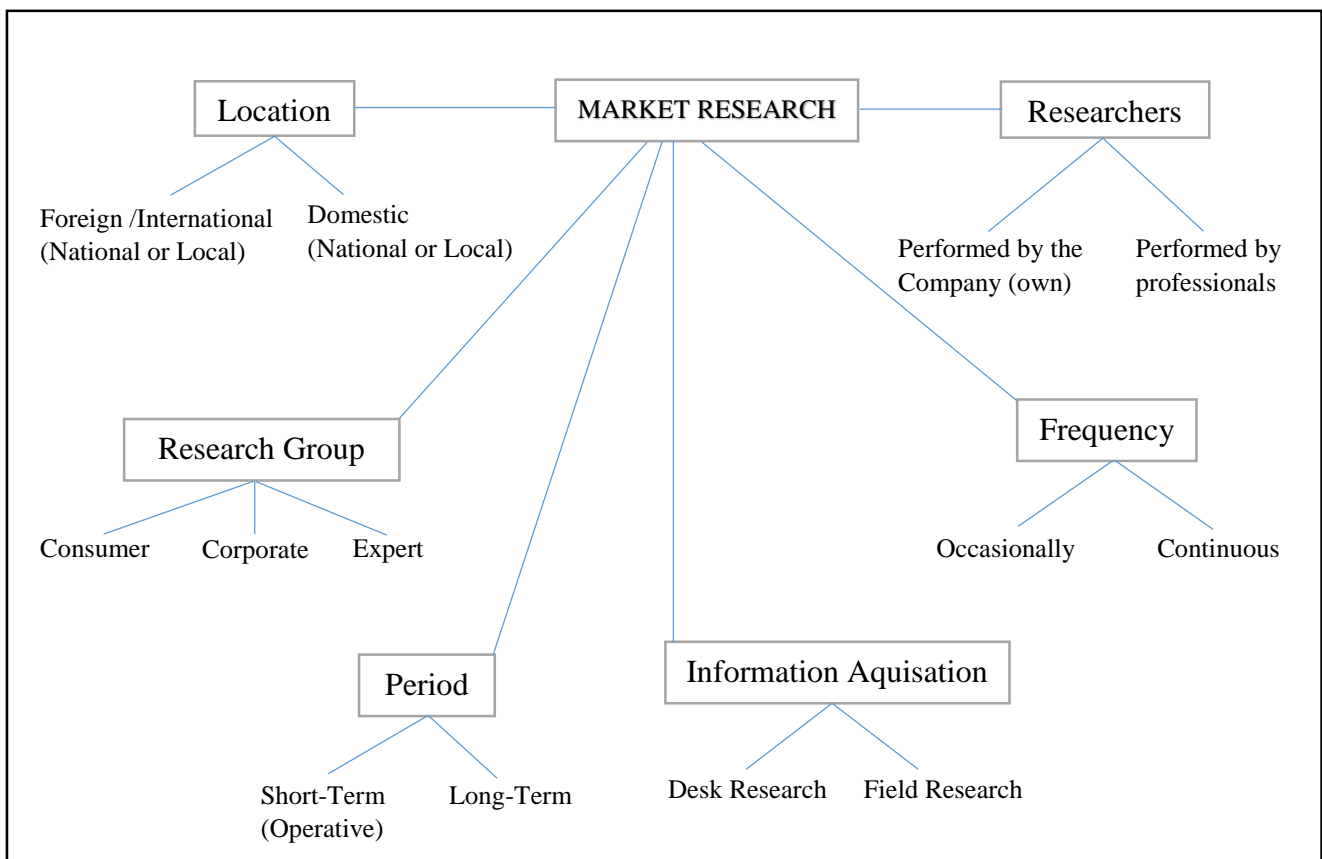


FIGURE 1. Market research types classified according to different aspects.
(Dr. Bércziné Juhos 1996, 17.)

2.6 Business Strategy

The business strategy explains exactly how we are planning to satisfy the costumers while facing with competition. The strategy is defined as a concept, which sets long-term objectives of the company, determine resources and important development actions necessary to attain the objectives. The business strategy includes the following elements:

- **Business boundaries:** Mission, Objectives,
- **Market research:** Desk, Field, Internet
- **Marketing Mix (4P) :** Price, Product, Promotion, Place
- **Market Place:** Costumers, Market segments, Competitors, Market Size, Environment
- **Marketing Strategies:** Target customers, Distinctive Competence
- **Business Projection:** Sales Forecast, Cash Flow, Balance sheet, Funding

2.6.1 Marketing Plan

We have collected information about environment, competition and we know our target market. This is the time to find out how to reach the costumers and how to brand the products or services. The most common way to market our products or services is to prepare a professional marketing plan. The question is easy: How to convince our customers to buy?

