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A Guide to Preparation of a Business Plan for Clusters

Component 2 – Activity 2.2.

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1. EXECUTIVE SUMMARY

The Executive Summary[1] is a brief but comprehensive synopsis of a business plan, and is written to summarise the key points of the plan by highlighting the business plan rationale and main objectives. In particular the Executive Summary should provide a clear and concise account of the following:

⇒ The Cluster
- Background of the cluster, its formation and legal status
- The position of the cluster within the supply chain
- Summary of the main goals and objectives of the cluster
- The cluster competitive advantages and its impact on the local economy
- Outline the schedule for taking the cluster from planning to operational stage
- Cluster Vision and Mission Statement to articulate in short sentences the cluster's core values and philosophy

⇒ The Product(s)
- What products and services the cluster will offer?
- What is unique about these products?
- What will make these products appealing to the market?
- How will the cluster differentiate its products in relation to: pricing, quality and continuity in supply of raw materials
- Briefly outline the plan for marketing the cluster's products/services?

⇒ The Market
- Current volume and recent growth trends for local market and targeted international markets
- Target market share and projected growth
- Description of the customer base the cluster will be targeting
- Description of the competition, if available, and the cluster's strategy for getting market share, detailing the cluster's competitive advantage

⇒ The Financing
- At least three year's projected financial statements (Income Statement, Balance Sheet and Cash Flow Statement)
- Sensitivity and scenario analyses to test the soundness of the cluster
- Specification of the funding requirements

⇒ The Management and Personnel
- Specifications of the qualifications and skill level of key staff and assessment of the expertise they bring to the cluster

[1] Sources: http://www.marsdd.com/wp-content/uploads/2010/12/The-Business-Plan-Executive-Summary-WorkbookGuide.pdf , www.shopify.com/guides/buinessplan , www.investopedia.com/university/business-plan , https://www.sa.gov.au/topics/business-industry-and-trade/starting-a-business/where-to-begin/write-a-business-plan , www.business.gov.au , http://www.bplans.com/internet_asp_business_plan/executive_summary_fc.php

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2. THE CLUSTER AND ITS OVERALL STRATEGY

This section of the Business Plan provides a more detailed description of the information given in the Executive Summary.

2.1. Cluster Aim and Purpose

Description of the cluster rationale and its objectives. Explanation of whether the cluster is responding to existing demand or it is established to create demand in its operational area. Explanation of what steps will be taken to take advantage of the need or the opportunity. The vision and mission statement of the cluster should be introduced at this stage.

2.2. Cluster Legal Structure and Approach

Introduce the legal status of the cluster. Explain details of the cluster's strategy, what growth stages are expected for the foreseeable future and the implications for the owners/members. Provide a detailed schedule for taking the cluster from the planning to the operational stage.

2.3. Organisational Structure

Description of the cluster as a business organisation; management (including the Board of Directors and executive management) and personnel.

2.4. Cluster Products

Detailed description of, the main features of the cluster's products and services.
The section should also include:

- ⇒ The cluster's strategic positioning on price, or quality or value added.
- ⇒ Analysis of potential negative features of the products, including risk mitigation strategies.
- ⇒ Rules and regulations related to the industry and the cluster actions for compliance.

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3. MARKET, MARKETING STRATEGY AND SALES

3.1. Market Analysis

This section introduces the market for the products and services to be offered by the cluster and describes how the cluster will successfully penetrate and compete in this market. It should demonstrate a thorough understanding of the market and marketing requirements for the cluster's products.

The section includes the following five analyses:

- ⇒ Sector/Industry Analysis
- ⇒ Customer Analysis
- ⇒ Competitor Analysis
- ⇒ PEST Analysis (Political, Economic, Social and Technology)
- ⇒ SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats)

3.1.1. Sector / Industry Analysis

This analysis needs to describe in detail the total current and forecasted sales of the sector, with a breakdown of what portion of the production was sold locally, what portion was exported and what portion of local sales were imports. It also needs to analyse the forecasted sales of the cluster, with a detailed breakdown of the expected proportion of local sales and exports for comparison with the sector trends.

The analysis then needs to provide the typical gross profit margins of the sector and the forecasted margins for the cluster. An analysis of the average sector profitability over a time period will help the cluster ensure the necessary steps are taken to ensure the forecasted profitability. The analysis also needs to describe the size, number and location of the competitors and describe any restrictions on sales of products/services, if any, and discuss the actions needed to overcome them. Market segmentation and segment growth trend analysis is also a crucial part of this section.

3.1.2. Customer Analysis

This section analyses the customer base, describing their expectation when they purchase the cluster's products/services. It provides an opportunity to show how well the cluster knows the markets, namely: wholesalers, retailers and end users.

3.1.2.1. *Wholesalers and Retailers*

Since Wholesalers and Retailers are able to gauge what the final consumers want, it is fundamental to analyse what is important to them and how they make their buying decisions. They will want to know what the shelf-life of the products is, the type of packaging used, frequency of deliveries, payment terms, and return & guarantee policies, where applicable.

3.1.2.2. *End-Users*

A clear understanding of the customer base and their behaviour is crucial for the cluster to optimise the design and presentation of their products/services. The analysis needs to include a detailed description of who and where the customers are, as well as their purchasing behaviour including frequency of purchases and their sensitivity to price and quality. Furthermore, for products/services that need after purchase services, it is important to know what portion of the customer base requires such a service and what they are willing to pay. All these factors should enable the cluster to gauge the overall satisfaction level of their target customers, and plan accordingly.

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3.1.3. Competitor Analysis

Good knowledge of the market and the competitors will provide the cluster with a good indication of the factors necessary/important to be successful. Therefore, the better the cluster analyses its competition, the better it will be able to realise their comparative strengths and weaknesses and take the necessary steps to get ahead of the competition.

The competitor analysis should include, but is not limited to, the quality of goods and services, reputation, customer loyalty, market share, distribution channels used, guarantees offered, financial resources, strength of the management team, and level of efficiency.

3.1.4. Political, Economic, Social, Technology (PEST) Analysis[2]

The PEST analysis is a necessary tool for understanding outside factors that affect both revenues and costs of the cluster. This macro analysis helps management make the right decision at the right time and provide management with the opportunity to tackle future challenges and highlight opportunities.

Political factors examine how laws and regulations enforced by authorities affect the economy as a whole and the cluster's ability to be profitable. Tax policy, employment law, environmental law, trade regulations, tariffs, consumer law, copyright law, antitrust law, health and safety law are areas that need to be considered. Political stability has a direct correlation with economic growth and increases the cluster's ability to make plans for the future. Authorities also have an indirect impact on the cluster via their responsibilities with respect to health, education and infrastructure.

Economic factors are macro issues that play a crucial role in decision making and influence economic performance. They include factors such as inflation, exchange rates, economic growth, interest rates, unemployment policies, access to finance, and anticipated shifts in commodity and resources costs.

Social factors help businesses examine consumers' needs and determine purchasing behaviours. These factors affect the demand for the cluster's products and how it operates as well as affecting costs such as increased labour costs in an ageing population. They include demographics, population growth rates, age distribution, career attitudes, job market trends, religious and ethical beliefs, health consciousness, emphasis on safety and lifestyle changes.

