CHAPTER 2
LITERATURE REVIEW

2.1. Business Plan Definition

A business plan, in principle, can be seen as a document that commercializes your business idea as a whole towards potential investors and stakeholders (Schwetje & Vaseghi, 2007). An effective business plan can adapt to the environment changes quickly. A good business plan will explain about the idea of the business itself, the risks, the problems, and further development. Business plan is not used only for raising funds and getting investors, moreover for the direction of the business itself. Business plan is used as the road map that enable individuals to execute excellence (Haag, 2013). The business without business plan may run well, but to develop and improve the business also take longer time and higher cost. A business plan can be a reminder for business owners of purpose and direction of his business, thus reducing the risks of wrong strategies. A business plan is successful if you succeed in conveying to the reader the most significant opportunities and growth capacities of your company realistically (Schwetje & Vaseghi, 2007). A succesful business plan has some important aspects, which are :

a. Long-term and short-term goals can be seen clearly.

b. Specific description about how to achieve the objectives in the real conditions can be known.

c. Specific description about planning realization is to meet the investor expectations.

2.2. Business Plan Components

Business plan consists of several components. In the business plan should contain at least the following components :

a. Executive summary

Executive summary is the most important part of a business plan. It consists of the company current condition and future plan of the company. It can be made after the proposal is finished. The executive summary should be written brief, simply but attractive. It should not be more than two pages. Executive summary also needs to state the clear planning on how investors' money is returned. The executive summary should summarize the company's purpose, target market, business strategy, and financial plan (Haag, 2013). Executive summary should highlight some key points of the business plan.

b. Table of contents

Table of contents is used for the reader to access the business plan easier. For the writer, it helps to organize the business plan.

c. Business description and history

The name of the business is clearly stated. It should be simple, appealing, and reflect the business. This section should cover the legal name of the business, mission and vision, company profile, its potential opportunities, its uniqueness, and how profitable it is (Bangs, 1995).

d. Product or service description

The uniqueness of the product or service is portrayed. The investors should be ensured that the product or service is different by other competitors. It should tell the selling price too.

e. Marketing Plan

Current condition of the target market is important. Knowing the customers' needs based on demography, age, gender, income, and so on is important especially because of the market condition may change in the future such as trends. Marketing strategy made after doing market research includes analysis of the alternative opportunities and risks to the company with informed consideration of the competition, social environment, and company's internal production capability (Arkebauer, 1994). Market positioning can be strategy in taking market as much as possible. Positioning means determining the right location, pricing, benefits, and testimonials. The common mistake is the thought that offering the lowest price is the key to success. Some clients may be price sensitive, whereas others may be prestige sensitive. Knowing what clients want is crucial to this phase of the marketing plan (Haag, 2013).

f. Operational Plan

This section explains about the daily functions in the company. The daily functions include facilities, location, production process, distribution, quality control, labours, and everything related to the operating later. Illustrations can be extremely helpful. It doesn't need to be very detail because it can cause future problems.

g. Management and Organization

Investors need to know who will be responsible for certain jobs. The failure in management is dominant rather than the failure of other factors for a new business. The failures categories are poor choice of business type, lack of knowledge of advertising, insufficient planning and investigation, poor financial practicing, poor inventory management, and still many (Lasher, 1994). Those can be reduced by explaining principal personal history, related work experience, duties and responsibilities, salaries, and resources available to the business (Bangs, 1995).

There are several organizational structure models. The first is simple structure, which usually used in small company and the jobs are done spontaneously. The owner and employees can replace other positions so there is no level between them. Second is hierarchical organization which usually used by bigger organisation. The idea of this model was from military order, so this model is good to know the authority in making decisions. The third is functional organization. This model is identic with homogeneity because each job is done by the expertise of the job. The weakness is the communication between each department may be not synced. The next is product organization, which is very helpful in organization who produced separated product groups or services. The last is matrix organization. The principle of matrix organization is showing the relation of many functions. This is the combination of functional and product structure (Laegaard & Bindslev, 2006).

h. Financial Projection and Feasibility

Financial projection consists of income statement and cash flow. Initial investment is also known from this section. The financial projection is analysed and the financial feasibility is known. This section will be explained more detail in sub chapter 2.3. and sub chapter 2.4.

