THE FINANCIAL PLAN – A DEFINING ELEMENT IN DRAWING UP A BUSINESS PLAN

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ABSTRACT: *This paper highlights the need for a financially well structured and based in the preparation of any business plan because it focuses on the financial section of the final SOCP any business that is making a profit. To highlight the importance of the financial plan presented in the paper there are the financial objectives of a business plan.*

KEY WORDS: *financial plan, business plan, business, entrepreneur, weather, finance, forecasting, financial risks.*

JEL CLASSIFICATION: *M21.*

1. THE NEED TO DEVELOP A FINANCIAL PLAN

The financial statements can sometimes be intimidating, but when you write your business plan, it is crucial that we understand these situations well enough to realize what impression they create examiners. In addition, future financial situations are not as a matter of computation understanding of business, industry and markets where the company operates. If we want to convince potential investors of the idea and the company he owns an entrepreneur, a financial plan will be structured and based paramount importance.

The financial section of the business plan will probably be the first to be read after synthesis plan and CVs founders and management team. It aims to document, justify and persuade. Within it will be argued what was presented in the previous sections, using financial statements demonstrating the viability and business efficiency. If the elements of financial reporting are prepared carefully and skillfully, they become the most important factors in evaluating the attractiveness of a business. The financial plan will show the company's potential and quantify estimated profit generated by the business idea. In addition, it has to convince investors that the structure of assets and capital is plausible and well was estimated costs and potential revenue. Even if you do not have to take you if you are the manager of business balance sheet and result, but

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you have to know all the details, the projection for the next 3-5 years financial statements to be prepared for discussions with investors and could in May then translate the plan into reality.

Plan examiners know that entrepreneurs are not specialists in procurement, testing and use of money. A capitalization inadequate and inefficient financial management can destroy a business, even if the underlying business idea is very good and offered products sell well in the market. Therefore, the financial section of the business plan will have to refute fears examiners.

If the rest of the plan contributes to the overall understanding of the business, financial section focuses on the final goal, including both the examiner and entrepreneur; however interesting and innovative is a business, an investor is interested, ultimately, the financial aspects of the business that is involved (estimated development expenditure and revenue business for the next period of time - usually the next few years, indicators profitability etc.). Thus, the investor will discover what level of earnings can be expected, and the lender will determine the debtors' ability to pay obligations. For existing firms, financial plan should include a complete view of the business - an analysis of past and present and a forecast of the future.

It is essential to provide advantageous perspective financial plan. In addition, since there is no financial history of which we anchor projects in question will be characterized by a higher dose of uncertainty. Given that in this case there is a tendency to overestimate the importance of known and therefore and the estimated projections, it is possible that the examiner to conduct its own investigation to determine the realism of your projections.

If it is found that the financial section deviates from the general trends in the economic environment in which business will evolve and we should have a very good explanation for this.

Because of this uncertainty, it is appropriate drawing several financial scenarios. Thus, it can make a forecast on the assumption most probable and a forecast based on the full potential of the business. The practice is common and approach three scenarios: probably optimistic and pessimistic.

It also gives a sensitivity analysis of changes in image if certain unfavorable developments affecting business activity. For example, one can estimate the firm's profit if sales are 20% below the programmed or costs increase by 10%. Probably will not be able to anticipate all the things that might happen, but it is well to consider the impact of events even at all predictable. Moreover, including a sensitivity analysis in the business plan creates a positive impression on a potential financier.

It is recommended that in the first embodiment of the projections do not include financing from external sources; to calculate all the costs necessary to ensure a realistic long-term growth and will achieve the deficit will be financed. This will determine exactly how much you need - and you decide who to go to for funding. Determination of financial resources is, in fact, a primary goal of a business plan. The data collected in previous steps should outline a pretty clear picture on this issue. Determination of the need for more realistic funded business clogged due to lack of resources or unnecessary expenses involved unused resources.

Also needs a permanent supervision of financial forecasts. A lender or investor may examine the plan for several weeks or even months. During this period can cause significant changes in the assumptions underlying the forecasts (changes in commodity prices, the loss of a potential customer, etc.) Therefore, it is necessary to constantly update the plan. All items included in the financial plan must be in perfect correspondence with other sections of the business plan. For example, if you have identified a seasonal development of sales marketing plan and financial plan is presented a turnover monthly constant, then this inconsistency raises, denoting either inattention or an incomplete understanding of the business.