Technological factors examine how an organisation delivers its products/services to the marketplace. These factors include technological advancements, automation, rate of technological change, lifecycle of current technology and the role of the internet. The cluster also needs to consider how generational shifts, and their technological expectations are likely to affect those who will use their products and how it is delivered.

3.1.5. Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis[3]

When carried out realistically and rigorously, the SWOT analysis is a strong tool to build strategies as it helps organisations develop a full awareness of all necessary factors in decision making. Steps necessary to execute a strategy-oriented analysis involve: identification of internal (strengths and weaknesses) and external (opportunities and threats) factors using the 2x2 matrix, selection and evaluation of the most important factors, and identification of relations between internal and external features. By taking the time to put together a formalised SWOT analysis, the cluster and come up with

[2]Sources: www.wikipedia.org, www.pestleanalysis.com, www.businessnewsdaily.com
[3]Sources: www.mindtools.com, www.wikipedia.org, www.businessnewsdaily.com

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ways to better capitalise on its strengths and improve or eliminate its weaknesses, and by using matching tactics, the cluster can match its strengths to opportunities and find a competitive advantage. Internal factors need to be analysed first, as it is not possible for the cluster to take advantage of or control the external factors until it has objectively assessed the internal factors.

⇒ **Internal Factors (Strengths and Weaknesses)**

- *Financial Resources* **–** Funding, investment opportunities, sources of income
- *Physical Resources* **–** Location, equipment, facilities, building
- *Human Resources* **–** Employees, volunteers, management
- *Current Processes* **–** Employee programs, department hierarchies, software systems
- *Access to Natural Resources, Trademarks, Patents and Copyrights*

⇒ **External Factors (Opportunities and Threats)**

These influence every company, organisation or individual. Whether or not these factors are connected directly or indirectly to an opportunity or threat it is important to take note of and document each one. They include:

- *Market Trends* **–** New products and technology, or shifts in audience needs
- *Economic Trends* **–** Local, national and international financial trends
- *Funding* **–** Donations, legislature and other sources
- *Demographics* **–** Target audience's age, race, gender, and culture
- *Regulations* **–** Political, environmental and economic
- *Relationship with suppliers and partners*

3.2. Marketing Objectives

The cluster management needs to set SMART objectives for the marketing strategy to be successful.

Figure 1 - SMART Objectives

An example of a smart objective is "to increase sales by 12% in the next tax year". 100% increase, or a 12% increase in a week are not realistic or achievable targets. An open ended target is not acceptable either, i.e. 5% increase is not time-bound and should not be used as an objective. If the objective was "to increase sales", it would not be considered a smart objective as it does not have a measurable figure, and is not time bound, so therefore should not be used.

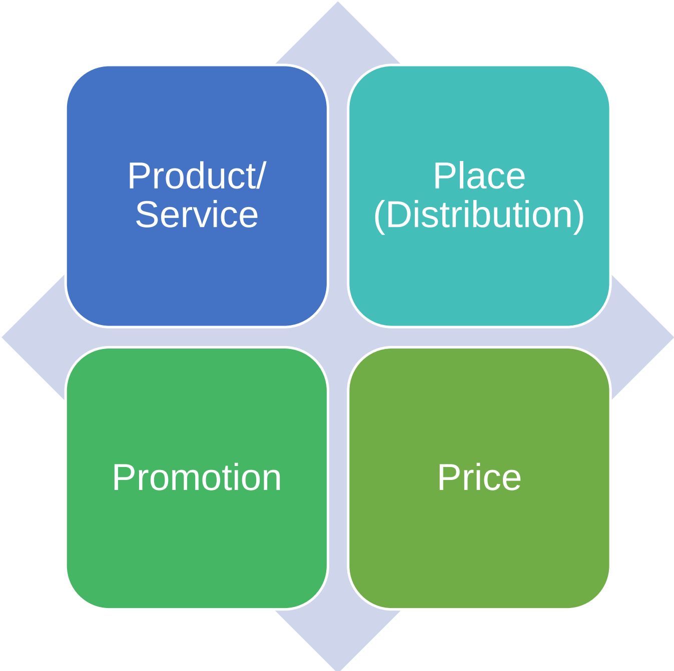
3.3. Marketing Strategy

Based on the previous section, where the market and the opportunities/threats in the market were analysed, the marketing strategy states the specific set of marketing actions the cluster is planning to take to achieve its objectives. Since market penetration and sales are crucial for the financial success of the cluster, the marketing strategy needs to clearly convey the market penetration and sales strategy and tactics. If the cluster has not started selling the products, a clear description of the launch plans needs to be presented. The strategy should have clear deadlines, performance measures and resource allocation.

It is recommended to focus on the 4 P's of the marketing mix for a successful marketing strategy:

- ⇒ Product/Service
- ⇒ Place (Distribution)
- ⇒ Promotion
- ⇒ Price

Figure 2 - The Marketing Mix (4Ps)



3.3.1. Product/Service Mix

The product/service mix is the set of goods and services the cluster provides and has an inverse proportion with the cluster's business risk i.e. the wider the product mix, the less risk of failure for the cluster. This section of the business plan needs to define the product mix, as well as brand name, service & guarantee policy, product image and etc. as risk mitigation tools. This section should cover, but is not limited to, the following:

- ⇒ Size of the product range, unique selling points and where relevant services and guarantees
- ⇒ Market segments, quantities expected to be consumed by each segment, and quality expectation of the target market segments
- ⇒ Branding and packaging of the products

3.3.2. Place (Distribution) Mix

The choice of distribution channels will be related to the image of the product and will influence the possibilities of service supplies as well as the choice of packaging. The choice of distribution channels

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will have a significant influence on the margins where the price mix is concerned. This section should cover, but is not limited to, the following:

⇒ Distribution channels
⇒ Number of retail outlets
⇒ Means and frequency of transportation
⇒ Inventory management, and storage facilities that are able to keep the goods in good condition
⇒ Information flow of the products
⇒ Services dependent on the distribution channels
⇒ Collaboration for the distribution of products e.g. franchising, monopoly for certain geographical areas, etc.

3.3.3. Promotion Mix

The promotion mix is the strategic plan aimed at raising customer awareness, generating sales and creating brand loyalty. It has the following 4 subdivisions:

3.3.3.1. *Direct Sales*

Direct sales and advertisements are commonly referred to as the communication mix, as they are both forms of direct communication with the market. Direct sales constitute, on average, approximately 60-70% of the total costs of the promotion mix, so it is considered to be the most important element. This section needs to describe in detail:

⇒ Sales force, including the recruitment and training process.
⇒ Whether sales have a geographic or product-specialised focus.
⇒ Commission structure, frequency of visits to customers, frequency of sales reports, frequency of sales results analysis, frequency of sales meetings and whether sales statistics are maintained and readily available.