2.3. Marketing Strategy

Value chain evaluates values in every activities adds to the organization, products, or services (Porter, 1985). The ability to link those activities is a source of competitive advantage. There are primary and support activities. Inbound logistics, operations, outbound logistics, marketing and sales, and service include in primary activities. The creation or delivery of the products in primary activities can be more efficient if they were linked with the support activities, which are procurement, technology development, human resource management, and firm infrastructure.

Marketing strategy is the marketing logic by which the company hopes to create customer value and achieve profitable customer relationships (Kotler & Armstrong, 2012). SWOT analysis is a global assessment consists of strength, weakness, opportunity, and threat. SWOT analysis is not a tool that can provide a way out of the ongoing problems; it is just a tool to see the organization's situation. Strength analyses internal capabilities, weakness analyses internal limitations, opportunities analyses external factor that is potential to take advantage from it, and threats is developing factors that may challenge the company's performance. Marketing mix is the set of tactical marketing tools consists of product, price, place, and promotion that the firm blends to produce the response it wants in the target market (Kotler & Armstrong, 2012). The marketing mix involves everything the company can do to affect the demand for its product. There are four variables, which are product, price, place, and promotion. Marketing program should blend those elements together into an integrated marketing program by bringing value to consumers. The marketing mix organizes the company's strategic tool for creating strong positioning in target markets.

2.4. Financial Projection

Financial projection consists of income statement, cash flow, and balance sheet. Data about revenue, cost, and investment are needed to make the financial projection (Schwetje & Vaseghi, 2007).

Revenue derived from counting how many products are sold through the sales and marketing plan. Investment means the capital required to establish the business. Cost is all expenses to make the product and maintain the company to run such as overhead and administration expenses. According to Schwetje & Vaseghi (2007):

a. The balance sheet provides overview of financial activities at a key date, often coinciding with the end of the calendar year and overall financial position. While the assets show the application of funds which have utilized for the company, the liability shows the source of funds.

b. The income statement represents the results of business activities. It consists of sales revenues and expenses related the business. It is simply showing the company's profitability. Figure 2.1. shows the example of income statement and its contents.

		History		
		Year 1	Year 2	Year 3
	1. **Sales**	39.578	47.894	48.215
+/-	2. Change in inventory	20	1.025	538
+	3. Other miscellaneous income	1.379	1.549	1.245
	4. **Total income**	**40.977**	**50.468**	**49.998**
–	5. Material costs	21.868	26.541	26.750
–	6. Personel costs	3.373	4.227	4.784
–	7. Depreciation	657	806	901
–	8. Other operating expenses	11.699	14.313	15.046
=	**Operating income (EBIT)**	**3.380**	**4.581**	**2.517**
+	9. Interest and similar income	22	12	11
–	10. Interest and similar expenses	513	586	610
=	**Net financial income or expense**	**-491**	**-574**	**-599**
=	**11. Income before taxes**	**2.889**	**4.007**	**1.918**
–	12. Income taxes	1.011	1.402	671
–	13. Other taxes	50	100	60
=	**14. Net income / loss for the year**	**1.828**	**2.505**	**1.187**
-	15. Increase of retained earnings	0	750	0
	16. Net profit / loss	**1.828**	**1.755**	**1.187**

Figure 2.1. Example of Income Statement

c. The cash flow statement is especially important to the investors because it is also showing the company's dividends, taxes, loans and interest. Cash flow only calculates the cash in the company. Figure 2.2. shows the example of cash flow and its contents.

