

Lecture 13.

Pharmaceutical business. Entrepreneurial activity.

Development of a business plan. Stages of developing a business plan.

Recommended requirements for a business plan as a document.

1. Business plan: definition, purpose of business planning, taking into account the characteristics of the social significance of a pharmacy organization.
2. Business planning tasks.
3. Business plan structure.
4. Types of business plans.
5. Algorithm for developing a business plan.
6. Summary and marketing part of the business plan
7. Economic part of the business plan
8. Financial part of the business plan
9. Entrepreneurial risk: classification, functions
10. Methods of managing business risks.

1. Business planning is one of the types of strategic planning aimed at economic calculation of the implementation of a specific entrepreneurial idea. The final document of business planning is the business plan.

A business plan is a document reflecting the main aspects of an organization's business activities, aimed at assessing the external and internal environment, opportunities and threats for development, strengths and weaknesses of the enterprise

When planning the activities of a pharmacy enterprise, it is necessary to take into account, first of all, the social significance of this enterprise as a healthcare institution. This predetermines **a number of features characteristic of pharmacies:**

- ✓ Pharmacies base their economic calculations mainly on the basis of trading functions;
- ✓ trade in medicines has a social significance, consisting in protecting public health;
- ✓ the demand for medicines depends on the health status of the population and, for the most part, is determined by the doctor;
- ✓ Pharmacies must stock mandatory medicines, as well as those in limited demand: serums, vaccines
- ✓ pharmacies, especially those performing production functions, have a high level of distribution costs.

The purpose of developing a business plan is to plan the economic activities of an enterprise for the immediate and long-term periods in accordance with the needs of the market and the capabilities of its resources.

2. A business plan allows the manager to solve the following **main tasks**:

✓ Determine the specific direction of activity of the company (enterprise), which is especially important for a newly created enterprise; determine its target markets and the company's place in these markets.

✓ Formulate the goals of the enterprise and tactics for achieving them; identify those responsible for achieving these goals.

✓ Determine the range (by enlarged groups) of goods and services that can be offered by the enterprise (firm), estimate the expected costs associated with their creation and sale.

✓ Resolve personnel issues; determine a labor motivation strategy.

✓ Conduct marketing research: study the markets of suppliers, consumers, ways to stimulate sales, advertising, pricing, distribution channels for goods and services.

✓ Assess the financial position of the company, determine the need to raise borrowed funds, and study the terms of financing.

The business plan is a confidential document and is provided for review only to interested parties. This places certain demands on its form.

3. A business plan consists of three closely interrelated parts: marketing, economic and financial.

We can recommend the following business plan structure:

1. Summary

2. Marketing part

- ✓ Goals of the enterprise.
- ✓ Characteristics of the enterprise and its activities.
- ✓ Organizational structure and personnel.
- ✓ Product (services)
- ✓ Competitive Analysis
- ✓ Market

3. Economic part

- ✓ Trade turnover planning
- ✓ Formation of prices for medicines. Gross income plan.
- ✓ Planning of turnover and inventory.
- ✓ analysis and planning of distribution costs.

- ✓ Performance planning; analysis of planned profitability.

4. Financial part

- ✓ Financial plan
- ✓ Entrepreneurial risk
- ✓ Investment

4. Types of business plans.

By **type** of plan (by main areas of activity in which the project is being implemented): technical, organizational, economic, social, mixed.

By **class of plan** (by composition and structure of the project and its subject area): monoprocess, multiprocess, megaprocess.

According to **the scale of the plan** (by size, number of participants) and the degree of impact on the environment: small, medium, large, very large, interstate, international, national, regional, industry, departmental, corporate plans of one enterprise.

By **duration** (by the length of the plan implementation period): short-term (up to 3 years), medium-term (3-5 years), long-term (over 5 years).

According to **the complexity of the plan** (according to the degree of financial, technical and other complexity): simple, complex, very complex.

By **type of plan**: innovative, organizational, research, educational, mixed.

There are two main approaches to developing a business plan:

First approach is that the business plan is drawn up by a hired group of specialists, and the initiators of the project participate in it through the preparation of data.

