THE ANALYSIS OF COMMON MISTAKES IN PREPARING A BUSINESS PLAN

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Kuchina S. O., Kitchenko O. M. The Analysis of Common Mistakes in Preparing a Business Plan

When writing a business plan, there arise a number of unresolved issues related to its consequent implementation, which is of considerable interest and determines the relevance of the study. The need to develop theoretical and methodological support for drafting business plans has determined a range of issues that require immediate resolution at stages of its development, in particular at the stage of creating a new business ("start up"); the stage of compiling financial documents; the stage of risk assessment and developing strategies to overcome them. Based on the analysis and systematization of the existing definitions, the notion of "business plan" is generalized and a methodological scheme of its building is demonstrated. The comparison of a general structure of a business plan proposed by EBRR and UNIDO is considered and presented. It is found that common mistakes that occur at compiling a business plan include: mistakes associated with evaluation of the demand for products; mistakes at setting prices and choosing a further pricing policy; mistakes associated with underestimation of possible risks arising in the course of the business plan implementation should be mentioned. The obtained results can be applied by heads of enterprises and managers in various spheres of business and at making decisions on forming further strategies of the enterprise development.

Keywords: business plan, mistakes, strategy, demand, price, risks.


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Кітченко Е. Н., Кітченко О. М. Аналіз типових помилок при складанні бізнес-планів

Під час написання бізнес-плану виникає низка невиправданих питань, пов’язаних з його реалізацією, що становить значний інтерес і обумовлює актуальність даного дослідження. Необхідність розвитку теоретико-методичного забезпечення формування бізнес-планів визначило кілька питань, які потребують негайного вирішення на етапах його розробки, а саме: на етапі створення нового бізнесу ("Start Ups"); на етапі побудови фінансових документів; на етапі оцінки попиту і побудови стратегії їх підготовлення. Метою статті є виявлення типових помилок при складанні бізнес-планів та шлях їх уникнення. Узагальнено поняття бізнес-плану та надано методологічну схему його побудови. Розглянуто та надано порівняння загальної структури бізнес-плану, яку надають EBRR та UNIDO. Встановлено, що до основних помилок під час складання бізнес-плану належать: помилки під час оцінки величини попиту на товар, що виробляється; помилки пов’язані з встановленням ціни і вибором подальшої цінової політики; помилки, пов’язані з недооцінкою можливих ризиків, які виникають в ході реалізації бізнес-плану. Отримані результати дослідження можуть бути застосовані керівниками підприємств та менеджерами в будь-яких сферах бізнесу, а також при прийнятті рішень щодо формування підстав стратегій розвитку підприємства.

Ключові слова: бізнес-план, помилки, стратегія, попит, ціна, ризики.

Табл.: 1. Формули: 1. Бібл.: 10.

Кучина С. Е., Кітченко О. М. Аналіз типових помилок при складанні бізнес-плану

При написанні бізнес-плану виникає ряд нерешених вправ, пов’язаних з його реалізацією, що становить значний інтерес і обумовлює актуальність даного дослідження. Необхідність розвитку теоретико-методичного забезпечення формування бізнес-планів визначило кілька питань, які потребують негайного вирішення на етапах його розробки, а саме: на етапі створення нового бізнесу ("Start Ups"); на етапі побудови фінансових документів; на етапі оцінки ризиків і побудови стратегії їх підготовлення. Обґрунтовано само поняття бізнес-плану і представлено методологічну схему його побудови. Проведено порівняння об’єктів структури бізнес-плану, які надають EBRR та UNIDO. Зазначено, що до основних ошибок при компонуванні бізнес-планів належать: помилки, пов’язані з встановленням ціни і вибором подальшої цінової політики; помилки, пов’язані з недооцінкою можливих ризиків, які виникають в ході реалізації бізнес-плану. Отримані результати дослідження можуть бути застосовані керівниками підприємств та менеджерами в будь-яких сферах бізнесу, а також при прийнятті рішень щодо формування підстав стратегій розвитку підприємства.

Ключові слова: бізнес-план, помилки, стратегія, спрос, ціна, ризики.

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Nowadays the entrepreneurs who start their own business have no longer doubts that their primary task is preparing a business plan. A business plan allows to realize the overall state of affairs at the enterprise and gives an idea of the state to be achieved.