		Year 4	Year 5	Year 6	Year 7	Year 8
	Net income from the Income Statement	1.118	1.601	1.061	1.910	2.902
+/-	Depreciation	800	1.000	900	823	1.170
+/-	Changes in provisions	8	9	2	3	3
+/-	Changes in other non cash items					
	Cash flow nach DVFA/SG	**1.926**	**2.610**	**1.963**	**2.736**	**4.075**
-/+	Changes in inventory	-51	-1.388	603	700	574
-/+	Changes in receivables and other assets	848	-726	-369	789	211
+/-	Changes in liabilities	-2.319	343	590	1.196	1.367
	Cash flows from operating activites	**404**	**840**	**2.788**	**5.421**	**6.227**
-	Purchase of assets	-2.000	-650	0	-1.111	-1.900
+	Proceeds from the disposal of assets	241	370	-260	0	0
	Cash flows from investing activities	**-1.759**	**-280**	**-260**	**-1.111**	**-1.900**
-	Capital gains distribution	-1.187	-1.118	-1.601	-1.061	-1.910
+/-	Change in long-term debt	0	-93	-56	-84	-75
	Cash flows from financing activites	**-1.187**	**-1.211**	**-1.657**	**-1.145**	**-1.985**
	Total cash flows	**-2.542**	**-651**	**870**	**3.165**	**2.342**

Figure 2.2. Example of Cash Flow

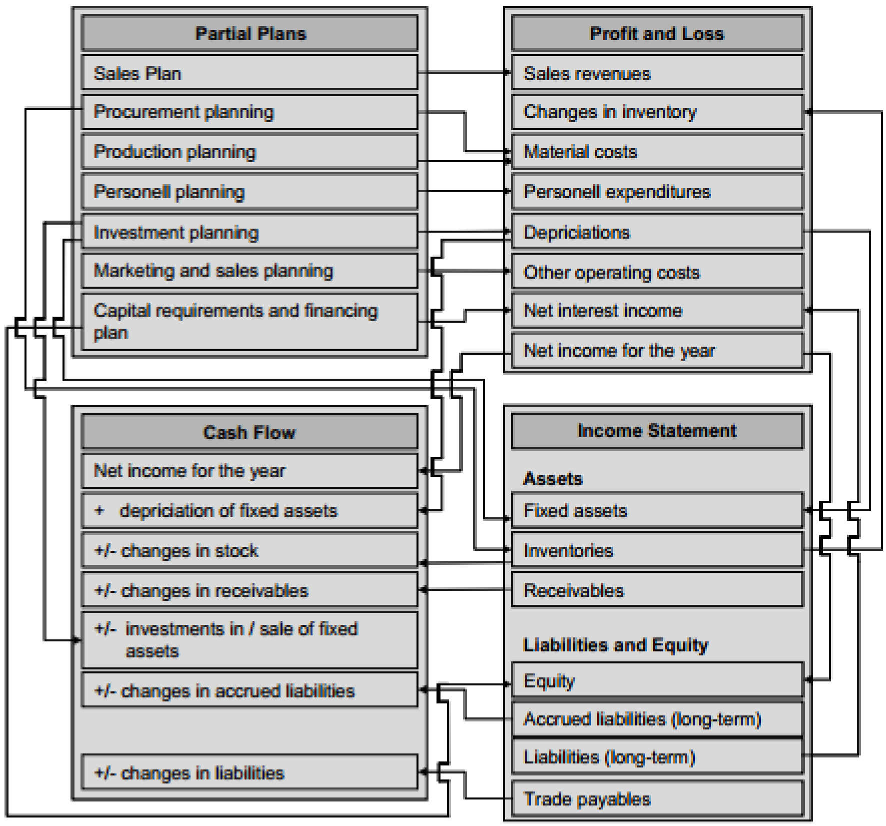

Figure 2.3. The Relationships between Balance Sheet, Income Statement and Cash Flow Statement

Figure 2.3. depicts how contents of cash flow, income statement, and balance sheets are related. Revenues and expenses are shown in income statement cause changes in balance sheet. The final cash in the cash flow statement must be in accordance with the amount of cash represented in the balance sheet. Cash flow from operating activities is affected of the cash from any transactions including determination of net profit margin in income statement. Investment activities in cash flow statement indicate the cash that changes into assets in the balance sheet. Operating expenses shows the liabilities and equity of financing transaction.