Second approach – when the initiators of the project themselves develop a business plan, and receive methodological recommendations from specialists, in particular, from potential investors. This approach is the most correct for Russian practice. Project initiators are usually specialists in production issues, but, as a rule, they have a rather poor understanding of the intricacies of financial support for the project and sales of products. These questions are developed by hired specialists.

When carrying out business planning, an organization must obtain **answers to three key questions** :

1. What is the current position of the organization?
2. What is the desired direction of development?
3. What are the most effective ways to achieve your goals and objectives?

6. Sequence of developing a business plan

- ✓ Deciding to start your own business.

- ✓ Analysis of your own capabilities.
- ✓ Selection of an assortment of medicines (pharmaceutical services), medicine production.
- ✓ Research of a possible sales market.
- ✓ Drawing up a sales volume forecast (for the first year - monthly, for the second year - quarterly).
- ✓ Choosing a location for commercial activities.
- ✓ Development of a drug production plan.
- ✓ Development of a marketing plan.
- ✓ Development of an organizational plan.
- ✓ Development of a legal scheme for future commercial activities.
- ✓ Development of accounting policies and organization of accounting.
- ✓ Solving insurance issues.
- ✓ Development of a financial plan.
- ✓ Preparing a summary for a business plan.

1. Summary (introduction) describes the main provisions of the business plan in terms of the strengths of pharmaceutical activities and potential opportunities for development. The summary is prepared at the very end of the work, when all sections of the business plan are prepared. It should be short, simply and concisely presented, have a minimum of specific terms and reflect the following questions: what the enterprise will do, what are the advantages of its products and services, what are the expected financial results - sales volume, income, costs and profit. Investors usually only read the summary, which means it must be sufficiently convincing and well-reasoned.

2. Marketing part. A feature of business planning in market conditions is the close relationship between the marketing and financial and economic parts. Economic planning should be carried out only on the basis of sufficiently complete and comprehensive marketing information. Currently, the structure of the product range sold by pharmaceutical organizations is changing: the market for homeopathic remedies is growing, the sale of related parapharmaceutical products is increasing; In addition, more than 50% of the Russian market is occupied by generics. These features must be taken into account when drawing up the marketing part of the business plan, which includes the following points:

1.1. Goals of the enterprise. Depending on the main direction of development of the organization and its goals will be different. So, if a pharmacy enterprise is focused on growth,

then the main goals will be to increase sales volume, increase the share of the pharmacy enterprise in the existing market, and develop new markets.

If the pharmacy does not expect rapid growth in turnover, then the main goals may be to increase the net profit of the pharmacy organization, improve the quality of work, and increase the share of maintenance and related services. If the pharmacy decides to make changes to the assortment, then the goals will mainly be reduced to reducing the time for introducing new drugs, increasing the assortment or product groups, focusing on a specific group of drugs, or displacing old “low-selling” products.

1.2. Characteristics of the enterprise and its activities . This section provides brief information about the enterprise (legal form, registration date, name, address, history of the organization). An indication of the legal form of the enterprise is important because a partner or investor must know what his rightful place is in the business. In addition, by the date of creation, one can judge the competitiveness of an enterprise in the pharmaceutical market, and by location, one can judge the existing and potential capabilities of the organization.

1.3. Organizational structure and personnel. There must be a clear management structure, optimal distribution of responsibilities, information security for the manager, and implementation of the principles of control and unity of command. It is necessary to indicate how it is planned to organize the work of the staff. The basis should be based on qualification requirements: what kind of specialists, with what education, experience, and what salary will be needed to successfully conduct business. It is indicated under what conditions specialists will be involved (for permanent work, part-time, as external experts). When forming a staff, one should take into account benefits for small businesses, personal income tax, etc.

1.4. Product (service). When planning the range of goods (services), it should be taken into account that the goods for the pharmacy are pharmaceutical and parapharmaceutical products.

When forming a group structure of a product, it is necessary to take into account the requirements for licensing activities and taxation of certain types of goods (in particular, value added tax, excise duty). In addition to commercial interest, the formation of assortment policy should be based on the idea of helping a sick person who goes to a pharmacy.

When forming a product policy, the competitiveness of the product and the enterprise is determined, which implies lower costs (the ability to organize a full cycle of operations with the product at lower costs and in a shorter time) and specialization (the ability to satisfy the special needs of customers and receive a premium price for this).

