Financial Analysis of Business Plan

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Abstract
This paper presents the importance and role of financial analysis of the business plan. It also examined the financial analysis tools and their applicability in the business plan. Financial analysis was performed using a scenario approach. Based on a scenario approach, there are developed three scenarios: best, worst and most expected. Each of them has done a financial analysis. According to the financial results of the analysis, there is chosen the best case scenario for manufacturer company relocation case. After the comparisons of manufacturer company financial performance before and after the relocation, there are set the advantages and disadvantages, which the company can be expected after its relocation from one country to another. There are presented the final conclusions after an examination of the theoretical and practical analysis of the financial analysis aspects of the business plan.

Keywords: financial analysis, business plan, scenario method, financial forecasting, company relocation, manufacture company.

JEL classifications: G 17, M 40, M41.

Introduction

Any business cannot be developed without planning. It is essential to have a business plan because it makes all difference between organized activity and chaos. It opposes a randomized course of events to an estimated, pre-evaluated one, offering the premises of a success-oriented business by reducing unexpected, unwanted occurrence (McKeever, 2008). Building a business plan can be rather demanding. It makes an exhaustive, detailed analysis of the activity of the company. It combines a strategic vision of the company with the data that will turn the business plan into a performance-enhancing tool by means of planning, measuring and improving (DeThomas and Derammelaere, 2008). The business plan consists of the company's organizational, financial and marketing plans.

The business plan is not comprehensive and useful if it does not have a financial plan and financial projections for the future. Before embarking on implement a business plan, it is clearly necessary to show that there will be a benefit either in terms of money or service or both (McKeever, 2008). The financial plan has to reflect all the financial aspects of the entire business plan. The financial analysis of a business is the most concrete practical part of the business plan. Financial plan can to arouse the greatest interest from head of the company or investors (Frinch, 2007). Good financial analysis requires accurate and detailed data that are collected for the case purpose on which business plan has been created.

The business plan presents the case and it depends on purpose of business planning. Company may need to start-up or expand its business in the new foreign or local market. If company wants to avoid unexpected problems, it has to investigate a target market. After investigation of market, company uses available data and goes deeper in case analysis and business planning (Breadley and Myers, 1996). The business plan case analysis includes different scenarios which show what financial and non-financial profit company can expect in the future.

The basis of case scenario creation presents: "what" and "how" company performs after few years. Different scenario shows what company can expect in the best, the most expected and the worst cases. The financial analysis presents profitability, payback of investment and level of risk in each scenario (Palepu et al., 2004). The detailed financial analysis of business plan case scenarios protect company from unexpected expenses and help to manage its financial decisions.

The financial analysis of business plan is significant topic because company before taking a decision that affects its activity does not always examine the possible opportunities, consequences and risks. The main purpose of this paper is to make the financial analysis of company relocation business plan by providing to use scenario method in financial decision making.

1. Literature review

1.1. Business Plan

Every type of business necessarily requires planning. "A business plan is exactly what its name applies. It is a blue print, detailing what business are or business concept is, what is expected for the business, how management intends to get the firm to that point, and, of greatest importance, the specific reasons why it is expected to succeed" (DeThomas and Derammelaere, 2008, pg. 7).

According to Finch (2007), before starting to write a business plan we decide what the plan is for and to which audience it is dedicated. This author presents six issues why business plans are made for: investment to new idea or in an existing business, buying a business, entering a joint venture, accepting tender to carry out a contract, giving a grant or a regulatory approval, helping to run own business. Business plans are made to cover the financial aspects of starting or expanding business – how much company need and how much she will be pay back (McKeever, 2008). "Preparing a business plan requires time and effort, but the task is certainly not beyond the reach of typical entrepreneur. It involves performing the same activities that successful managers perform as a standard part of managing and operating a business" (DeThomas and Derammelaere, 2008, pg. 7). It shows that every business plan has to be made responsibly with clear purpose and to be dedicated personally to entrepreneur who reads it.