At present the volatile market environment requires that entrepreneurs had a clear understanding that sustainable development can not be achieved without careful planning of the concept of enterprise development. Drafting a business plan enables evaluating opportunities and prospects of the future business in advance. Of course, it is impossible to eliminate all mistakes, but a thoroughly developed business plan helps to minimize them. However, when writing a business plan, there arise a number of unresolved issues related to its development, which is of considerable interest and determines the relevance of this study.

To determine the errors that occur at preparing a business plan, first, it is necessary to study what a potential partner or an investor are to know to implement the business project in life. All sections of the business plan should prove its viability.

Methodology. The theoretical basis of the research is objective laws and fundamental principles of the theory of investment, investment management, business planning; scientific works and methodical developments of leading domestic and foreign scientists.

Today there are many scientific works considering a wide range of issues related to business planning at an adequate methodological level. Thus the basis of the research in the mentioned area are works by domestic scientists among which are S. F. Pokropynny, S. M. Sobol, G. O. Shvydanenko, O. G. Derevyanko [1], G. M. Tarasyuk [2], G. V. Osovskaya [3], V. M. Popov, S. I. Lyapunov [4], V. P. Burov, A. L. Lomakin, V. A. Mroshkin [5] as well as foreign specialists: K. Barrow, B. Ford, and others.

The need to elaborate theoretical and methodological guidelines for preparing business plans has defined a range of issues that require immediate resolution at stages of its development, in particular at the stage of creating a new business (“start up”), i.e., choosing the type of activities, products, partners, sources of funding, etc.; the stage of compiling financial documents in view of future revenues and expenses; the stage of assessing risks and developing strategies to overcome them.

The aim of the article is to reveal common mistakes in preparing business plans and ways to avoid them, which is achieved through the successive solving of such problems as studying definitions of the notion of “business plan”; identifying a typical structure of a business plan; considering typical mistakes in building basic structural sections of a business plan.

In modern economic literature there are many definitions of the notion of “business plan”. In particular, V. M. Popov, S. I. Lyapunov and S. G. Mlodyk define a business plan as a “statement of a line of argument that will convince investors of the project benefits; determination of the degree of viability and future sustainability of an enterprise; prediction of risks in entrepreneurial activities; specification of prospects of a business in the form of a system of quantitative and qualitative indicators of development [4, p. 13]”. S. F. Pokropynny, S. M. Sobol, G. O. Shvydanenko assert that it is “a written document setting out the nature of a business idea, ways and means of its implementation and describing market, production, organizational and financial aspects of a future business, and features of its management” [1, p. 6].

G. M. Tarasyuk interprets the notion of “business plan” as “a document that contains a system of related in time and space, consistent with the purpose and resources measures and actions aimed at obtaining maximum profits from the sale of a business idea” [2]. G. V. Osovskaya describes it as “a document that reflects basic ways of solving a problem through its thorough analysis for justification of profitability of the proposed project and attraction of potential contractors, financial partners, and highly qualified experts” [3, p. 24].

On the basis of the analysis, generalization and systematization of the existing definitions, it is possible to define the notion of “business plan” as a document which, for the purpose of approbation of a particular business idea, comprehensively describes the market, production, financial, marketing, organizational and other aspects of its implementation and justifies the expediency of investing in a new business project (or in expanding an existing business) [5, p. 219].

The methodological scheme of developing a business plan consists of principles, methods and information base (Tbl. 1).

Table 1

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<th>Principles</th>
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<th>Information</th>
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<td>Financial statements</td>
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<td>Continuity</td>
<td>Analysis and synthesis</td>
<td>Statistical reporting</td>
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<td>Orderliness</td>
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<td>Consistency</td>
<td>Optimization of target profit</td>
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Source: based on [6, p. 10].
The classic methodological developments used in the world practice definitely contribute to effectiveness of the process of business planning, but there arises a question as to why a business project that, at first glance, seems successful on paper has a disastrous performance in practice. Mistakes can occur at every stage of preparing a business plan.