1.5. Competitive analysis . They identify potential competitors and evaluate their methods of struggle in comparison with their own.

1.6. Market . They determine the potential markets of suppliers, buyers, market capacity (the volume of sales of goods that buyers of a particular region or area can buy in a month, in a year). You should analyze similar products, determine market segments, market share, get to know specific customers, and identify their needs.

When analyzing the buyer market, you should decide whether these will be wholesale buyers (hospitals, clinics, healthcare facilities) or the population. In the latter case, analyze potential buyers by age, gender, place of residence and other characteristics.

3. Economic part. This section discusses the following economic components:

3.1. Trade turnover planning. Trade turnover (synonyms: sales volume, gross income, sales volume, sales revenue) is an economic indicator that determines the volume of sales of goods and provision of services in monetary terms for a certain period. Trade turnover consists of three sections: consumption (including sales); goods supply (receipt); inventory (turnover: balance at the beginning of the period, balance at the end of the period). All sections of trade turnover are interconnected; there is a balance relationship between them, represented by the equation:

Amount of turnover: In monetary units, the amount of turnover is defined as the product of the price of a unit of goods or services (P) by the number of goods sold (Q): Trade turnover = P x Q.

3.2. Formation of prices for medicines. Gross income plan.

The pharmacy sets the retail price by applying a trade markup to the manufacturer's price. Intermediaries are required to indicate in the receipt documents the name of the manufacturer, as well as its price. In addition, the value of trade markups of all previous intermediaries and complete legal and factual data about the last wholesaler who sold medicines to the pharmacy must be indicated.

Trade overlays are the gross income of the pharmacy and are equal to the difference between Turnover at retail and wholesale prices.

For economic calculations, **the level of trade overlays is also calculated:**

$(\Sigma \text{ Trade Overlays} / \text{Turnover}) \times 100\% = \% \text{ Trade Overlays}$

When writing a business plan, you need to consider whether the company will use any **discounts**, for example:

- bonuses – for a predetermined amount of maintenance per month, quarter, year;
- ✓ temporary – when selling goods that are seasonal;
- ✓ quantitative - depending on the size or serial number of the order;
- discount – for payment in cash or early payment compared to the terms of the contract.

3.3. Planning of inventory and turnover

Inventory planning stages :

The average quarterly inventory balances are determined using the arithmetic average method (geometric average, moving average).

Calculate how many revolutions the average quarterly balance makes per quarter:

$C = \text{Quarterly turnover in wholesale prices} / \text{average quarterly balance}$

where: C – number of turnovers of the average balance of goods;

Actual turnover is the time during which inventories are sold in the amount of their average value for the reporting period. The general trend is an acceleration of inventory turnover along with a decrease in inventory. Their size should be optimal so that, on the one hand, there is no shortage of goods, and on the other, to avoid overstocking.

Actual turnover = 90 days: number of turnovers of the average balance of goods

Based on the FT in days, they plan a plan for inventory in days - standard (N days), taking into account the role of small retail sales, information, advertising, intra-group assortment structure..

They plan inventory in the amount (NΣ):

$N\Sigma = (\text{Turnover in wholesale prices per quarter} / 90 \text{ days}) \times N \text{ days}$

3.4. Analysis and planning of distribution costs.

Distribution costs are costs associated with bringing drugs and medical devices from the manufacturer to the consumer, expressed in monetary terms.

Types of distribution costs:

1) transportation costs; 2) labor costs; 3) contributions for social needs; 4) expenses for renting buildings, premises, maintaining equipment; 5) depreciation of fixed assets; 6) expenses for current repairs; 7) wear and tear of sanitary clothing and low-value items; 8) costs of fuel, electricity); 9) costs for storage, processing, sorting, packaging of goods and maintenance of refrigeration units; 10) expenses for trade advertising; 11) expenses for paying for using the loan; 12) shortage of inventory items within the limits of loss norms; 13) packaging losses; 14) other expenses.

Regardless of whether costs are included in cost or financial results, total costs can be - divided into two categories depending on the volume of sales.