3.3.3.2. *Advertisements*

Advertising is the brand/product awareness process through the paid presentation/promotion of ideas, goods or services to increase sales. This purpose is pursued by influencing the customers' attitude towards the products and services by providing information on them through mass media. This section should cover the following:

⇒ Advertising budget.
⇒ Advertising media to be used (print ads, TV, billboards, radio, direct mail, brochures, catalogues, signs, posters, mobile apps, web pages, banner ads, emails).
⇒ How much advertising the business does at the moment.
⇒ Are advertising activities carried out professionally? If yes, what is the process to select the agency?
⇒ Time planning of advertising campaigns.
⇒ Advertising effects. Are they measured? How and who by are they measured?

3.3.3.3. *Promotions*

These are marketing activities used to support direct sales and advertisements, and can include free samples, brochures, special offers, displays for retail stores, etc. The following need to be considered:

⇒ Gifts purchased for business relations

⇒ Special price offers
⇒ Involvement of middle-men in promotions
⇒ Compliance with legal requirements

3.3.3.4. *Public Relations*

Public relations is the practice of managing the spread of information, through good and positive publicity, between the cluster and the public to improve the image of the cluster. In other words, public relations are the idea of creating coverage for clients for free.

The aim of public relations is to inform the public, prospective customers, investors, employees and other stakeholders and ultimately persuade them to maintain a certain view of the cluster. The cluster management will need to determine the role of the Board of Directors in the PR activities, and whether financial indicators will be used for PR purposes.

The following are some of the points that will bring success in public relations:
⇒ Good long-term contacts with the press
⇒ Information meetings e.g. open days for visitors, excursions, etc.
⇒ Good contacts with local authorities and other local organisations
⇒ Public celebration of the cluster's anniversaries and public product launch events

3.3.4. Price Mix

Price is the only revenue generating element of the 4 Ps, the rest being cost centres. However, the other 3 Ps will contribute to decreasing the price elasticity and so enable price decreases to drive greater revenue and profits. Pricing should help achieve financial goals of the cluster, fit the realities of the marketplace, support a product's market positioning and be consistent with the other variables in the marketing mix. Taking all of these into consideration, decisions relating to pricing policy are the most complicated aspects of the marketing mix since they involve many factors such as: the objectives of the cluster, the external environment (customers, competitors, distributors, retailers, authorities, etc.), the internal environment (e.g. operational cost factors, internal bottle-necks etc.), and the other factors in the marketing mix. To make sure all of these are addressed, the following questions could be used as a checklist:

⇒ What are the price levels and how do they compare with your competitors?
⇒ Are there any special price actions?
⇒ Are there any systems of price reductions (e.g. on volume, seasonality, etc.)?
⇒ Are there any performance bonuses?
⇒ Is there a policy for price differentiation?
⇒ Are there any special payment terms?

3.4. Sales Plan

The description of the market in combination with the market strategy provides the base for the sales plan of the cluster. This plan generally covers the sales of the selected products/services in the selected market segments, over the next 3 years (quantities, prices, amounts) for each year as per the example:

Figure 3 –Sales Plan

Year 1	Market 1	Market 2	Market 3	Total

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	Q.	P.	A.	Q.	P.	A.	Q.	P.	A.	Q.	P.	A.
Product 1												
Product 2												
Service 1												

4. PRODUCTION AND OPERATIONS

4.1. Manufacturing and Operations

Operations is the execution stage so it is about how the cluster will create and deliver its product/services and it will have a direct influence on the company's cash flow forecast. Operations covers a lot of ground including: sourcing raw materials, recruitment of personnel, purchasing equipment, acquiring facilities, and shipping/delivering finished goods. Operations is effectively how the cluster's daily operations work, so it will be different for a manufacturer, a retailer or a service cluster. Key components of the Operations section of the Business Plan should include:

Location

This section needs to cover the location of the cluster, describing the surrounding area together with the location's advantages and disadvantages – detailing the cluster's plans to counteract these negatives. State whether the cluster owns the property, providing the terms of the mortgage or lease, the monthly payment, length of the term of mortgage or lease, and any early termination clauses. These details should be covered in this sections:

⇒ Area (m^2) and layout of the property
⇒ Type of loading area for deliveries (if applicable)
⇒ Number and location of parking spaces
⇒ Accessibility from major roads, access to utilities
⇒ Nearby businesses
⇒ Storage space for raw materials
⇒ Storage space for finished products

Provide an analysis of the major fixtures and equipment required by the cluster, describing how they work with the space. Explanation of how long the cluster will be able to stay in these premises, and detail of any potential extension or moving plans in line with expansion plans.

Supply and Inventory Management

This section introduces the suppliers, detailing their reputation, credit terms (if available) and the terms the cluster has with them and explaining whether the cluster has multiple options or it is beholden to a single supplier. If the cluster has a single supplier, it will lose its bargaining power and there will be a big risk of having shortages.

Having a good long-lasting relationship with suppliers will help the cluster have an effective inventory management. Too much inventory will mean the cluster is tying up cash unnecessarily and this ineffective cash management could cause the operations to suffer in another area. If the cluster has too little inventory, it will miss out on sales which could cause some customers to leave as they would be under the impression that the cluster is unreliable. Also, through having a good relationship with its suppliers, the cluster will be able to manage major influxes in demand.

Production and Distribution

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This section explains the production process, detailing what, how and how much the cluster will produce and how long it will take to produce each unit. The technologies used and any outsourcing in place need to be mentioned in this section, detailing upgrades for the future. Lastly, elaborate on what methods of quality control the cluster is planning to implement, both during and after production.

Define the cluster sales and distribution strategy, detailing all arrangements that will need to be in place. As a summary, this section should signal to the reader that management has a good handle of running the cluster and has a contingency plan in place to account for uncertainties in the marketplace.

If the cluster adapts the Strategic Facility Planning (SFP)[4] approach, the management would need to understand the cluster's mission, vision, values and goals, analyse the range of future possibilities, develop plans that meet the long range needs of the cluster; and take actions as planned.

The SFP identifies the type, quantity and location of spaces required to fully support the cluster's business initiatives and should be formed within the cluster's vision. The SFP includes 3 primary components:

1. An understanding of the cluster's culture and core values and an analysis of how existing and new facilities must manifest that culture and core values within the physical space or support their change.
2. An in-depth analysis of existing facilities – including location, capability, utilisation and condition.
3. Achievable and affordable approved plan that translates the goals of the business plan into an appropriate facility response.

4.2. Production Plan and Output Calculations [5]

Production planning is the administrative process responsible for efficient planning, scheduling and coordination of all production activities to make sure that sufficient raw materials, staff and other necessary items are procured and ready to create finished products according to the schedule specified, with an aim to maximise profitability while maintaining a satisfied customer base.

⇒ ***Planning Phase***
The planning phase involves demand forecasting and translating the demand forecast into a production plan that optimises the cluster's objective, which is usually to maximise profits while in optimising customer satisfaction.

⇒ ***Scheduling Phase***
The plan is translated into a detailed, usually day-by-day schedule of products to be made in the scheduling phase.

⇒ ***Coordination Phase***
In the coordination phase, the actual output is compared with the scheduled product output, and this information is used to adjust the production plans and production schedules.

[4] Source: www.ifma.org
[5] Sources: www.encyclopedia2.thefreedictionary.com , www.businessdictionary.com

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4.3. Production Factors

In calculating the financial performance of a new plant or renovated existing facility, some input factors are directly related to production volume and others are related to operating time.