The most common international standards in business planning are developed by the European Bank for Reconstruction and Development (EBRD) [7]. In general, the structure of a business plan has the following form:

1. Front page.
2. Memorandum on Privacy.
4. Description of the enterprise.
5. Project.
   5.1. General information on the project.
   5.2. Investment plan for the project.
   5.3. Market analysis, competitiveness.
   5.4. Description of the production process.
   5.5. Financial plan.
   5.6. Environmental assessment.
   6. Financing.
   6.1. Schedules of receipt and repayment of credits.
   6.2. Pledge and surety.
   6.3. Equipment and work to be financed by credit funds.
   6.4. SWOT-analysis.
   6.5. Risks and measures on their mitigation.
   7. Annexes.

The United Nations Industrial Development Organization (UNIDO) [8] proposes the following structure of a business plan:

1. Summary.
2. Description of the industry and the enterprise.
3. Description of services (goods).
4. Marketing and sales of services (goods).
5. Production plan.
6. Organizational plan.
7. Financial plan.
8. Assessment of economic efficiency of the project.
9. Risks and guarantees of the enterprise.
10. Annexes.

Having compared the basic parts of these structures, we can identify typical sections of the business plan. These include:

1. Brief description of the project.
2. Description of goods or services.
4. Production plan.
5. Organizational plan.
7. Assessment of possible risks.

According to the elaborated structure, each business plan starts with description of the enterprise where the production process will take place. First of all, in this case it is necessary to consider issues related to the constitutive documents, organizational structure, number and qualification of employees, fixed and circulating assets; to analyze the main financial and economic indicators, the state of the market to which the enterprise belongs. Insufficient or poor analysis of these indicators in the future could lead to the enterprise’s failure to implement its business plan.

Then it is appropriate to move to describing goods or services to be manufactured. For this purpose it is required to thoroughly consider the following issues: the intended use, area of application, physical parameters, name of the future goods/service; the level of their competitiveness with consideration to similar products manufactured or services provided by competitors; pre- and after-sales services. Particular attention should be paid to the possibility of export and import substitution; availability of all necessary licenses, patents and accompanying documents; terms of delivery and packaging. Be sure to consider issues related to the possibility of privileged taxation. Only after careful consideration of all these matters it is possible to proceed to marketing analysis.

Conducting marketing analysis enables making a decision on feasibility of the business plan implementation. A typical mistake at preparing this section is that the developers can not prove that the goods or services produced within the framework of this project are in a stable demand and can be sold in a competitive market. Therefore, it is necessary to consider the place of the enterprise in the market before and after the implementation of the business plan and prove that its state has considerably improved. Special attention at this stage should be paid to development of the strategy, tactics, methods and tools to create demand and stimulate sales. Certainly, it is important to resolve the issue of the advertising campaign, its scope and funding. After a thorough marketing analysis, costs associated with the advertising company should be calculated, decisions on the possibility of applying stimulus measures should be taken, and bottlenecks related to disposal of products should be identified. If after conducting the analysis the goods can be argued to be competitive and in a stable demand, risks, of course, are present, but they are acceptable and the expenses are minor, then it is expedient to develop a production plan of the project.

The marketing and competitiveness analysis also imply application of SWOT-analysis. This type of analysis provides good results, but the method is too labor-intensive. In addition, for its permanent use it needs a special unit that would collect and analyze information and conduct a constant scanning of internal and external environment of the enterprise. This is an instrument for an integrated analysis. In contrast to it some simpler methods should be used. For example, SNW-analysis can be applied to assess the internal environment.
SNW-analysis is a method that allows determining $S$ – strength – strong sides, $N$ – neutral – neutral state, $W$ – weakness – weak sides of the enterprise. To consider the issue more thoroughly, it is necessary to fill in a matrix consisting of 30 entries, each of which is estimated by a 3-point scale. Here are some of these entries:

1. Enterprise strategy.
2. Business strategy.
3. Organizational strategy.
5. Product (competitiveness).
6. Structure of costs.
7. Distribution.
8. Production level.
9. Marketing level.
11. Reputation in the market.
12. R&D, etc.

On the basis of the data obtained after the analysis of the external and internal environment, it becomes possible to build a chain of values. A value chain is a series of business processes implemented by the enterprise to ensure success of their products or services. It is an important element that needs specific consideration in the business plan.

Financial planning at the enterprise acts as an interrelated processes, one of which is determination of the future demand for financial resources required to implement the market strategy chosen by this enterprise; the other one is justification of optimal directions of their involvement” [9, p. 118]. A financial plan as part of a business plan includes calculations of all expenditures and revenues of the future business. Here it is necessary to draw definitive conclusions on profitability or unprofitability of the proposed project. In this section, first, fixed and variable costs of production, personnel costs are determined, then cost calculation and estimate of expenditure on the project are made, funding sources are specified. After that, basic financial documents, such as cash flow statement, statement of profit and loss, budgeted balance sheet can be compiled.