Variable costs - these are transportation costs, packaging losses, commissions, etc. They increase or decrease in proportion to turnover. It is impossible to plan them by amount, so these expenses are determined by level:

Level of distribution costs (%) = $(\Sigma \text{ Level of distribution costs} / \Sigma \text{ commodity circulation}) \times 100\%$,

Fixed costs are stable when turnover changes: employee salaries, depreciation of fixed assets, rent of premises, etc. Therefore, they can be planned based on the actual amount of expenses.

There are expenses that cannot be determined without first calculating them: deductions for social needs, expenses for paying interest on a loan, loss of goods within the limits of loss norms.

The most significant items of distribution costs for a pharmacy:

Art. 2. "Labor costs";

Art. 3. "Deductions for social needs";

Art. 4. "Expenses for renting premises";

Art. 5. "Wear of sanitary clothing, low-value and high-wear items";

Having planned the expenses item by item and determined the total amount from the circulation costs, calculate the level of planned expenses:

plan % Distribution costs = (plan Σ Distribution costs / Σ Trade turnover) x 100%

3.5. Planning performance results. Analysis of planned profitability. Operating leverage effect

Knowing the level of trade overlays and the level of distribution costs, it is possible to determine the final financial result of the planned activity of the pharmacy enterprise. Profitability acts as a relative indicator:

Profitability = % level of trade overlaps – % level of distribution costs

The final result of financial and economic activity in absolute terms is profit (as a rule, although there may be a loss).

Profitability = ((Σ Trade turnover - Σ Distribution costs) x 100%) / Trade turnover,

Profitability = (Profit / Trade turnover) x 100%,

4. Financial part

4.1. Financial plan.

In this part of the business plan, the financial income and expenses of the enterprise are planned, a financial analysis of previous activities is carried out, possible risks are assessed and investment decisions are made.

In financial terms, financial sources of economic funds and their direction.

The income part of the financial plan includes:

— the amount of depreciation charges calculated according to the average annual book value of fixed assets and established standards;

- contributions to the repair fund - usually a percentage determined at the enterprise from the average annual cost of fixed assets .

4.2. Entrepreneurial risk.

From the numerous possibilities for investing free financial resources, it is necessary to select and evaluate the most profitable and least risky.

The following risk functions are distinguished:

its innovative function by stimulating the search for unconventional solutions to the problems facing the entrepreneur. An analysis of foreign literature shows that international economic practice has accumulated positive experience in innovative risk management. A large number of firms and companies achieve success and become competitive on the basis of innovative economic activities associated with risk. Risk-taking decisions lead to more efficient production, which benefits entrepreneurs, consumers, and society as a whole.

The regulatory function has a contradictory nature and appears in two forms: constructive and destructive. Entrepreneurial risk is usually focused on obtaining significant results in unconventional ways. Thus, it allows one to overcome conservatism, dogmatism, inertia, and psychological barriers that impede promising innovations. This reveals the constructive form of the regulatory function of entrepreneurial risk.

The protective function of risk is manifested in the fact that if for an entrepreneur risk is a natural state, then a tolerant attitude towards failures should also be normal. Initiative, enterprising businessmen need social protection, legal, political and economic guarantees that exclude punishment in case of failure and encourage justified risk.

It is also worth highlighting *the analytical function* of entrepreneurial risk, which is associated with the fact that the presence of risk presupposes the need to choose one of the possible decision options, and therefore the entrepreneur, in the decision-making process, analyzes all possible alternatives, choosing the most profitable and least risky ones. Depending on the specific content of the risk situation, alternativeness has varying degrees of complexity and is resolved in different ways.

By entrepreneurial we mean the risk that arises in any type of activity related to the production of products, goods, services, their sale, commodity-money and financial transactions, commerce, the implementation of socio-economic and scientific-technical projects. In the types of activities under consideration, one has to deal with the use and circulation of material, labor, financial, information (intellectual) resources, so the risk is associated with the threat of complete or partial loss of these resources.

Risk classification:

1. Production risk - associated with the implementation of any type of production activity: the likelihood of losses due to negative results of research work; the likelihood of losses as a result of failure to achieve planned technical parameters during design and technological developments; the likelihood of losses as a result of low technological production capabilities, which does not allow mastering the results of new developments; the likelihood of losses as a result of the occurrence of side effects or delayed manifestations of problems when using new technologies and products; the likelihood of losses as a result of equipment failures and breakdowns. It should be noted that production risk belongs to the group of internal risks, since an entrepreneur can have a direct influence on these risks and their occurrence, as a rule, depends on the activities of the entrepreneur himself.