2.5. Feasibility Study

Breakeven point is the point where the sales are equal to the expenses or original cost. It analyses the critical point for every business at what number of sales volume will cover the costs. The factors should have known to calculate breakeven point are fixed cost, variable cost, and selling price.

Feasibility study is used for ensuring investor that this business idea will be profitable. Analyzing the financial of a business can be done by the following methods:

a. Payback Period Method

Payback method calculates how long the period for the capital to be returned. It is used to assure the investor to get back their investment money in a short time. The formula is sum all the income within a certain period divided by the initial investment. The business is feasible when the payback period is less than its economic age.

$$\text{Payback Period} = n + \frac{a-b}{c-b} \times 1 \text{ year} \quad (2.1)$$

Where:

n = The last year in which cash flows have not been able to cover the initial investment

a = Number of initial investment

b = The cumulative sum of cash flows in the n^{th} year

c = The cumulative sum of cash flows in the n^{th} + 1 year

b. Net Present Value

Net Present Value (NPV) is financial analysis tool that consider time value of money because money value will grow over time. The resulting values for the foreseeable future or ongoing value multiplied by a factor of time so that equate value with an investment now. The business is feasible if NPV is positive. The formula is:

$$NPV = \sum_{t=1}^{n} \frac{ACF_t}{(1+k)^t} - IO \quad (2.2)$$

Where:

CF = Cash flow

IO = Initial Outlays / investment incurred in the first year or year zero.

k = Required Return / discount rate (WACC / RRR)

t = investment period

n = life of the project

ACF_t = The net cash flow expected from the project in period t

c. Internal rate of Return

This method is the development of NPV. When NPV is equal to zero, it will obtain rate of certain percentage. This business is considered feasible if the IRR is greater than the percentage of capital costs (lending interest) or in accordance with a specified percentage of profits by investors.

$$IRR = \sum_{t=1}^{n} \frac{ACF_t}{(1+IRR)^t} = IO \qquad (2.3)$$

Where:

CF = Cash flow

IO = Initial Outlays / investment incurred in the first year or year zero.