According to literature review and Table 1, we can come to conclusion: there are two main types of business plans and six reasons start to do it. Table 1 presents that start-up business plan is made only then we want to get an investment for new idea. When company wants to expand, it faces with some issues such as investment to existing business, buying a business, entering a joint venture and accepting to carry out a contract and wants to go on it; it needs to make a business plan as

Table 1 The Types of Business Plans and Issues for Starting to Do It (McKeever 2008; DeThomas and Derammelaere, 2008)

Types \ Issues	Investment to new idea	Investment to existing business	Buying a business	Entering a joint venture	Accepting to carry out a contract	Giving a grant	Helping to run on own business
Start-up business	+					+	+
Expanding business		+	+	+	+	+	+

it faces with some issues such as investment to existing business, buying a business, entering a joint venture and accepting to carry out a contract and wants to go on it; it needs to make a business plan as well. Other two issues such as giving grant and helping to run on own business is acceptable for both types of business plans. Company has to make a business plan because it works as a tool which helps to convince entrepreneurs who wants to invest and shows how decisions will be made from marketing, management and finance sides to reach result.

Business plan is made from different parts and/or sections. It contains a market analysis and details of strategic marketing, management structure, personnel and finance forecasting (DeThomas and Derammelaere, 2008; McKeever, 2008; Finch, 2007). Business plan generalize all aspects and information about a company, whether it is developed or already in process. “A full analysis of the market, the management, the finances, and the product is necessary to the health of any venture, and the planning process forces you to undertake that analysis. Without it, one or another of these areas may be neglected in the whirl of day-to-day operations” (Brooks and Stevens, 1987, pg. 14). As we can see, it includes the object of activity, market analysis, and specific approach to strategy of marketing, management structure, personnel and all relevant financial information of the company.

According to McKeever (2008) and Frinch (2007), person or company which decided to make a business has to be well informed and experienced at this type of business which it chooses to develop. It is more important for the company which starts business but also the company which decided to expand or make big changes in her business, has to prepare a business plan as well. There are five different types of business as: retail, wholesaler, service, manufacturing and project development (McKeever, 2008, pp. 25-26).

One of the types of business is manufacturing. “Manufacturers assemble components or process raw materials into products usable by consumers or other business” (McKeever, 2008, pg. 26). Manufacturing changes slowly. It takes a long time to build new facilities, install new equipment, develop new suppliers, change operating procedures, train personnel, and close or move existing facilities. “In many companies, personnel inside and outside the manufacturing function realize that manufacturing struggles to provide what the company needs to be successful. This is due to the increase in customer expectations and competitors' capabilities and also to outdated manufacturing capabilities. Manufacturing can meet market expectations only by realigning itself, making improvements, and increasing manufacturing capabilities" (Miltenburg, 2005, pg. 2). Manufacturing companies are the most stabile ones. As it was mentioned above, to make some changes in this business is very hard but sometimes it is obligatory for better access, bigger market, lower transportation cost etc. One of the reasons to make changes in this business might be moving of existing facilities to another place or even another country and it might cause relocation of company. Necessity to relocate company, asks to make a relocation business plan. Relocation to new country means: new market, facilities' transportation and plenty of other changes (Broinsma, Gorter, Nijkamp, 2000).

1. 2. Financial Analysis

The goal of financial analysis, according to Palepu et al. (2004), is to assess the performance of a company in the context of its stated goals and strategy. There are two principal tools of financial analysis: ratio analysis and cash flow analysis. Ratio analysis involves assessing how various line items in a company's financial statements relate to one another. Cash flow analysis allows the analyst to examine the company's liquidity, and how the company is managing its operating, investment, and financing cash flows. "The financial analysis of an organization is of interest to parties that intend to make decisions about associating with that organization in some way, whether to invest in it, work for it, recommend it or any other possibility" (Friedlob and Schleifer, 2003). According to Helfert (2001), financial analysis is the process of determining and weighing the financial impact of business decisions. It analyses past, current and future financial situation of business. To make a good financial analysis is significant to use financial statements; the most important is cash flow and financial ratios. Palepu et al. (2004) definition of financial analysis differ from other literature sources because he divides it to three parts: accounting analysis, he calls as making of financial statements, financial analysis use cash flow and financial ratios tools and prospective analysis, he mentions as future perspectives.