Marketing plan shows to the outside readers our competency, ideas and plans of the selling process. The most frequent mistake is when people confuses the definition of marketing, advertisement and promotion. The advertisement is a really important part of the business science called marketing but they are not equal. The definition of marketing includes the so called “4P” (Price, Product, Promotion, and Place). It is fully or partially responsible for the decisions as pricing, development, and market research or branding.

The marketing plan has to pull together all the elements of the business opportunity. Keep viewing the opportunity from the costumer’s point of view.

The Marketing mix (4P) is responsible for the following questions:

- How to motivate costumers to purchase?
- How to make the target market aware of the product?
- How to build customer loyalty?

We need to plan the distribution channels, marketing channels and the promotion possibilities based on the market research. If we are wedding photographers than it is unnecessary to advertise in the newspaper as our target customers will look for us on the web and on the wedding exhibitions. To find the right marketing channels and type of advertising is indispensable for the successful entry to the market.

When planning the promotion we can use the following activities:

- **Word of mouth:** Cheap and effective. However it is difficult to control and influence.
- **Sales promotion:** Coupons, samples, free gifts, demonstrations and discount. It is a direct way to reach costumer but it can be really expensive.
- **Direct Sales:** Personal selling, telemarketing and broad-cost emailing. It is a really important and expensive tool.
- **Advertising:** Paid message delivered to the target market. Targeting is difficult and costs a lot of money so we need to find the right channels to advertise.

The marketing channels can be defined as a line of closely related systems, which are involved in the process which delivers the products or services to the costumer.

Marketing Channel Levels:

1. **Direct** – The manufacturer sells the products or services directly to the end costumer.
2. **One intermediary:** Manufacturer → Retailor → End costumer.
3. **Two intermediary:** Manufacturer → Wholesaler → Retailor → End costumer
4. **Reverse Channel:** May go from costumer to intermediary to beneficiary. (Ex. Collection of recyclable waste)

We have to find the right way to reach our customers and motivate them to buy.

We can make online marketing, television and newspaper advertisement or direct marketing like tele-marketing or personal selling. It is really important to plan the marketing costs and present the expected efficiency. The outside readers and investors has to understand how we would like to sell our products and which channels we are planning to use to distribute and reach the costumers. Our marketing plan has to broadcast the value of the brand, products and services. (Barringer 2015, 167-172.)

2.6.2 Operation Plan

The operation plan shows how the idea or raw material transformed into products or services to sell. It has to explain the daily activities and operating principles of the company. We have to prepare a consistent and clear description of the business strategies and critical operating factors which makes our business a success.

This internal plan can be used when our venture starts the operations as a company. Later on we can follow and develop the company's operating principles and strategy based on this section.

The operating plan needs to include the key success factors which add value to the products or services. The most important is the breakeven point at which units of sales equal operating costs.

The Breakeven Point:

Point in time (or in number of units sold) when forecasted revenue exactly equals the estimated total costs; where loss ends and profit begins to accumulate. This is the point at which a business, product, or project becomes financially viable.

Detailed flowchart can simplify our presentation. We need to identify other key success factors too:

- Advantages in procurement (material sourcing).
- Technological innovations
- Good geographical location
- Advantages in labor (skilled employees or inexpensive labor)
- Effective pricing strategy
- Professional marketing and distribution strategy

The operating strategy and product development has to be active to be a little bit ahead of others. The long run continuous development will bring advantages in marketing when costumers learn to know the company's product policy.

2.6.3 Pricing

The successful operating strategy includes the pricing method which is really determinative considering the sales. Pricing is closely connected with marketing and development. To choose the right pricing method we can take into account to following strategies:

Cost-based pricing is a pricing method in which some percentage of profit margins is added to the operating costs to get the final price as shown in the FIGURE 2.



FIGURE 2. Cost based pricing formula.

Demand-based pricing is a pricing method in which the prices of the products or services are determined according to its demand. If the demand is bigger than we set higher prices, if the demands is low than low prices are used to motivate the costumers to buy. (Barrow & Barrow & Brown 2008, 142- 147.)

Competition based pricing is a pricing method in which the company considers the final prices of the competitors. The organization may set equal, higher or lower prices based on the quality, value and market-share. (Barrow & Barrow & Brown 2008, 142- 147.)

The most common mistake when setting a price is to set it too low. It may communicate to customers that quality is not good enough compared to the competition and it can occur the lack of resources needed for marketing and development. When setting the price is the perception of the value to the customer. We need to be sure that all the costs are established as precisely as possible based on the financial calculations. The company policy can be another influencing factor. To build the required overall image we may need to increase or decrease the prices we charge. (www.economicdiscussion.net, 28.01.2016; Barrow & Barrow & Brown 2008, 142- 147.)

