

THE ROLE AND IMPORTANCE OF THE BUSINESS PLAN IN STARTING AND RUNNING A BUSINESS OPPORTUNITY

ANCA JARMILA GUȚĂ *

ABSTRACT: *This paper aims to clarify the main aspects of how a well prepared business plan can lead to success or failure of a new or existing business. In this context are presented obtaining business financing, its typology and structural elements that must be included in order to carry out the purpose for which it was created.*

KEY WORDS: *business, bussines plan, entrepreneur, investor, entrepreneurship, manager, financier, financial plan.*

JEL CLASSIFICATION: *M*

1. DEFINING BUSINESS PLAN

The business plan is an essential tool for entrepreneur who build a business or look for parteners, managers proposing new projects to other people or financing institutions; to the institutions that manage funds for investment projects, to projects managers in the so-called “business incubators” and so on. It reflects investment projects in all the fields of activity. Tody these projects tend to become increasingly important and complex, often being of international class.

The international investment projects must be presented and negotiated with foreign partners. To enable this, the business plan regarding an international project must provide information in a system and language accessible to all concerned parties. From this point of view , the most sensitive part is the translation of the financial forecasts of the Romanian system into the Anglo- Saxon.

The term of business plan is an element that holds an important place in the language of financiers and investors. Most of the discussions between entrepreneurs and financiers are wearing the elements of a business plan.

The business plan is not a form to be completed to request of a loan officer, a bureaucratic element that must be realized for obtaining a certain amount from a

financier. It represents a much more complex system based on accessible manner the business idea and its evolution over time.

Its role is not only to demonstrate that the business is worth to be funded, but also to guide the entrepreneur from the first year of operation of the business. This control exercises along the business running will cover all critical elements of economic entity (stocks, costs of production, quality control, sales, payments, etc.). What is very important is that the document does not end up at the bottom of a drawer once funding was received and business was started.

It is not yet a passport to obtain financing, but a way of highlighting the flair and entrepreneurship, the promoted business idea. In its written form, the business plan is a document reflecting the company's activity on a specific time interval, usually 12 months, taking into account the following period (2 to 5 years). Few companies are planning the activity for more than five years due to the uncertainty that characterizes these forecasts.

The business plan is consequently a written document that describes the nature of business, target, market, business advantages that the business will have on competitors as well as the resources and skills available to business owners. For its preparation is necessary financial resources and other operational details.

However, the business plan is a tool that we use to start and run a business that requires material, financial and human resources. Through its use the experience and achievements of the past are valorized in order to project the future by the most appropriate methods of estimation and approximation. In the literature a definition of the business plan is tried as follows: any business plan supposes a specific sequence of operations. For its preparation it is necessary to cover the following three steps:

1. Collecting the necessary information (prices, competitors, suppliers, technical data, legal data, etc.)
2. Effective planning of that activity – choosing appropriate strategies and finding ways to achieve the objectives set;
3. Drafting the plan (stage of choice of optimal form of presentation to the recipient of the result of the previous step).

Functions and role of the business plan

The business plan has four functions:

- a) The crystallization and development of ideas about how business should be conducted;
- b) To achieve a retrospective assessment of real performance of a business over the plan;
- c) Evaluation of new business ideas;
- d) To obtain financing.

Advantages and planning opportunities

Running of the business will be done more easily if you develop a business plan and the financing will be more available when through this document the financier (investor/ lender) will be convinced by the soundness of your business.

At a time when an entrepreneur presents an idea to a commercial lender, to a bank or potential investor without having a business plan, they will ask the investor to make one, and only then to return. Assuming that a small firm began the activity

without careful planning, the need to obtain funding forces her to make a competitive business plan. If you are such entrepreneur in addition to preparing the document requested by the financier, the positive effects of this approach are obvious and undeniable:

- You will have the opportunity to identify some aspects of the business that are not under control and act on them with some special measures;
- You will provide both the firm employees and to third parties an operative framework and new directions for action;
- On this occasion you will acknowledge and analyze in detail the company's strategy;
- On this occasion you will look more after the company's information system;
- You will identify the areas where the company does not have sufficient specialized knowledge;
- You will create conditions and facilitate the resumption of planning process also in the other occasions.

2. TYPOLOGY OF BUSINESS PLAN

The elaboration and presentation of a competitive business plan involves gathering accurate, sufficient and convincing information, analysis and their interpretation, clear design of structural elements of the plan.

Versions of presentation of the business plan are:

- 1) Confidential version – showing complete confidential information meant for special users (senior management, controlling shareholder or with some restrictions – a potential buyer of the company);
- 2) Partial version – emphasizing cash flow and capital structure which is intended for investors and creditors;
- 3) Specific version – meant for a specific reader, which has a particular need of information (branch managers, regional managers, national managers);
- 4) General version – in which isn't contained the confidential information and which is made for recipients such as shareholders and financial analysts.