Business plan is made from different parts and one of them is financial plan. To write a good financial plan is recommended to use financial analysis. "Smart financial managers consider the overall effect of financing and investment decisions. This process is called financial planning and the end result is a financial plan" (Breadley and Myers, 1996, pg. 794). According to Helfert (2001), financial business plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash flow projection, a projected balance sheet, and a break-even calculation. "A completed financial plan for large company is a substantial document. A smaller corporation's plan would have the same elements but less detail and documentation. For the smallest, youngest business, the financial plan may be entirely in the financial manager's head. The basic elements of the plans will be similar, however, for firms of any size" (Breadley and Myers, 1996, pg. 797).

Financial plan can refer to the three *pro forma*[1] financial statements: balance sheet, income statement, and cash flow statement, created within a business plan (Breadley and Myers, 1996; Helfert, 2001). According to Palepu et al. (2004), the forms of pro forma statements are recommended and suggested to use prepared under GAAP[2] rules, to make sure, that it lets to avoid misunderstandings with investors, creditors etc. According to Breadley and Myers (1996), pro forma statements present the financial goals of company and it may not be strictly unbiased forecasts. The earnings in the financial plan may be somewhere between an honest forecast and earnings that managers hope to achieve.

According to literature review of Breadley and Myers (1996), Helfert (2001), Palepu et al. (2004), every good financial plan must include not only three main financial statements: balance sheet, cash flow and income statements, all of them are pro forma ones, but also there has to be added operating forecast, break-even analysis and financial ratios which depends on goal of business plan. Also, it might include sections of request for start-up funds, financial history and analysis, financial current position, if it is necessary.

According to literature review of Breadley and Myers (1996), Helfert(2001), Palepu et al. (2004) authors, cash-flow projections, income statements, and pro forma balance sheets suppose to be created for at least three years into the future, and sometimes five. Financial projections should extend far enough into the future to the point where business has achieved stable operations. If possible*, it is useful to include best case, expected case, and worse case scenarios with financials*. It will allow to potential investors and loan officers to explore the upside potential and downside risks of business venture.

Evaluation of financial plan profitability, payback, and return on investment requires calculating investment financial ratios and analyzing it. “Simplistic methods of financial analysis, which are merely rules of thumb that intuitively grapple with the trade-off between investment and operating cash flows. They are the *payback* and the *simple rate of return,* both of which are still used in practice occasionally despite their demonstrable shortcomings” (Helfert, 2001, pg. 232).

Payback. “The playback period for a project is simply the number of the year it takes to recover the initial cash outlay on a project” (Weston, 1992, pg. 27). Using the data from our simplified example, the calculation is straightforward:

$$Payback = \frac{Net\ investment}{Average\ annual\ operating\ cash\ flow} \quad (1);$$

The result is the number of years required for the original outlay to be repaid; answering the question, “How long will it be until I get my money back?” It is a rough test of whether the amount of the investment will be recovered within its economic life span.

[1] Pro forma statements are projected financial statements embodying a set of assumptions about a company’s future performance and funding requirements.
[2] GAAP – Generally Accepted Accounting Principles.

Return on investment (ROI). According to Helfert (2001), it states the desirability of an investment in terms of a percentage return on the original outlay. A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

$$ROI = \frac{Average\ annual\ operating\ cash\ flow}{Net\ investment} \quad (2);$$

At the above formula (2) "gains from investment", refers to the proceeds obtained from selling the investment of interest. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

This is one of possible business investment analysis. It is as the process of weighing the economic trade-off between current money value outlays and future net cash flow benefits that are expected to be obtained over a relevant period of time (Helfert, 2001).

1. 3. Scenario

The origins of scenario show how definition and understanding of scenario meaning was changing. "The concept of using alternative scenarios for institutional planning was popularized by Kahn and Wiener in writings about "surprise-free" futures. It had been Herman Kahn who introduced the word "scenario" into the planner's vocabulary while at RAND Corporation in the 1950s. The term was used in connection with military and strategic studies conducted by RAND for the government; it appeared in the "open" literature in the text of the Kahn and Wiener book "The Year 2000" in the late 1960s. In that publication, *"scenarios" were defined as hypothetical sequences of events constructed for the purpose of focusing attention on causal processes and decision points*" (Zentner, 1982, pg. 14).