2.7 Financial Plan

The financial plan presents the company's pro-forma financial calculations and projections. Investors are interested how fast the business can grow meanwhile the banks are more interested in the predictability and stability to minimize the financial risks. We need to take into account the possible loss our business will produce in the first year. Every business has a startup period during which they lose money and produce loss before they can start to collect some profit. The pro-forma financial statements including the balance sheet and the cash flows show us how this period will be managed.

Most students and entrepreneurs don't really know how to professionally complete a financial statement. In this case we need to find some material or help to prepare an accurate financial plan. One of the best possibilities is the site called SCORE (www.score.org) where retired entrepreneurs and businessmen help us for free. We can find several templates and reading materials about financial planning but it is necessary to show it for a professional before we start to use it.

The financial plan is an emphasized section of the business plan because it converts all the other parts of the business - the opportunity, the operating plan, the marketing plan and business strategy into financial calculations and results. Readers' concern is the most important in the section.

2.7.1 Capital Requirements

Readers of the business plan will want to know what capital investment is needed. How much money we have and how much we expect from them. Loan may look like easy money but we need to be careful as too much debt can weigh down the company's ability to grow.

2.7.2 Pro Forma Cash Flow

The pro forma cash flow show us how the company will maintain the cash balance to running the business successfully. The basic idea is to start with a money we have on hand at the beginning and add the estimated profit (or loss) and other transactions.

The cash flow statement can be divided into three activities:

- **Operating Activates:** The activity which determines a company's cash inflows, outflows and net income. It calculates the operating costs and sales income. Inflows are sales of products, services or sale of shares. Outflows are loans, salaries and expenses.
- **Investing Activities:** Transaction including the sale or purchase of equipment, plants, properties and other fixes assets.
- **Financing Activities:** Financing activities include the cash flow during the period by borrowing money, making payments on loans or paying dividends for investors.

To prepare a sufficient cash-flow statement we may use qualified templates and professional help. Our cash flow projection has to be done at least for the first year. Cash flow statement shown in the PICTURE 1.

	A	B	C	D	E
1			[Company Name]		
2			Cash Flow Statement		
3					
4			For the Year Ending	12/31/2008	
5			Cash at Beginning of Year	15,700	
6					
7			Operations		
8			Cash receipts from customers	693,200	
9			Cash paid for		
10			Inventory purchases	(264,000)	
11			General operating and administrative expenses	(112,000)	
12			Wage expenses	(123,000)	
13			Interest	(13,500)	
14			Income taxes	(32,800)	
15			Net Cash Flow from Operations	147,900	
16					
17			Investing Activities		
18			Cash receipts from		
19			Sale of property and equipment	33,600	
20			Collection of principal on loans		
21			Sale of investment securities		
22			Cash paid for		
23			Purchase of property and equipment	(75,000)	
24			Making loans to other entities		
25			Purchase of investment securities		
26			Net Cash Flow from Investing Activities	(41,400)	
27					
28			Financing Activities		
29			Cash receipts from		
30			Issuance of stock		
31			Borrowing		
32			Cash paid for		
33			Repurchase of stock (treasury stock)		
34			Repayment of loans	(34,000)	
35			Dividends	(53,000)	
36			Net Cash Flow from Financing Activities	(87,000)	
37					
38			Net Increase in Cash	19,500	
39					
40			Cash at End of Year	35,200	
41			© 2008 Vertex42 LLC	Templates by Vertex42.com	

PICTURE 1 Simplified Example of Cash Flow Statement (Vertex42.com 2016)

Meanwhile the cash flow statement is the most important information in the reader's point of view, we can't forget about balance sheet and income statement.

The income statement presents the results of operations for a given period including net sales, cost of goods sold and operating expenses.

Unlike the income statement, **balance sheet** is a projection of a firm's liabilities, assets, and owner's equity at a specific point of time including current assets, fixed assets, current liabilities, long-term liabilities and owner's equity. Balance sheet can present how the start-up business will look like at the beginning point.

2.7.3 Breakeven point

As I've mentioned before the breakeven point is the time when costs equal with incomes. This is the moment when business starts to produce profit. We have to show to our readers how much time does it take for the company to reach its breakeven.

Breakeven point can be calculated as follows (FIGURE 3):

$$\text{BREAKEVEN} = \frac{\text{FIXED COSTS}}{(\text{SALES} - \text{VARIABLE COSTS}) / \text{SALES}}$$

FIGURE 3. Breakeven point calculation

2.7.4 Assessing Risks

“Risk is the uncertainty of the future”.

(Harvard Business School Press, 2007, 84.)

Even with the most accurate and precise planning and calculations we can't predict what will happen tomorrow or in the distant future. Understanding the business environment and the market situation can reduce the possibility of failure. We can calcite with a real risk in any new venture or business. We need to set-up a plan how to avoid the risk of failure and present it for the readers. The probability/ Rate of return graph can show to investors the possible outcomes (see FIGURE 4.)