A mistake at conducting financial and economic calculations is that in this section the prices planned to be used in the future are not always stated. These may be the current prices, including or excluding VAT in foreign currency or UAH. The study shows that at the stage of pricing it is advisable to use the following guidelines:

- taking into account the stage of the product lifecycle;
- the price should reflect the product quality;
- the price should be a psychological one, i.e. not to be rounded, because consumers find more attractive the prices like 99 USD rather than 100 UAH;
- special attention at working with prices should be paid not to using absolute measures of price but its relative measures, for example, UAH/kg; USD/kg;

But mistakes associated with price flexibility can occur here. The most common of them are as follows [5]:

- the prices are unreasonably high;
- the change in the price does not take into account the changes in the market in which the business operates, which happens too seldom or vice versa quite often;
- the price does not correspond to the enterprise image, that is adversely affects the reputation the company and does not contribute to the sale of its products;
- consumers consider the price for the enterprise products too high.

If it is planned to use the current prices, it is necessary to take into account the inflation rate. One of possible mistakes that can be made is that there should be considered not the average inflation rate in Ukraine, but a specific one in a particular region that was determined on the basis of statistical data for the last six months. To adjust prices with consideration for the inflation rate, there usually used the following formula [5]:

$$U_1 = U_0 \left( A \cdot \frac{a_1}{a_0} + B \cdot \frac{b_1}{b_0} + B \cdot \frac{a_1}{a_0} + \Gamma \right),$$

where $U_1$ – the price of the product at the time of its actual delivery, UAH;

$U_0$ – the price of the product at the time of conclusion of the supply contract;

$A, B, \Gamma$ – the share of expenditures on materials, wages, maintenance and operation of equipment, etc. in the price of the product, respectively ($A + B + \Gamma = 100\%$);

$a_1, a_0$ – the expenditures on materials at the time of the actual delivery of products and conclusion of the supply contract, respectively;

$b_1, b_0$ – the expenditures on equipment maintenance at the time of actual supply of products and conclusion of the supply contract respectively;

$\Gamma$ – the price of the product at the time of its actual delivery, UAH;

$\Gamma$ – the price of the product at the time of conclusion of the supply contract;

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$b_1, b_0$ – the expenditures on equipment maintenance at the time of actual supply of products and conclusion of the supply contract respectively.

In this case the business plan should state that the price determined by the formula (1) is acceptable for the market in which the enterprise operates, and whether it is necessary to conduct only a partial adjustment to avoid losing the customers.

One of the errors that occur in the course of resolving the issue of pricing is not taking into account the prices of competitors, that is, it is appropriate to consider the nature of the price competition in the market. Sometimes it is necessary to set a minimum price in order to attract attention of customers, or, when working with intermediaries, to establish a minimum price acceptable for the enterprise and refuse taking the goods back in the hope that trade organizations, being guided by demand, will establish the optimal market price themselves. If the enterprise sets a fixed price, often unreasonably high, it takes the risk of failure in sales itself. Also it is possible to establish the price of indifference, at which consumers do not care about which products to purchase, those produced by the enterprise or by its competitors, but it could injure the image of the company.

One of the mistakes at the stage of final determination of the price can be neglecting the development of the system...
market conditions is a very complicated process. At the time ensuring the stability of the future business, it is necessary to pay due attention to development of measures to minimize them, development of possible guarantees to partners and investors, which can have such an impact. On the hand, increases expenditures on it. On the other hand, reduces the riskiness of the project and, on the other acceptable level, because the existence of reserves, on the one hand, increases the number of customers, suppliers and in general, the lack of understanding and studying the demand for the products manufactured. Thirdly, mistakes associated with improper assessment of risks that exist or may arise in the future. The study draws attention of enterprises to conducting a more thorough analysis of the procedure of developing a business plan and giving special consideration to the issue.