In many respects, the financial plan is the least flexible part of the business plan. Whatever type of business, there are a number of templates to be respected. Certain information is required in a conventional form, thereby ensuring comparability across time and space business. The detail information can vary depending on specific circumstances but must never fall below a well-defined limit.

2. THE FINANCIAL OBJECTIVES OF THE BUSINESS PLAN

Any business plan is well defined financial goals. The literature identifies the following financial goals of the business plan (Figure 1):

a) reducing financial risks;
b) resolve unforeseen situations;
c) reducing the cost of financing;
d) obtaining external financing sources.

a. Reducing financial risk

Reducing financial risk is achieved by anticipating them and early determination of optimal measures to be taken if necessary. Through the most important financial risks that may occur include:

- lack of liquidity - generating unable to pay suppliers and creditors (which may reach even stop production) inability to obtain financial and commercial rebates, resorting to high-cost loans. An accurate and realistic projection of cash-flow deficit Treasury will anticipate future will be early contact with potential donors - allowing obtain acceptable financing terms - and will be avoided panic from the moment of unexpected monetary imbalance.
- oversized loans - which can lead to alerting creditors and request to have their debts paid in critical moments for the company, degradation financial indicators, the rise of the company's creditors. The calculation of financial indicators based on management scenarios will allow prospective financial leverage ratio avoid alarming.
- undersized loans - a situation that entails impossibility of investing in feasible projects, capital costs oversized, dilution control of the company through the provision of capital from other investors, worsening relations with suppliers by extending the duration of payment of commercial obligations. Financial projections and analysis of alternative scenarios will reveal the additional cost involved to avoid resorting to loans. Interest expense is deductible from the taxable profit element, whereas dividends are paid from taxed profits.

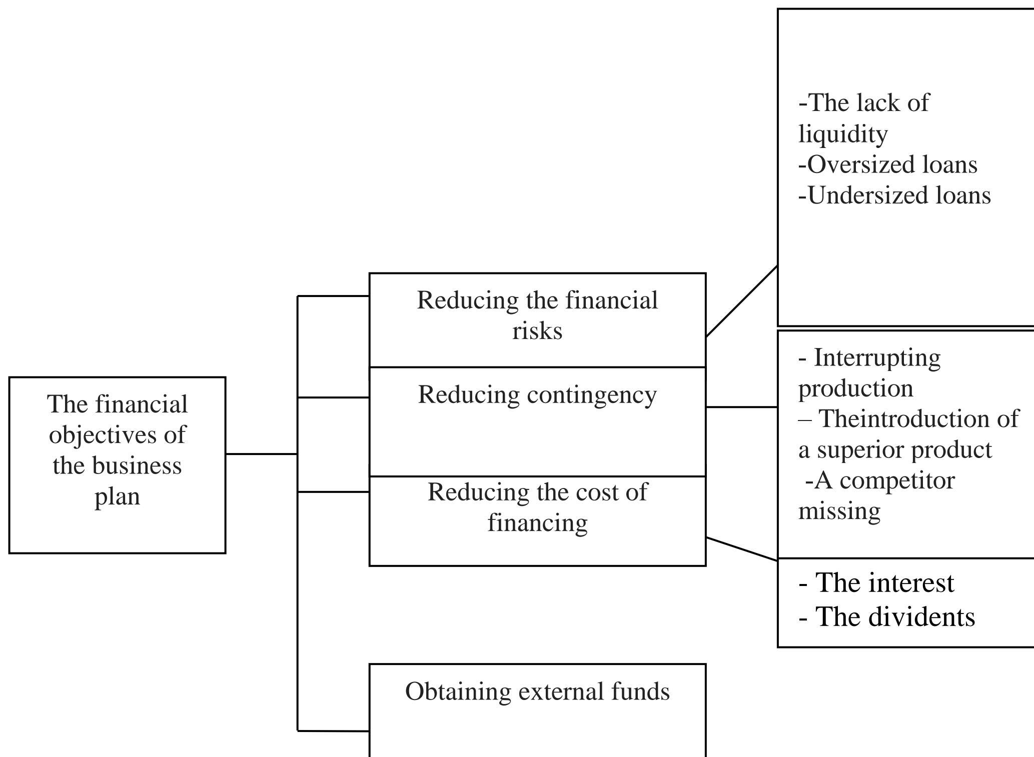

Figure 1. The financial objectives of the business plan

b. Solving contingency

Contingencies are unplanned items, not necessarily unexpected, producing influences (favorable or unfavorable) consistent on the economic situation of the company. However, some situations can be really unexpected. Examples of contingencies:

- interrupting production - a situation that can occur for various reasons (strikes, accidents, disasters, errors in assessing buffer stocks for raw materials, etc.) and which may cause difficulties treasury driven interruption / reduction of cash inflows and continue making payments (rent, utilities, outstanding rates).
- a cash-flow forecasting adjusted in the event of such a situation will show its effect, it will characterize when the available cash will run out and provide arguments for the negotiations with the bank to cover the deficit of the treasury. Additionally, lenders will want to see that the business plan was considered the event of unforeseen circumstances.
- introduction of a superior product by a competitor - will generate reduced receipts and profits, the need to allocate considerable sums on research and development, difficulty paying obligations. Estimates based financial market information can timely assess the effects they produce this event, leaving the selection of actions, management is required.

- disappearance of a competitor - is an opportunity to strengthen its market position and growth in turnover (but can not talk of a takeover of market share to competitor because other competitors will want some this).

The financial section of the business plan will highlight resources that can be allocated to conquer new market segment and to fight against competitors.

c. Reducing the cost of funding

The financing involves a number of costs that secondează cash entry, regardless of its source. Depending on the nature and the wishes of its financier, appear several cost categories of funding:

- interest - is the cost of borrowed capital, containing refinancing interest rate plus the risk premium (charged by the lender for business and that correlated with the size of the amount advanced). A financial planning involves studying the database and financier for the choice that minimizes the cost of credit. As I said, anticipating cash deficits saved the company from incurring excessive cost of capital.
- dividends - is the cost of capital and the payment of dividends translates into (effect on cash flow).

Through financial planning to determine the cost of financing the various hypotheses financing and treasury influences involved. Finally, it will opt for a balance between financing through capital contribution (more expensive, but less risky) and loan financing (cheaper but riskier).

d. Obtaining external funds

Obtaining external funds are actually the most closely watched target scheduler. The financial plan is actually "heavy artillery" of the business plan for this component focusing mostly interest examiner's final.

Most times, the examiner expects to present an analysis of past performance of the company will invest or to be credited. This requires balance and result accounts for the last 3 years. Analysis of these documents will be achieved through financial indicators. They are very important, especially for the company's creditors based on their estimating the customer's solvency.

It may be helpful to know exactly what the applicant indicators and formulas used bank / investor when considering the company's financial statements. As I said, the creditors are the most loyal users of indicators, be taking over his business plan or calculating them based on your financial statements.

3. FORESIGHT ASSUMPTIONS UNDERLYING THE EC

In the practice of the business plan there are two types of approach key assumptions:

a) direct approach;
b) synthetic approach.

a) The direct approach involves extrapolating past trends into the future.

For example, if the last sales increased (in comparable figures) by 5% per year, it can be considered that this growth will continue in the future. In this situation, that percentage will be applied:

- over the cost of goods sold (the variable component);
- for selling, general and administrative;
- the balance sheet items related to the actual activity and allow this (the is not necessarily as capital of the company to follow the same trend)

Becauseit is not based on generally accepted rule, this approach is only acceptable:

- where the company maintains operations in the forecast period;
- that activates if the market is stable and predictable.

Examples of businesses that allow direct approach: kiosks that sell basic necessities articles, services firms that require a special qualification and discourage imitation (watchmaking, jewelery processing, etc.).

b) The synthetic approach will take into account anticipated changes in society, the industry and the macroeconomic environment.

For example, if the current market share is 10% and industry in which it operates has forecasted an increase of 20% if the company itself will grow 20%, provided that it is able to maintain its market share.