4.3.1. Production Input Factors and By-Products

The following factors are particularly important in considering the proportional inputs and by-products generation:

4.3.1.1. *Input consumption*

Basic raw materials
The output has the highest correlation with the basic raw materials.

Production related additives
These "additives" are any external raw material required for production of the final output. The proportion for each additive should be calculated so optimum inventory can be held in stock.

Non-proportional inputs
Similar to the additives discussed above, the non-proportional inputs should be examined carefully for optimum inventory stock.

Energy (gas, electricity, etc.)
Clusters in operation will have a constant ratio for energy requirements for a single unit of output. Newly set up clusters should try and understand the energy requirements of the machinery and

Water
The water rates have potentially gained materiality with the latest developments in the TCc. Therefore, the cluster needs to understand the water requirements for the final output and day to day operations, and include these rates in their forecasting, where material.

Wear and tear parts
The wear and tear process has a high degree of correlation with production rates. Therefore, cluster management should be able to have a spare parts factor to include in budgeting.

Packaging
Even if the package sizes are not uniform, the operational plan would give the management a clear idea of how much packaging they shall need in the forecasting period.

4.3.1.2. *By-products*

Commercial by-products
All by-products should be analysed for their saleability. The cluster should search avenues to sell any commercial by-products and include the revenues forecasted on the revenue side of the forecast.

Other commercial waste
The cluster needs to dispose the commercial waste in line with the rules and regulations. Therefore, the cost of disposal needs to be included on the cost side of the forecast. If there is any commercial value of the waste, this needs to be analysed and included on the revenue side.

Non-commercial waste
Anything that has no commercial value should be carefully disposed and the cost of disposal should be included on the cost side.

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4.3.2. Fixed (non-proportional) Production Factors

All inputs that do not have a direct proportion with the production output need to be considered in this section. Examples of non-proportional factors include, but are not limited to:

⇒ Salaries for plant operators,
⇒ Plant cleaning and consumption of spare parts where wear and tear is not proportionate to production,
⇒ Regular service and maintenance costs,
⇒ Insurance,
⇒ Public authority inspection fees,
⇒ Any annual permit fees,
⇒ Staff facilities (canteen, locker rooms, etc.),
⇒ Legal issues (taxation, etc.).

5. TECHNOLOGY AND INVESTMENTS

5.1. Design and Development Plans

This section of the business plan explains the strategy for investments in buildings, facilities and equipment. In line with section 4, this section needs to provide a clear picture of the type and extent of the activity to be operated in the future, including any foreseen expansion plans.

5.1.1. Local Infrastructure

The following list is needed to assist in determining the cost factors of importance for evaluation of the cluster's physical site:

⇒ Water supply for present and future use,
⇒ Electricity,
⇒ Telecommunications,
⇒ Environmental restrictions,
⇒ Sewerage,
⇒ Support service availability e.g. electricians, plumbers, etc.

5.1.2. Timeline

This section explains the time it will take for the construction of building/facilities and implementation of equipment in a step by step approach.

5.2. Purchase of Production Equipment

The actual catalogue price of equipment purchased, together with the delivery and assembly costs need to be included in this section so they can be used in the finance section correctly.

5.2.1. Machinery/Equipment Investment Planning

Details of the machinery and equipment to be purchased need to be provided in this section. The costs include customs, shipping, transportation insurance, maintenance costs (spare parts and tools needed for maintenance).

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5.2.2. Facility Investment Planning

This section explains if there is a need for updating the facility the cluster operates in to accommodate the production including the timeline, full investment costs. The cluster may achieve optimum results by using Systematic Layout Planning (SLP)[6]. The SLP requires the following steps:

1. Document the present operation: Document the material and information flow and then develop improved / ideal / optimum flows.
2. Develop a log of square footage requirements in line with the growth plans.
3. Define all activities that will take place on the premises: Assess the growth rate in each activity and the growth's effect on space requirements. A 10% growth in the activity may need 5% extra space or 20% extra space. Next, assess how close these activities need to be for improved efficiency.

The advantage of using the SLP is to ensure that the final product was derived from a group effort by all the participating stakeholders on the project. Making sure that the production and operations section have a correctly filled flowchart will make this section easy to understand.

5.2.3. Pre-Operational Investments

The cluster management needs to take into account the pre-operational costs of the property, plant and equipment. These include in-site assembly, start-up assistance, and training for machine operators, follow-up inspection, special tools, recommended on-site stock of spare parts, legal services, interest on credit arranged by the supplier and interest on advance payment to the supplier.

6. ORGANISATIONAL PLAN

It is important to describe the managers and employees that will execute most of the operations plan, what their qualifications are and what their responsibilities will be, including an organisational chart showing the hierarchical structure of the cluster. Since this section is a more detailed version of section 2.3, explain how the cluster will be structured, what legal form of ownership and the chain of command. It also needs to detail the cluster's management philosophy and business culture and how these will contribute to the cluster's success.

The organisational plan should provide names and professional description of each member of the board of directors and manager the cluster will employ, including their roles and responsibilities are and their previous work experience. In addition to management, the section should explain who the key employees are, what they will be doing and what qualifications they have in order to excel at their positions. Also the section should include a personnel plan as shown below, and detail the necessary qualification for each role in a separate table.

Figure 4 - Personnel Plan

Personnel Plan	Year 1	Year 2	Year 3
Management	€24,000	€24,000	€24,000
Operational staff	€60,000	€60,000	€60,000

[6] www.vanmell.com

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Administrative support	€18,000	€18,000	€18,000
Consulting services	€10,000	€0	€0
Training	€7,500	€0	€0
Total Wage Bill	**€119,500**	**€102,000**	**€102,000**
Total Number of Employees	10	8	8

6.1. Legal Structure[7]

In general, there are 6 different issues that distinguish business forms:

⇒ Taxation
⇒ Liability
⇒ Risk and control
⇒ Continuity of existence
⇒ Transferability
⇒ Expense and formality

In this section be detailed the pros and cons of the legal structure chosen for the cluster with respect to the 6 issues presented above.

6.2. Organisational Structure[8]

The organisational structure determines how the roles, power and responsibilities are assigned, controlled and coordinated and how information flows between different levels of management. The choice of organisational structure depends on the cluster's objectives and strategy and should reflect the culture of the cluster.

There are four types of organisational structure:

1. ***Functional***
   Functional organisational structure is traditional way of organising the personnel by function, which also provide the opportunity to break up the workforce based on their specialisation. This form of structure is best suited as a producer of standardised goods and services at a large volume and low cost.
   While strategic decision making is faster due to the fact that it has to go through a smaller approval channel, functional organisational structures discourage creativity and innovation, which can make it harder for the cluster to adopt to changing conditions in the marketplace.

2. ***Divisional***
   The divisional structure is common in large entities and if the cluster were to use this form of organisational structure, it would structure the leadership team based on the products, projects or subsidiaries it operates.
   The advantages of divisional structure is that the performance can be directly measured as there is delegated authority, which results in high employee morale and better performing

[7] Source: http://www.quickmba.com/law/org/
[8] Source: www.wikipedia.org, www.businessdictionary.com, www.investopedia.com

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managers. Using a divisional structure tends to make coordination between different divisions more efficient and provides greater flexibility to respond when there is a change in the market. A potential disadvantage of using a divisional structure is that it could create great rivalries among divisions, which could put the emphasis on divisions rather than the cluster, resulting in duplication of resources and efforts. Also, as the cluster and the divisions get bigger in size, it will require more qualified managers to handle the tasks in hand, which will increase costs.