2. Commercial risk is a risk arising in the process of selling goods and services. Commercial risk is a risk that arises in the process of selling goods and services produced or purchased by an entrepreneur. Main causes of commercial risk:

- a decrease in sales volumes as a result of a fall in demand or need for a product sold by a business firm, its displacement by competing products, the introduction of restrictions on sales;

- increasing the purchase price of goods in the process of implementing an entrepreneurial project;

- unforeseen decrease in purchase volumes in comparison with the planned ones, which reduces the scale of the entire operation and increases costs per unit of volume of goods sold (due to conditionally fixed costs);

- loss of goods;

- loss of quality of goods during circulation (transportation, storage), which leads to a decrease in its price;

- an increase in distribution costs in comparison with those planned as a result of the payment of fines, unexpected duties and deductions, which leads to a decrease in the profit of a business firm.

Commercial risk includes: the risk associated with the sale of goods (services) on the market; risk associated with the transportation of goods (transport); the risk associated with the acceptance of goods (services) by the buyer; risk associated with the buyer's solvency; risk of force majeure.

3. Financial – arising in the sphere of relationships with creditors and debtors, as well as the risk that arises when carrying out financial entrepreneurship or financial transactions, based on the fact that in financial entrepreneurship the role of goods is either currency, or securities, or cash.

Financial risk includes:

- currency risk;
- credit risk;
- investment risk.

Since accounting for currency risk has recently become increasingly important for domestic entrepreneurs, we will consider this type of economic risk in more detail. Currency risk is the likelihood of financial loss as a result of changes in exchange rates that may occur in the period between the conclusion of a contract and the actual settlement of payments for it.

4. Image-related – associated with the possibility of losing a positive reputation.

5. Investment risk – with the choice of long-term capital investments.

6. Physical - the risk of loss of health and life for a person.

7. Political - risk generated by the political environment in general and government actions in particular. Political risk - this is the possibility of losses or a reduction in the organization's profits that are a consequence of government policy. Thus, political risk is associated with possible changes in the course of the state government, changes in the priority areas of its activities.

Taking into account this type of risk is especially important in countries with unsettled legislation, lack of traditions and culture of entrepreneurship. Political risk is inevitably inherent in entrepreneurial activity; it cannot be avoided; it can only be correctly assessed and taken into account in the process of doing business. Political risks can be divided into four groups: the risk of nationalization and expropriation without adequate compensation; transfer risk associated with possible restrictions on local currency conversion; the risk of contract termination due to actions of the authorities of the country in which the contracting company is located; risk of hostilities and civil unrest.

Each entrepreneur sets an acceptable level of risk for himself. The basic **risk management techniques** are risk aversion, mitigation, transfer and acceptance. The following risk management tools are distinguished: political, organizational, legal, economic, social tools, and risk management as a system allows for the simultaneous use of several risk management methods and tools. The most commonly used risk management tool is insurance . Insurance involves the transfer of responsibility for compensation for expected damage to a third party (insurance company). Examples of other tools could be:

- ✓ refusal of excessively risky activities (refusal method),
- ✓ prevention or diversification (reduction method),
- ✓ outsourcing or insurance of costly risk functions (transfer method),
- ✓ formation of reserves or stocks (acceptance method).

4.3. Investment is a long-term investment of capital in a business with the aim of making a profit. At the same time, there should be a rational distribution of available free resources in the economy. When investing money in long-term projects, it is necessary to evaluate revenues, expenses and profits in the future. This operation is called discounting. It allows you to determine the present cash equivalent of the amount that will be received in the future. Using discounting, the most optimal option for generating income is selected.

When developing a business plan, the interests of all parties involved must be mutually taken into account: the customer (client) of the business plan, municipal authorities that determine the needs and priorities in the construction of facilities, and the consumer using these medical and pharmaceutical products.

A business plan is also used as a tool for conducting business negotiations.

When preparing a plan, the entrepreneur must not only specifically indicate what he wants to receive from the lender or investor, but also clearly show what he is willing to give.