IRR = the resulting rate

t = investment period

n = life of the project

ACF_t = The net cash flow expected from the project in period t

2.6. Export Procedure

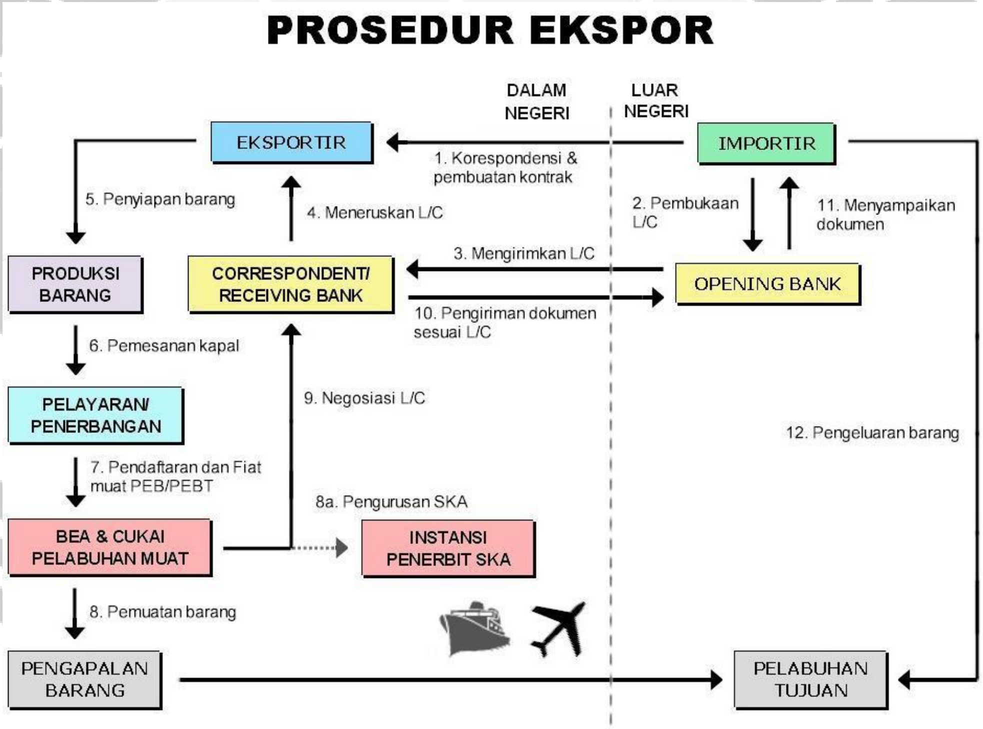

Figure 2.4. Export Procedures in Indonesia

Source: djpen.kemendag.go.id

The first thing to do before exporting goods is ensuring the goods are acceptable in the destination country and not banned for export. After getting buyer, the process is shown in Figure 2.4. The first step is preparing the correspondence and contracting. Importer processes L/C (Letter of credit) opening. The opening bank will send L/C to receiving bank. Receiving bank forwards the L/C to exporter so they can prepare the products. Exporter sends the goods via cargo ship expedition or other transportations. Exporter should register and then load notification of export goods (PEB) and the consignment can be loaded and sent. Exporter tells receiving bank to send the notification document matching with L/C to opening bank. Opening bank sends the document to importer so he can unload the consignment.