3. ***Flatarchy***
   Flatarchy is the most common structure adopted by start-ups. As the name suggests, the hierarchy and chain of command are flattened, giving the employees a lot of autonomy. In a flatarchy, implementation takes place very quickly and efficiently.

4. ***Matrix***
   In a matrix structure, employees are matrixed across different superiors, divisions or departments. An employee, for example, might have duties in both sales and customer services. Once management decides on the organisational structure that best suits the cluster, an organisational chart showing reporting lines and divisions/functions should be included in this section.

6.3. Corporate Governance[9]

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to legitimate stakeholder concerns such as sustainable environmental and social development. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities.

The OECD Principles of Corporate Governance provide the framework in this area, identifying the key practical issues: the rights and equitable treatment of shareholders and other financial stakeholders, the role of non-financial stakeholders, disclosure and transparency, and the responsibilities of the Board of Directors. The OECD Principles are universally applicable to all types of corporate governance systems in countries at all levels of economic development. The TAT recommends the cluster to use the OECD Principles (Annex 2[10]) as a guideline to implement sound corporate governance.

6.4. Management (Board and Executive Management Team)

The management team is critical to the success of the cluster business activities. The strength of the management team is crucial in an investment decision. This section should demonstrate that the management team is skilled in the areas of marketing, finance and production. A description of the skills and qualifications of individual Board members should be included in this section as they form part of the decision making power in the organisation.
The management plan should answer questions, as a checklist, such as:

[9] Source: www.ifc.org
[10] Annex 2: OECD Principles of Corporate Governance

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- ⇒ How does your background/business experience help you in this business?
- ⇒ What are your weaknesses and how can you compensate for them?
- ⇒ Who will be on the management team?
- ⇒ What are their strengths/weaknesses and their duties?

6.5. Personnel[11]

Employee and related expenses constitute one of the biggest costs for a lot of start-ups. The personnel plan should take into account both the number of people to be employed and timing. Timing is of extra importance if there is seasonality in the cluster's operations. The personnel plan should be in line with the sales and operational plans. The plan should clearly define the roles that will need to be filled, including the qualifications needed for each role and have a cost breakdown, including all related taxes and social security payments, as shown in the figure below.

Your personnel plan should answer questions, as a checklist, such as:

- ⇒ Current personnel needs
- ⇒ Plans for hiring and training personnel
- ⇒ The remuneration package, detailing salaries, benefits and holidays

6.6. Members

Established clusters need to disclose their current members in this section, including their participation rates.

6.7. Conditions for Membership

The cluster needs to set up rules for membership in line with the cluster's values and vision. These rules for membership also need to ensure production, and therefore voting rights etc., are not monopolised.

7. FINANCE

This section of the business plan demonstrates two points. Firstly, it should show that the cluster is attractive enough for the participants to consider starting, given the risks involved. Secondly, it needs to convince the potential investor that their investment is sound.

Broadly speaking, the pro-forma Income Statement satisfies the first of these requirements, and the pro-forma Cash Flow Statement the second.

7.1. Preliminary Tasks for Financial Analysis

Financial Objectives

List of the cluster's key financial objectives, whether they are in the form of sales targets or profit targets. If there are potential efficiencies that would result in cost reduction opportunities, they should be detailed

[11] Source: http://www.masterplans.com/help/business-plan-section-personnel-plan, http://www.bplans.com/personnel_management_business_plan/management_summary_fc.php

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in this section as well. For example, solar energy should be considered for clusters with high energy bills.

Assumptions
List of all relevant assumptions related to finances. These can include seasonal adjustments, drought, economy or interest rates, etc. Make sure to cover these items in the risks section as well.

Type of Financing
Details of the different types of financing available for the cluster and justify the financing decision made in detail. The cluster might need:

⇒ Short-term working capital loan to increase your inventory
⇒ Intermediate-term loan to purchase larger assets such as equipment
⇒ Long-term loans to acquire property or plant

Frequency of Planning Period
The time horizon might need to be subdivided into appropriate intervals to illustrate the development of the project. The Income Statement and the Balance Sheets are usually prepared on an annual basis, but the Cash Flow Statement might need to be prepared on a monthly basis for at least the first year to show funding requirements.

7.2. Financial Statements

Prepare Financial Statements (Income Statement, Cash Flow Statement and Balance Sheet) for the planning period, which is usually 5 years. If there is already a feasibility study in hand, there would be a cost-benefit analysis for 10 years in the feasibility study.

7.3. Economic Analysis[12]

The main objective of conducting a project economic analysis is to help not only to assess the sustainability of investment projects but also to inform the design and select projects that can contribute to a sustainable improvement in the welfare of project beneficiaries, and the country as a whole. Economic analysis is a means to help bring about a better allocation of resources that can lead to enhanced incomes for investment or consumption purposes. Therefore, it is best undertaken at the early stages of the project cycle to enable decision makers to make an informed decision on whether to undertake a particular investment given various alternatives and their corresponding costs.

The tools of economic analysis can help answer various questions about the project's overall effect on society, on various stakeholders/beneficiaries, its fiscal aspects and about the project's risks and sustainability. For example, economic analysis can help determine whether the rationale for public sector intervention is justified. It can help in estimating the project's fiscal impact and inform government/implementing agency accordingly; it can also determine whether there is scope for cost recovery and that arrangements are efficient and equitable. In addition, it can help in assessing the project's potential environmental impact and contribution to poverty reduction.

While each sector has a different set of problems that needs to be addressed, the basic principles of economic analysis can still be applied. The analytical approach and data requirements would have to

[12] Source: https://www.adb.org/data/economic-research-initiatives/economic-analysis-projects

be adapted or tailored to the specific project. The key here is to select the appropriate level of analysis to inform project decision making.

7.4. Financial Analysis

Clusters which have not carried out a feasibility study need to prepare a financial analysis. Clusters that have the financial analysis in the feasibility study need to carry out a project analysis.

Financial analysis[13] can be conducted in both corporate finance and investment finance settings. In corporate finance, the analysis is conducted internally, using such ratios as net present value (NPV) and internal rate of return (IRR) to find projects worth executing. A key area of corporate financial analysis involves extrapolating a company's past performance, such as gross revenue or profit margin, into an estimate of the company's future performance. This allows the business to forecast budgets and make decisions based on past trends, such as inventory levels.

The financial analysis section of the business plan should cover the following:

⇒ ***Costing of a sample product***
The price of a unit of product should refer to the pricing assumptions in the marketing section of the plan. The costs are the direct costs of production associated with each unit of sales as discussed in the operations and production sections.

⇒ ***Explanation of overhead assumptions***
The non-direct costs will be shown as expenses in the projected profit and loss accounts. An explanation should be provided as to how these costs were estimated.

⇒ ***Explanation of the sales assumptions***
The projected growth in sales must be justified by reference to the marketing section.