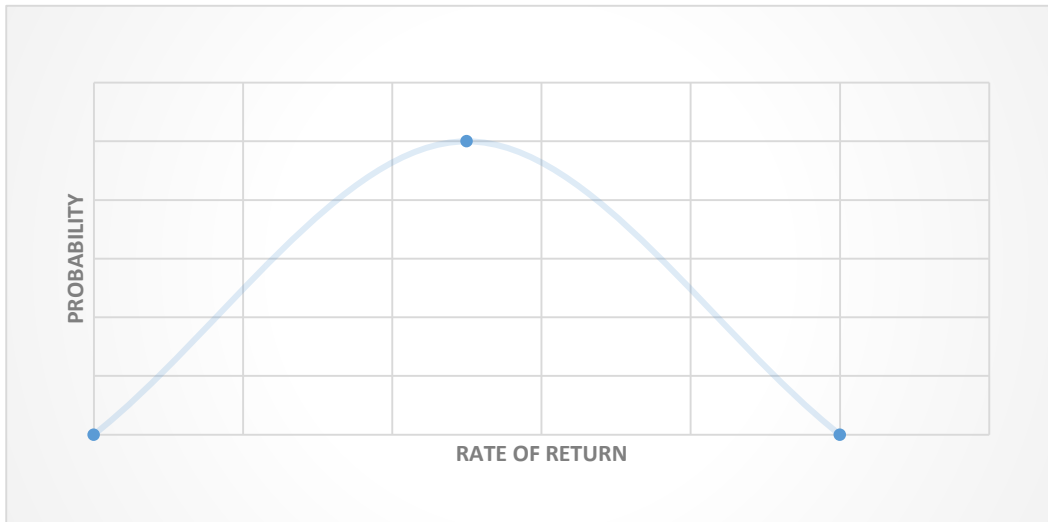


FIGURE 4. Risk/Return Graph example.

3 BUSINESS PLAN WRITING PROCESS OF HEALTH TOURISM

I've chosen the business plan writing topic because I would like to realize my own business idea. My basic idea is to offer international medical tourism services between Finland and Hungary. My business plan written based on the previous chapters and accepted by my supervisor. The final business plan and the financial calculations are confidential so can't be published in my thesis even if it was part of my thesis work.

I've prepared my start-up business plan with professionals to get the best outcome. I would like to look for investors and different kind of financial supports so I need evaluable financial calculations based on real information, professional market research and effective marketing plan.

To get concrete results from market research I've prepared a questionnaire in Finnish language about the main factors and issues of the business and customer's expectations.

Financial calculation is done in the Ylivieska Business Consultancy's official excel pro-forma table and it is evaluated by my supervisor and by the Ylivieska city's Business Consultant Ari Mickos.

Marketing plan is planned to be effective and useful to reach to potential customers in a cost-effective way. Online marketing and advertising is the most important tool but we invest some money in magazine ads, telemarketing and health-exhibitions.

The business idea is based on the demand for inexpensive and high quality private medical treatments. The business plan shows that venture can be profitable and the competition on the market is infinitesimal. The business plan writing process including the brain-storming, preliminary and secondary market research, the marketing plan, operating strategy, pricing and financial calculation. My expectations are to run a successful health-tourism company and provide high-quality services for our clients.

5. CONCLUSION

The good business idea can be successful only with professional implementation. In this guide I've collected all the important steps of business plan writing which is inevitable while establishing a new business. I deal with such important issues like executive summary, marketing plan and financial calculations. My idea was to prepare a business plan writing hand-book which is short, clear and easy to follow. I've collected the topics and information from the best books on the subject and from professionals working in the business life.

My idea was to learn the different relevant topics from different resources and reading materials then summarize them in short but straightforward chapters.

I've chosen business plan writing as a topic for my thesis because it can be used later by me or by others while preparing an official business plan or just writing an assignment. In my point of view the marketing plan and financial calculations are the most important. If somebody doesn't have time, skills or resources to prepare a professional business plan than he/she needs to deal with this two topics at least. Marketing plan show us how do we sell the product while financial plan gives some information about resources or support needed.

I would like to be an entrepreneur in the future so I am pretty sure that my thesis work will be useful during my career. I learned a lot about business planning, market research, marketing plan, pricing and budgeting a start-up business while I could prepare my own medical tourism business plan based on my chapters.

Nowadays a lot of start-up business fails because of the lack of adequate preparations like business plan writing. I think my thesis can help to give a general overview of the process of business plan preparation. I hope in the future I or someone else will want to use this thesis as an instruction book while preparing a plan for a successful and profitable business.

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