The summary plan contains 10-20 pages and is generally used for companies that are at the beginning of their activity, they have not much to say about their past and the current operations have not a high volume. In addition, this type of plan may be used also by:

- A company with experience, but that intend to diversify its activity into a new investment project;
- An experienced manager, because his notoriety and success don't make no longer necessary to request more detailed information;

- To renew a credit line or for a low amount of financing needs (less than 100.00 euros- the value used in international practice);
- When it aims to develop an existing product.

The complete plan contains a number of 20-50 pages and it is used especially when the necessary amount to be financed is consistent (hundreds,thousands or millions of dollars) the past, present and future operations of the business intended to be financed must be carefully analyzed.

The detailed plan contains a minimum of 50 pages and it represents the most complex level where it becomes an important guide for business managers. This situation can occur in the final stage of negotiation with the financier when he wants to know in detail the business to be invested and as well as in case of investments projects of large scale and high-tech projects.

3. THE SYNTHESIS OF BUSINESS PLAN

The recipients of the work will appreciate a well structured business plan that follows a logical path. It is preferred that each of the very technical sections has a summary to be presented essential information , that is because no one expects those who have individual tasks on the field will not want unnecessary details in the primary format. Additional details can be attached in annexes.

Regardless of the size of the business plan, to get through the information requirements it must contain the following structural elements: synthesis of the plan; the paper contents; description of business; marketing plan; operational plan; management and business organization; financial plan; annexes of plan.

One way to increase the brevity and clarity of the plan is the presentation just as the beginning of a synthesis of the proposal. This synthesis of the plan is a crucial component of the business plan and it is absolutely mandatory , some readers too busy going through only this element and financial projections. The synthesis represents a business plan in its most concise shape and it aims to stimulate the reader to read the entire plan.

Accordingly, the objectives that must be achieved by the first component of the plan conceived by you are:

- To provide a clear, concise and relevant summary of the business;
- To highlight your unique advantages in achieving success;
- To demonstrate why your business concept will work;
- To demonstrate simply and clearly the management objectives;
- To include strong key sentences from other chapters of the plan;
- To be written in a positive and confident tone;
- Can be regarded itself as a mini-up of your business plan.

A quality summary presents the basic concept data of the business and its opportunity, the basic ideas and main features regarding the type of products, services, marketing plan, production plan, financial plan.

Strictly observing those objectives, the synthesis should reflect a meaningful business idea, a clear plan for success, a capable management team, a clear, specific and defined market, important competitive advantages, a solid and credible summary of financial forecasts and finally an excellent opportunity for investors to invest in a very profitable business, respectively to acquire a reliable and perspective customer. We must not forget for a moment the interest of the investor/ financier may be aroused by the idea of the business, the rate of return or even by the style in which the design plan synthesis is conceived.

The summary should be brief, concise and clear, showing which are the factors that allow to the business to succeed in a competitive market. It should have one or two pages, at most three. The format and organization of your plan synthesis will vary depending on the most important points of the business. The most efficient model is the one that provides information about business plan in each section in part.

The synthesis of plan may have the following structure:

1. Company history and its present activity
 2. The concept and the business opportunity
 3. Description of the product or service
 4. Market
 5. The management team
 6. The financial requests and offered benefits
 7. Other impact information.
-
1. Company history and its present activity will include a brief description of the beneficiary company of business plan and the type of work performed by it, noting and changes that have occurred over time. This paragraph is in fact a very short visiting card of the company.
 2. The concept and business opportunity needs to attract immediately the reader's attention. This is often achieved by explaining the reason why your plan is special or unique. Identify general and specific objectives of the business, its benefits, the benefit of your product, on what is based the expectation of significant demand for your product or service, first, what differences or characteristics will lead to success.
 3. Description of the product or service will be done by highlighting its unique characteristics that make it rise above the competition. Most investors avoid imitative business, so it is important to distinguish positively in the eyes of financiers. Don't let them to believe that you are naive regarding competitors offer.
 4. Market is the place where you purchase the product/service offered by the company. The recipient of your plan must be convinced that potential customers will want and will be able to acquire the product. Don't try to hide that you have competitors! Better explain how you can win the market with the

business advantages, who your customers are, why you are the best, which is your expected market share.

5. The management team is the paragraph that will demonstrate the principles of the business management and how they will lead to the success of entrepreneurial approach. You must prove that your management team is experienced and it has the experience and ability to achieve the objectives outlined in the business plan.

Show to investor/creditor that you dispose of a credible management team with skills and experiences that complement each other.