⇒ ***Comments on the profitability forecasts***
The safety margin provided by the forecasted growth need to be analysed in this section.

⇒ ***Explanation of the cash flow assumptions***
The cash flow forecast uses the same information as the profitability forecasts

⇒ ***Comments on the cash flow forecasts***
This section expresses a view as to whether the bottom line of the forecast – the projected cash balance for each month – offers a sufficient safety margin for unforeseen contingencies.

⇒ ***Proposed method of the financing plan***
The cash flow forecast will indicate the level of funding which is required to support the proposal. The narrative should indicate how this is to be met and from which sources. A justification of the reasons for the elements of the financial package should be made.

⇒ ***Safety margins***
This section should attempt to identify possible eventualities, which could result in the failure or the plan, in addition to safety margins in the profit & loss account and cash flow forecasts. A justification of the reasons for the elements of the financial package should also be made.

[13] Source: www.investopedia.com

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7.5. Break-Even Analysis[14]

Break-even analysis entails the calculation and examination of the margin of safety for an entity based on the revenues collected and associated costs. It also is a rough indicator of the earnings impact of a marketing activity. A firm is able to analyse their ideal levels of output and therefore be knowledgeable on the amount of sales and revenue they need to generate in order to meet and surpass the break-even point and ensure the survival of the business. If this level is not met, it often becomes difficult for the business to continue to operate and thus they may have to shut down their operations. From a demand side, analysing different price levels relating to various levels of demand, an entity uses break-even analysis to determine what level of sales are needed to cover total fixed costs. A demand-side break-even analysis would give a seller greater insight regarding selling capabilities.

The break-even point is one of the simplest, yet least utilized analytical tools by a business's management team. Identifying a breakeven point helps to provide a dynamic view of the relationships between sales, costs, and profits made. For example, expressing break-even sales as a percentage of actual sales can give managers a chance to understand when to expect to break even (by linking the percent to when in the week/month this percent of sales might occur).

The break-even point is a special case of Target Income Sales, where Target Income is 0 (breaking even). This is very important for financial analysis. Any sales made past the breakeven point can be considered profit (after all initial costs have been paid).

Break-even analysis can also provide data that can be useful to the marketing department of a business as well, as it provides financial goals to the business which can be passed down to marketers in order to try and increase sales.

Not only is the break-even analysis beneficial to the financial side of the business, but it can also provide a chance for operating businesses to see where they could re-structure or cut costs and get the optimum results out of the resources that they have. This may in the long term help the business become more effective and achieve higher returns. In many cases, if an entrepreneurial venture is seeking to get off of the ground and enter into a market it is advised that they formulate a break-even analysis to suggest to potential financial backers that the business has the potential to be viable and at what points.

Margin of safety

Margin of safety represents the strength of the business. It enables a business to know what the exact amount it has gained or lost is and whether they are over or below the break-even point. In break-even analysis, margin of safety is the extent by which actual or projected sales exceed the break-even sales.

Margin of safety = (current output - breakeven output)

Margin of safety% = (current output - breakeven output)/current output × 100

When dealing with budgets "Current output" is replaced with "Budgeted output." If P/V ratio is given, then profit/PV ratio.

[14] Source: www.wikipedia.org , www.investopedia.com

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7.6. Ratio Analysis[15]

A ratio analysis is a quantitative analysis of information contained in a company's financial statements, which helps investors understand the cluster's forecasted profitability, liquidity, debt, operating performance, cash flow and investment valuation. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item – or a combination of items - to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. The trend of these ratios over time is studied to check whether they are improving or deteriorating. Ratios are also compared across different companies in the same sector to see how they stack up, and to get an idea of comparative valuations. Ratio analysis is a cornerstone of fundamental analysis. All formulae are provided in Annex 1[16].

Ratios are usually only comparable across companies in the same sector, since an acceptable ratio in one industry may be regarded as too high in another. For example, companies in sectors such as utilities typically have a high debt-equity ratio, but a similar ratio for a technology company may be regarded as unsustainably high. Certain ratios are closely scrutinized because of their relevance to a certain sector, as for instance inventory turnover for the retail sector and days sales outstanding (DSOs) for technology companies.

7.6.1.1. *Liquidity Ratios*

Liquidity ratios analyse the ability of a company to pay off both its current liabilities as they become due as well as their long-term liabilities as they become current. In other words, these ratios show the cash levels of a company and the ability to turn other assets into cash to pay off liabilities and other current obligations.
Liquidity is not only a measure of how much cash a business has. It is also a measure of how easy it will be for the company to raise enough cash or convert assets into cash.

⇒ ***Quick Ratio***
The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short-term. Cash, cash equivalents, short-term investments or marketable securities, and current accounts receivable are considered quick assets.

⇒ ***Current Ratio***
The working capital ratio, also called the current ratio, is a liquidity ratio that measures a firm's ability to pay off its current liabilities with current assets. The working capital ratio is important to creditors because it shows the liquidity of the company.

⇒ ***Times Interest Earned Ratio***
The times interest earned ratio, sometimes called the interest coverage ratio, is a coverage ratio that measures the proportionate amount of income that can be used to cover interest expenses in the future.

7.6.1.2. *Solvency Ratios*

[15] Source: http://www.myaccountingcourse.com/financial-ratios
[16] Annex 1: Formulas to be used in the Financial Analysis

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Solvency ratios, also called leverage ratios, measure a company's ability to sustain operations indefinitely by comparing debt levels with equity, assets, and earnings. In other words, solvency ratios identify going concern issues and a firm's ability to pay its bills in the long term. Many people confuse solvency ratios with liquidity ratios. Although they both measure the ability of a company to pay off its obligations, solvency ratios focus more on the long-term sustainability of a company instead of the current liability payments.

⇒ ***Debt to Equity Ratio***
The debt to equity ratio shows the percentage of cluster financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

⇒ ***Equity Ratio***
The equity ratio is an investment leverage or solvency ratio that measures the amount of assets that are financed by owners' investments by comparing the total equity in the cluster to the total assets.

⇒ ***Debt Ratio***
Debt ratio is a solvency ratio that measures a firm's total liabilities as a percentage of its total assets. In a sense, the debt ratio shows a cluster's ability to pay off its liabilities with its assets. In other words, this shows how many assets the cluster must sell in order to pay off all of its liabilities.

7.6.1.3. *Efficiency Ratios*

Efficiency ratios also called activity ratios measure how good companies utilise their assets to generate income. Efficiency ratios often look at the time it takes companies to collect cash from customer or the time it takes companies to convert inventory into cash—in other words, make sales. These ratios are used by management to help improve the company as well as outside investors and creditors looking at the operations of profitability of the company.

⇒ ***Accounts Receivable Turnover Ratio***
The accounts receivable turnover ratio measures how many times the cluster can collect its average accounts receivable during the year.

⇒ ***Asset Turnover Ratio***
The asset turnover ratio is an efficiency ratio that measures the cluster’s ability to generate sales from its assets by comparing net sales with average total assets. In other words, this ratio shows how efficiently the cluster can use its assets to generate sales.

⇒ ***Inventory Turnover Ratio***
The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. In other words, it measures how many times the cluster sold its total average inventory dollar amount during the year.