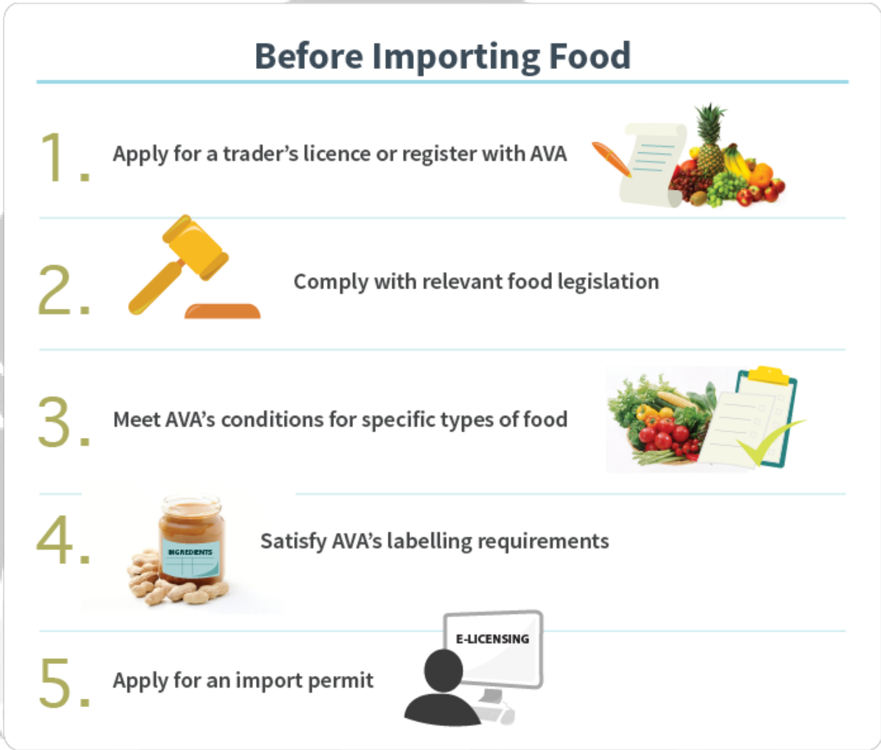

Figure 2.5. AVA's Food Import Procedure

Source: www.AVA.gov.sg

Singapore has AVA who controls the export and import activities for foods. The procedure for buyer who will import salted duck eggs, which means also important for exporters to know the requirements, is shown in Figure 2.5. Salted eggs include as processed eggs. Accreditation will be done at 3 levels; of the exporting country, of the individual establishments of approved countries, and of the products from approved establishments. Applying for import permit is done in several steps. The first is prepared the registration number and HS codes. The next step is applying import permit and additional documents online as attachments via the TradeXchange system. After approval by the Singapore Customs and AVA, then a Cargo Clearance Permit (CCP) which also serves as an AVA import permit will be issued. The next step is paying the import fees. Processed eggs are charged S$62 per consignment. The foods can be distributed after inspection process of the consignment.

2.7. Gap Analysis and Research Contribution

Table 2.1. Literature Review Comparison

Description	Aiba, 2013	Soegiarto, 2009	O'Rourke, 2009	Ali, 2014	Leleu, 2013	Current Research, 2016
Research Topic	New Startup Business Plan Mobile Game Development Business in Thailand: Ninth Idea	Business Plan Model for Souvenir Manufacturing: A Strategic Action Approach in Fund Raising	Flourish Boutique	Import – Export Business Plan Case : Kenko Oy	Business plan for the mobile application 'Whizzbit'	Business Plan for Exporting Salted Duck Eggs to Singapore
Object of the research	Mobile game (Ninth Idea) market in Thailand	JASS (Jogja Artistic Symbolic Souvenir), metal souvenir production using spin casting.	Retail business plan for clothing and accessories for young girls.	Export scrap materials of iron and steel and chemicals to Pakistan and to import marble floor tiles and plastic to Finland.	'Whizzbit' is a new mobile application for automation projects that let users connect to their IO circuit boards, control, and interface with them.	Salted duck eggs selling in Singapore

Table 2.1. Continuation

Methodology	Direct interviews, questionnaire, literature review, CAIS (Cross Application Item System), business plan using cumulative phase, startup phase, future phase, business plan.	Manufacturing cost based on F de Meyer, cost and selling price calculation based on piece and unit of weight (gram), business plan.	Market based sales forecasting, business plan.	Quantitative method such as experiments, questionnaires, and psychometric tests, and qualitative method such as case studies and interviews, canvas model for modelling the business, business plan.	Measure the interest of the market by online survey, decide the business model, profit and loss projection based on sales forecast.	Interview, literature review, business plan

Table 2.1. Continuation

Research Output	Business plan consists of game industry background, resources analysis, opportunity analysis, business strategy, marketing plan, operation plan, risk and assumptions, and financial plan.	Business plan consists of company description, business description, source of money, financial statement, profit and loss forecast, capital spending, and marketing plan.	Business plan consists of executive summary, business description and vision, market analysis and forecast, marketing plan, management summary, financial plan.	Business plan consists of executive summary, business description, marketing plan, competition, business model, financial plan, sales summary, profit plan, SWOT analysis.	Business plan consists of general company description, product, market analysis, strategy and implementation summary, personnel summary, financial summary, milestone.	Business plan consists of executive summary, table of content, business description, product description, marketing plan, operational plan, management and organization, Apendix

Table 2.1. Continuation

Research Outcome	High possibility to enter the market, provide the most information needed to establish this business, phases in development are needed regarding the flexibility issue of game.	This business is feasible to run with BEP of 10.000 unitsproduction, the investment will be returned in six years, with total profit is IDR 560,004,223 in ten years.	Flourish should reach break even point at first year operation, the first year of net income should grow more than 60% by the end of third year.	Kenko Oy is a reliable business to run for new export-import business, but it is still need further study about export-import procedures in both countries.	'Whizzbit' will be launched and the company will look forward to the market responds. If the respond is well, then the company will sell the technology.	Exporting Salted duck eggs to Singapore will be profitable.