Attention: the weakness of the proposed management team can determine shouldn't continue reading the plan.

6. The financial requests and offered benefits is a strong point in the summary document.

Even the most poorly trained investors can form a solid idea of what is a reasonable investment in your business and how much of the share capital of the company should receive for their money.

7. Other impact information contains information that wasn't included in the previous paragraphs, but as parts and impact upon the Examiner (anticipated critical points, earnings per share, etc.).

4. CONTENTS OF BUSINESS PLAN

A well constructed contents ensures that the examiner won't waste time searching through all the business plan the information in which he is most interested. Some few financiers will read the plan from beginning to end. They will run through it searching the details they need to take the financing decision. Remember this when you create content and organize it appropriate to facilitate the reading of plan.

We suggest you enter the content of business plan immediately after the plan synthesis. The most of readers will begin with the latter and then will locate the specific information they want to study them first.

The contents must present the major chapters of the business plan and it can be divided into important and enlightening subchapters. Take care that you note also the page number for each chapter and subchapters.

One possible numbering scheme involves a simple pagination, an alternative variant involving a subchapters system, such as :

- description of business
- description of the business idea;
- description of the company;
- description of company's products and services.

This format can provide a better organization for a large complex plan.

The contents will be completed after the business plan is completed. Make sure the pages of contents are numbered in an organized way, clearly and accurately. The errors careless aspect or omissions of pagination can let to the reader impression that you are careless and disorganized person. The investors are surprised by the number of

business plans that reach their offices with a contents untidy, even worse, without contents.

Also, in the case of this element of the plan there are a number of omissions or errors commonly encountered. Avoid the following mistakes that may occur in the composition of contents:

1. Chapters and/or subchapters are missing;
2. Pagination doesn't correspond to the contents of the plan;
3. The contents is spread on two pages although it enters into one;
4. The contents is too detailed and too wide;
5. The text isn't aligned uniformly and looks untidy;
6. The contents looks like you would be interested in his appearance and design, to prevent a bad initial impression, double – check the contents format and pagination before sending to investor/financier your business plan.

Synthesis and contents of the business plan represent the first two structural elements of the business plan. The synthesis of the work constitutes the component of condensed presentation of the essence of the business plan and the contents reflects the way of the organization of the work and the form of its presentation.

Although sort and seeming unimportant, they represent the “vanguard” of the work, being the first sections which are in contact with the examiner. Therefore, especially if the purpose of the plan is to get investments, of the way of structure and presentation of these two components depend the continuation of examination of the plan and granting a chance to obtain financing.

The role and importance of financial plan the financial section will be probably the first to be read after synthesis plan and CV's of founders and management team. It aims to document, justify, convince. Within argue what you said before, presenting financial statements and calculations demonstrating the viability and efficiency of the business. If financial reporting elements are carefully and skillfully prepared, they become the most important landmarks in evaluating the attractiveness of the business. While the rest of the plan contributes to the fundamental understanding of the business itself, the financial performances serve the final interests, aiming both examiner and entrepreneur. Here the investor discovers what level of earnings can be expected and the creditor knows the capability of the debtor of fulfilling his obligations.

For existing companies the financial plan should provide a complete picture of the business as an analysis of the past and present and a forecast of the future. In the case of newly created company it is important to provide insight advantageous financial expectation plan. because in these situations there is not a financial history that you can “anchor”, these projects will be characterized by a dose of uncertainty.

All items included in the financial plan must be in perfect correspondence with other sections of the business plan. For example, if you identified a seasonal trend in sales in marketing plan and in the financial plan is shown a steady monthly turn-over then this inconsistency, denoting either inattention or an incomplete understanding of the business.

In many respects the financial plan represents the least flexible part of the business plan. Regardless of the type of business there are a number of patterns to be

observed. it is necessary to present certain information in a conventional manner, this conventional approach ensuring the comparability of business in time and space. the level of details of information will vary from case to case depending on the specific circumstances, but should never fall below a well-defined limit.

REFERENCES:

- [1]. **Bișa, C.** (2006) *Elaborarea studiilor de fezabilitate și a planurilor de afaceri*, Editura BMT, București
- [2]. **Grinold, R.; Kahn, R.** (2000) *Active Portofoliu Management*, Second Edition, MacGraw-Hill, New York, Capitolul 3
- [3]. **Hawken, P.** (1995) *Cum să dezvolti o afacere*, Editura Știință și Tehnică, București
- [4]. **Popescu, D.** (1998) *Conducerea afacerilor*, Editura Scripta, București
- [5]. **Sasu, C.** (2003) *Inițierea și dezvoltarea afacerilor*, Editura Polirom, Iași