⇒ ***Days Sales in Inventory***

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The days-sales in inventory calculation, also called days-inventory outstanding or simply days in inventory, measures the number of days it will take a company to sell all of its inventory. In other words, the days-sales in inventory ratio shows how many days the cluster's current stock of inventory will last.

7.6.1.4. *Profitability Ratios*

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how good companies can achieve profits from their operations.

⇒ ***Gross Margin Ratio***

Gross margin ratio is a profitability ratio that compares the gross margin of a business to the net sales. This ratio measures how profitable a company sells its inventory or merchandise. In other words, the gross profit ratio is essentially the percentage mark-up on merchandise from its cost. This is the pure profit from the sale of inventory that can go to paying operating expenses.

⇒ ***Profit Margin Ratio***

The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each dollar of sales generated by comparing the net income and net sales of a company. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by the business.

⇒ ***Return on Assets Ratio***

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

⇒ ***Return on Capital Employed***

Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many dollars in profits each dollar of capital employed generates.

⇒ ***Return on Equity***

The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders' investments in the company. In other words, the return on equity ratio shows how much profit each dollar of common stockholders' equity generates.

7.6.1.5. *Cash Conversion Cycle*

The cash conversion cycle is a cash flow calculation that attempts to measure the time it takes a company to convert its investment in inventory and other resource inputs into cash. In other words, the cash conversion cycle calculation measures how long cash is tied up in inventory before the inventory is sold and cash is collected from customers.

7.6.1.6. *DuPont Analysis*

The DuPont analysis also called the DuPont model is a financial ratio based on the return on equity ratio that is used to analyse a company's ability to increase its return on equity. In other words, this model breaks down the return on equity ratio to explain how companies can increase their return for investors. The DuPont analysis looks at three main components of the ROE ratio: Profit Margin, Total Asset Turnover, and Financial Leverage.

Based on these three performances measures the model concludes that a company can raise its ROE by maintaining a high profit margin, increasing asset turnover, or leveraging assets more effectively. This model was developed to analyse ROE and the effects different business performance measures have on this ratio. So investors are not looking for large or small output numbers from this model. Instead, they are looking to analyse what is causing the current ROE. For instance, if investors are unsatisfied with a low ROE, the management can use this formula to pinpoint the problem area whether it is a lower profit margin, asset turnover, or poor financial leveraging.

7.7. Financial Conclusion and Funding Requirements

Figure 5 - Funding Sources

Source of Funds	Amount (€)	Percentage
Investors	€43,000	48%
Partners	€17,000	19%
Grants	€17,800	20%
Loans	€12,000	13%
Total	**€89,800**	**100%**

8. RISK ANALYSIS

Risk analysis, in a broad definition, is a process that helps you identify and manage potential problems that could undermine key business initiatives or projects. A useful construct is to divide risk analysis into two components:

1. Risk assessment, which includes identifying, evaluating, and measuring the probability and severity of risks
2. Risk management, which is the process of deciding what to do about the risks.

8.1. Operational Risk[17]

Operational risk is the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk) differ from expected losses. Operational risk is not fully diversifiable and cannot be laid off as long as people, systems and processes remain imperfect. However, it is manageable as to keep losses within some level of risk tolerance determined by balancing the costs of improvement against the expected benefits. Operational risk management provides the following benefits:

1. Reduction of operational losses

[17] Sources: www.wikipedia.org , www.investopedia.com

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2. Lower compliance/auditing costs
3. Early detection of unlawful activities
4. Reduced exposure to future risks

Basel II (regulations for financial sector) defines 7 (seven) event types for operational risk:

1. Internal Fraud
2. Eternal Fraud
3. Employment Practices and Work Safety
4. Clients, Products, and Business Practice
5. Damage to Physical Assets
6. Business Disruption and Systems Failures
7. Execution, Delivery and Process Management

The recommended Operational Risk Management (ORM) methodology for the cluster is in Depth ORM:

1. Establish context
2. Risk assessment
   a. Risk identification
   b. Risk analysis
   c. Risk evaluation
3. Risk treatment
4. Monitor and Review

8.2. Strategic Risk[18]

Strategic risk is a possible source of loss that might arise from the pursuit of an unsuccessful business plan e.g. making poor business decisions, substandard execution of decisions, inadequate resource allocation, and failure to respond well to changes in the business environment. Development of good and consistent management information is the most efficient way to monitor and mitigate strategic risk. Things to consider while analysing strategic risk are as follows:

- ⇒ Demand shortfall
- ⇒ Customer retention
- ⇒ Integration problems
- ⇒ Regulation
- ⇒ Pricing pressure
- ⇒ Research and development
- ⇒ Industry / Sector downturn

8.3. Political Risk[19]

Political Risk is the risk is the risk that political decisions, events or conditions will significantly affect the profitability of the cluster or the expected value of a given economic action. Instability affecting investment returns could stem from a change in government, legislative bogies, other foreign policy or

[18] Sources: www.pwc.com/publications_strategic_risk_management , www.wikipedia.org , www.investopedia.com
[19] Sources: www.investorwords.com, www.wikipedia.org, www.investopedia.com

military control. Examples include taxes, spending, regulation, currency valuation, trade tariffs, labour laws such as minimum wage and environmental regulations.

8.4. Legal and Regulatory Risk[20]

Legal risk is the risk of loss to an institution which is primarily caused by:

1. Defective transaction
2. A claim
3. Change in law
4. Failing to take appropriate measures to protect asses (e.g. intellectual property)

Regulatory risk is the risk that a change in laws and regulations will materially impact the cluster. A change in laws or regulations can increase the costs of operating a business, reduce the attractiveness of the products and change the competitive landscape.

8.5. Liquidity Risk[21]

Liquidity risk is the risk that the cluster will not be able to meet short or long term debt obligations. Liquidity measurement ratios help us decide the level of liquidity risk. When the cluster has too much liquidity risk, it must sell assets, bring in additional revenue or find another method of shrinking the difference between available cash and debt obligations.

8.6. Financial Risk

Financial risk[22] has three main forms:

1. ***Interest rate risk***
   This is the probability that the market interest rates will change significantly resulting in adverse valuation on Balance Sheet items, providing a loss to the cluster.
2. ***Currency risk***
   This is the uncertainty in the about the future value of a currency. It is the most relevant financial risk for the TCc, as the value of the Turkish Lira is susceptible to large deviations.
3. ***Inflation risk***
   This is the probability of loss for the cluster resulting from erosion of an income or rising costs of factors of production.

8.6.1. Sensitivity Analysis[23]

This is a widely used technique used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions. In other words, it tests what happens to the profitability of the cluster when there is a change in one of the factors of production.

[20] Sources: www.investopedia.com, www.businessdictionary.com, www.wikipedia.org
[21] Sources: www.investopedia.com, www.businessdictionary.com, www.wikipedia.org
[22] Sources: www.businessdictionary.com
[23] Sources: www.businesshut.com, www.financial-dictionary.thefreedictionary.com, www.wikipedia.org, www.investiopedia.com

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8.6.2. Scenario Analysis[24]

Scenario analysis is a process of analysing possible future events by considering alternative outcomes. Scenario analysis as a method of projections does not show one exact picture of the future. Instead, it presents consciously several alternative future developments. By creating various scenarios that may occur, one can better determine the value of an investment or business venture, and the probability that the expected value calculated will actually occur.