If the company will practice a more aggressive marketing strategy, the volume of activities could increase by more than 20%. This would lead but to the lack of a proportional rise in liquidity and net profit (due to lower prices in order to attract new customers) sila an increase in selling expenses (advertising more and travel more numerous of sales agents).

The synthetic approach is preferable:

- where the company operates in multiple markets;
- when the company undergoes changes or expands steadily.

The most important element that characterizes the financial forecasts is the price choice in which the components of the financial statements will be estimated. From this point of view, two types of forecasts are used in practice:

- forecast in nominal terms (current prices)
- forecast in real terms (constant prices)

The preparation of the financial forecasts is based on the estimated developments in investment costs, operating expenses and incomes in nominal or real terms. Starting from this reference system, forecasts are developed for: Result, Balance Sheet and Cash Flow Statement (as a rule, estimates are in constant terms). As price changes occur during the course of the investment project, they must be considered in the forecasts for at least three reasons:

- to ensure coverage of total investment costs through the financing plan;

- in order to correctly predict the financial evolution of the funded company and the viability of the chosen investment project;

To demonstrate to the examiner the plan that the important aspects of the forecasts, including the risk of price changes, have been approached carefully.

Once they occur, price changes will influence the investment projects throughout their lifetime and their economic life (through the benefits and results to be achieved at the new prices). In a hypothetical situation where national and international price developments would be consistent, then their relative levels would not change.

As a rule, the differences in the rate of change of prices over time are determined by the different cost categories (eg energy, raw materials, labor).

Initially, the costs and revenue generated by the investment are estimated at constant prices, the prices on the market at the time of forecasting. Applying these constant prices to the estimated inflation rates, they will be converted into current prices in this way, all investment costs will be expressed in current prices - a very important aspect, as the financing plan will be drafted to cover the value of the investment in current terms. In this situation, in order to determine the financial performance of the project and the solvency of the borrower, the forecasted cash flow will be compulsorily drawn up in current prices.

Internal financial return can also be calculated in current and real terms (actual financial IRR = current financial IRR - estimated annual average inflation rate for the projected period). If general inflation is not important, the financial IRR is accepted in current terms.

In the case of business relationships with foreign firms, according to the World Bank's recommendations for business plans, the borrower must address the issue of inflation in its own country and in the countries of the main external partners. If the differences are small and constant exchange rates can be assumed over time, then its task is simple. In the situation of Romania, where the inflation rate is still quite high and the differences from other states are consistent, the evolution of the exchange rate is important and needs to be addressed as such.

4. CONCLUSIONS

Potential investors relating to indicators to compare them with those of other companies from receiving funding applications and business plans.

The entrepreneurs use these indicators to compare with competitors and because they are "vital signs" of the company. Thus, they are used to monitor the health of the company and report potential problems. Therefore, the indicators listed below serve not only the retrospective analysis, but also prospective analysis.

We must not forget that the financial indicators are confident that the financial statements only if the underlying is truthful. Their calculation leads to identify trends and help in preparing business activity forecasts. At the same time, they constitute a reference system to analyze the relevance and realism forecasts.

The indicators must be analyzed not only in their individuality but also interde¬pendenţa and their correlation. Using a single indicator, isolated from others can lead to errors. To ensure correlation analysis is needed on all basic indicators.

So the planning results are based on estimates. Inevitably some of the assumptions that we take into account when planning will change in a year, any mitigating factor may change, many of these factors are not controllable by the Company. The economic situation may deteriorate customers, suppliers may raise prices or might be their inability to make timely deliver raw materials etc. Despite these concerns, the advantages far outweigh the disadvantages planning / her limitations. A realistic plan and updated when significant changes occur in the assumptions will help us to control every aspect of business analyzed.

These examiners want to see the plan. They do not seek to be sure that initial assumptions will be maintained, but that the person who owns the business can control any changes that occur over time.

The assumptions presented should be realistic. Projections should not be based on "what we would like it to be" or "what I hope to happen", but "what we do" and "what we do". We are alone induced in error if we reject realism in projections. Unrealistic projections will train excessive staffing, increased promotional expenses, purchase of equipment - which means money lost.

In addition, some donors might be familiar with the business, to be financed similar ventures in the past and have concrete data on their progress so far. Holding such an objective frame of reference, it will be very easy to appreciate the realism of your projections that made.

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