**CONCLUSIONS**

Thus, enterprise management under the current crisis conditions is a very complicated process. At the time when financial and economic capabilities of enterprises are rapidly becoming not too reliable, the role of strategic planning and management, in particular business plans, as one of the most effective marketing tools and management, is growing. The importance of using a business plan is of no doubt for modern businessmen. The study showed that there is a certain logic and structure that are followed at compiling business plans, though they have certain differences. The analysis identified a number of mistakes that occur when preparing a business plan and should be taken into account for successful operation of a future business. Firstly, mistakes caused by the lack of understanding and studying the demand for the products manufactured. Secondly, those related to assessment of competitiveness of the products and the enterprise as a whole. Thirdly, mistakes that occur in the process of making financial and economic calculations and setting prices. There also should be mentioned mistakes associated with improper assessment of risks that exist or may arise in the future. The study draws attention of enterprises to conducting a more thorough analysis of the procedure of developing a business plan and giving special consideration to the issue.

**LITERATURE**


**REFERENCES**

ДОСЛІДЖЕННЯ СТАНУ СТРАТЕГІЧНИХ ЗНАНЬ ПІДПРИЄМСТВА

Введение

Метою статті є дослідження стану стратегічних знань підприємств. Проаналізовано основні складові системи управління стратегічними знаннями. Визначено характеристики основних трьох взаємопов’язаних компонентів знань: інфраструктура знань, культура знань і технологія знань. Для процесу ефективного управління стратегічними знаннями було визначено процес формування компетенції працівників, які складають знання підприємства. Було встановлено, що для забезпечення права підприємства володіти, використовувати та розпоряджатись своїм інтелектуальним активом, а також для захисту його від несанкціонованого застосування використовуються різні методи: патентування винаходів, карантинних моделей промислових зразків; реєстрація товарних знаків; укладання ліцензійних угод; отримання авторських прав. Установлено, що основною метою управління знаннями є формування стратегічних конкурентних переваг впровадження, що впливає на ефективність використання знань підприємством, є правильно організоване система управління ними.

Ключові слова: знання, стратегія, управління, підходи, корпоративна система управління знаннями

Рис.: 1. Бібл.: 8.

Перепелюкова О. В., Куліш Н. В. Дослідження стану стратегічних знань підприємств

Перепелюкова Е. В., Куліш Н. В. Ісследований состоянія стратегичних знань підприємств

Целью статьи является исследование состояния стратегических знаний предприятий. Проанализированы основные составляющие системы управления стратегическими знаниями. Определены характеристики основных трех взаимосвязанных компонентов знаний: инфраструктура знаний, культура знаний и технология знаний. Для процесса эффективного управления стратегическими знаниями определен процесс формирования компетенции сотрудников, составляющих знания предприятия. Было установлено, что для обеспечения права предприятия владеть, использовать и распоряжаться своим интеллектуальным активом, а также для защиты его от неконтролируемого использования используются различные методы: патентование изобретений, патентных моделей промышленных образцов; регистрация товарных знаков; включение авторских прав. Установлено, что основной целью управления знаниями является формирование стратегического конкурентного преимущества, что влияет на эффективность использования знаний предприятием, а правильно организованная система управления ими.

Ключевые слова: знания, стратегия, управление, подходы, корпоративная система

Рис.: 1. Библ.: 8.

Перепелюкова Е. В., Куліш Н. В. Ісследований состоянія стратегичних знань підприємств

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UDK 338.27

UDC 338.27

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PEREPELIUKOVA O.V., KULISH N. V. Studying the Status of the Strategic Knowledge of Enterprise

The article is concerned with studying the strategic knowledge of enterprise. The main components of the system for strategic knowledge management have been analyzed. Characteristics of three main interrelated components of knowledge have been defined: knowledge infrastructure, knowledge culture, and knowledge technology. Considering the process of efficient management of the strategic knowledge, the process of formation of competitors’ workers has been determined as such that makes up the knowledge of enterprise. It was found that to ensure the right of enterprise to possess, use and dispose its intellectual asset, as well as for protection against unauthorized use different methods can be applied: patenting of inventions, utility models of the industrial designs; registration of trade marks; licensing agreements; obtaining copyrights. It was found that the main purpose of knowledge management is formation of strategic competitive advantages of organization. It has been determined that the main factor impacting the efficiency of knowledge use by enterprise is the correctly organized system for management of this knowledge.

Keywords: knowledge, strategy, management, approaches, corporate system.

Fig.: 1. Bibl.: 8.

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