[24] Sources: www.boundless.com, www.investopedia.com, www.businessdictionary.com, www.wikipedia.org

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9. MONITORING AND EVALUATION PLAN

The Board needs to come up with an official plan to monitor the progress of the implementation of the business plan. The executive team need to have monthly reports to monitor progress monthly in order for the necessary interventions to take place timely. The Board can have oversight of these monthly reports and depending on progress made, arrange quarterly reviews of the plan to make sure the progress is sufficient to meet the goals and targets set in the business plan.

The TAT recommends the use of RAG (red amber green) status risk monitoring for risk analysis and any financial goals in the plan. For all targets, there is a need to come up with three bands, with respect to their closeness to the target being achieved. 80% of the target could be amber, so that 79% would be red and 100% and above would always be green. Different targets can have different amber levels, but these levels should be set at the beginning of the year and if there are previous years with different levels, they should be updated in the current year reports for the prior year comparison column.

	Actual	**Target**
SALES	100,000	120,000
Product A	50,000	60,000
Product B	30,000	40,000
Product C	20,000	20,000

10. ANNEXES

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ANNEX 1 - FORMULAS TO BE USED IN THE FINANCIAL ANALYSIS

Liquidity Ratios

QUICK RATIO

$$\text{Quick Ratio} = \frac{\text{Cash + Cash Equivalents + Short Term Investments + Current Receivables}}{\text{Current Liabilities}}$$

CURRENT RATIO

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

TIMES INTEREST EARNED RATIO

$$\text{Times Interest Earned Ratio} = \frac{\text{Income before Interest and Taxes or EBIT}}{\text{Interest Expense}}$$

Solvency Ratios

DEBT TO EQUITY RATIO

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

EQUITY RATIO

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

DEBT RATIO

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

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Efficiency Ratios

ACCOUNTS RECEIVABLE TURNOVER RATIO

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

ASSET TURNOVER RATIO

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

INVENTORY TURNOVER RATIO

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

DAYS' SALES IN INVENTORY

$$\text{Days' Sales in Inventory} = \frac{\text{Ending Inventory}}{\text{Cost of Goods Sold}} \times 365$$

Profitability Ratios

GROSS MARGIN RATIO

$$\text{Gross Margin Ratio} = \frac{\text{Gross Margin}}{\text{Net Sales}}$$

PROFIT MARGIN RATIO

$$\text{Profit Margin Ratio} = \frac{\text{Net Income}}{\text{Net Sales}}$$

RETURN ON ASSETS RATIO

$$\text{Return on Assets Ratio} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

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RETURN ON CAPITAL EMPLOYED	
Return on Capital Employed =	$\dfrac{\textbf{Net Operating Profit}}{\textbf{Employed Capital}}$

RETURN ON EQUITY RATIO	
Return on Equity Ratio =	$\dfrac{\textbf{Net Income}}{\textbf{Shareholder's Equity}}$

Cash Conversion Cycle

CASH CONVERSION CYCLE
Cash Conversion Cycle = Days Inventory Outstanding+ Days Sales Outstanding- Days Payables Outstanding

CASH CONVERSION CYCLE				
Cash Conversion Cycle =	**Days Inventory Outstanding+**	**Days Sales Outstanding-**	**Days Payables Outstanding**	**x 365**
	$\dfrac{\textbf{Inventory}}{\textbf{Cost of Sales}}$	$\dfrac{\textbf{Accounts Receivable}}{\textbf{Net Credit Sales}}$	$\dfrac{\textbf{Accounts Payable}}{\textbf{Cost of Sales}}$	

DuPont Analysis

DUPONT ANALYSIS
Return on Equity = Profit Margin x Total Asset Turnover x Financial Leverage

DUPONT ANALYSIS					
Return on Equity =	**Profit Margin**	**x**	**Total Asset Turnover**	**x**	**Financial Leverage**
	$\dfrac{\textbf{Net Income}}{\textbf{Net Sales}}$		$\dfrac{\textbf{Net Sales}}{\textbf{Average Total Assets}}$		$\dfrac{\textbf{Total Assets}}{\textbf{Total Equity}}$

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ANNEX 2 - OECD PRINCIPLES OF CORPORATE GOVERNANCE

I. Ensuring the Basis for an Effective Corporate Governance Framework

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

A. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets.
B. The legal and regulatory requirements that affect corporate governance practices in a jurisdiction should be consistent with the rule of law, transparent and enforceable.
C. The division of responsibilities among different authorities in a jurisdiction should be clearly articulated and ensure that the public interest is served.
D. Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfil their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.

II. The Rights of Shareholders and Key Ownership Functions

The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

A. Basic shareholder rights should include the right to:
   1. Secure methods of ownership registration;
   2. Convey or transfer shares;
   3. Obtain relevant and material information on the corporation on a timely and regular basis;
   4. Participate and vote in general shareholder meetings;
   5. Elect and remove members of the board; and
   6. Share in the profits of the corporation.
B. Shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as:
   1. Amendments to the statutes, or articles of incorporation or similar governing documents of the company;
   2. The authorisation of additional shares; and
   3. Extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company.
C. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures that govern general shareholder meetings:
   1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.

2. Shareholders should have the opportunity to ask questions to the board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.
3. Effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. Shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.
4. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

D. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

E. Markets for corporate control should be allowed to function in an efficient and transparent manner.

1. The rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
2. Anti-take-over devices should not be used to shield management and the board from accountability.

F. The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated.

1. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights.
2. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

G. Shareholders, including institutional shareholders, should be allowed to consult with each other on issues concerning their basic shareholder rights as defined in the Principles, subject to exceptions to prevent abuse.

III. The Equitable Treatment of Shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

A. All shareholders of the same series of a class should be treated equally.

1. Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected.

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2. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
3. Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
4. Impediments to cross border voting should be eliminated.
5. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.

B. Insider trading and abusive self-dealing should be prohibited.

C. Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

IV. The Role of Stakeholders in Corporate Governance

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

A. The rights of stakeholders that are established by law or through mutual agreements are to be respected.

B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

C. Performance-enhancing mechanisms for employee participation should be permitted to develop.

D. Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis.

E. Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this.

F. The corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights.

V. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

A. Disclosure should include, but not be limited to, material information on:

1. The financial and operating results of the company
2. Company objectives.
3. Major share ownership and voting rights.

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4. Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board.
5. Related party transactions.
6. Foreseeable risk factors.
7. Issues regarding employees and other stakeholders.
8. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

B. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

C. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.

D. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.

E. Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.

F. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

VI. The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

B. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.

C. The board should apply high ethical standards. It should take into account the interests of stakeholders.

D. The board should fulfil certain key functions, including:

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the company's governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.

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4. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
8. Overseeing the process of disclosure and communications.

E. The board should be able to exercise objective independent judgement on corporate affairs.

1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.
2. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.
3. Board members should be able to commit themselves effectively to their responsibilities.

F. In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.

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