According to Chermack (2002), there are a large number of different and at times conflicting definitions, characteristics, principles and methodological ideas about scenarios. "The process of scenario planning is relatively young, and many variations have been developed. This variety of approaches can also be found in the available definitions and espoused dependent or outcome variables of scenario planning" (Chermack, 2002) (see Appendix).

According to Chermack (2002), all gathered available definitions of scenario planning summarize, analyze and collapse it into "four major outcome categories of scenario planning:

- ✓ changed thinking,
- ✓ informed narratives or stories about possible or plausible futures,
- ✓ improved decision making about the future,
- ✓ enhanced human and organization learning and imagination" (Chermack, 2002, pg. 373).

Zentner article which was written in 1982 and the literature review made by Chermack in 2002 show that scenario planning is about possible future decisions, forecasting, human and organization behaving in planning processes. It is not enough to have scenario definition. The scenario as a tool will work properly if we use methods of it.

The terms *planning, thinking, forecasting, analysis* and *learning* are commonly attached to the scenario conception. It depends on several overlapping camps of opinion, testimony. The literature reveals a large number of different and at times conflicting definitions, characteristics, principles and methodological ideas about scenarios (Bradfield et al., 2005).

2. METHODOLOGY

According to the purpose of this paper, there is used one of scenario methods. "The Art of Long View" method is a checklist which is used as the basis for scenario development and it has eight steps (Ringland, 1998) "The Art of Long View" method will be adapted to the company relocation case.

"The Art of Long View" Method and Company Relocation Case

The company which we will talk about is situated in Estonia and decides to move to Lithuania. "Astran" Ltd. is producing EURO pallets and has the agreement with Icelandic company "Adakarisson" Ltd. According to agreement, "Astran" Ltd. has to delivery EURO pallets elements every month to Klaipeda seaport. Company wants to reduce transportation cost and of it she decided to relocate. We will use "The Art of Long View" method to develop scenarios. Created Scenarios will show what "Astran" Ltd. may expect in the future if she accept the decision to relocate.

<u>Step One:</u> *Identify Focal Issue or Decision.* "When developing scenarios, it's good idea to begin "from the inside out" rather than "from inside in". This is, begin with specific decision or issue, then build out towards the environment [...] How can you be sure that the differences that distinguish your scenario will really make a difference to your business or your life? The best way is to begin with important decisions that have to be made and the mind-set of the management making them." (Ringland, 1998, pp. 228-229).
The focal issue of the "Astran" Ltd. was big cost of transportation and company decided to take decision to relocate.

<u>Step Two:</u> *Key Forces in the Local Environment.* This step shows which key factors are influencing the success or failure of the decision. It includes facts about customers, suppliers etc. (Ringland, 1998). Key forces which have influence on company are:

- ✓ Sales to Iceland. The main costumer of "Astran" Ltd. is Icelandic company "Adakrisson" Ltd.;
- ✓ Transportation costs. Company has big costs of transportation because the main wood supplier is from Belorussia and "Astran" Ltd. has to deliver EURO pallets to Klaipeda seaport which is far from Estonia as well.
- ✓ Taxes. The taxes are high in Estonia. Company is paying Income tax (21%), Guaranty fund (1,4%) and Social tax (33%).

<u>Step Three:</u> *Driving Forces.* "Once the key factors have been listed, the third step involves listing driving forces in the macro-environment that influence the key factors identified earlier. In

addition to a checklist of social, economic, political, and technological forces [...] this is the most research-intensive step in the process” (Ringland, 1998, pp. 229-230). There will be identified main driving forces of “Astran” Ltd. relocation to Lithuania: Social force, Lithuania geographical location: The distance between Lithuania and Belorussia is 500 km. and Klaipeda seaport is located in Lithuania. Economic force, unemployment ratio is high 17, 2% (data: 2011 I QR. (Statistics Lithuania)). It is easier to find labour. Political force, taxes are smaller in Lithuania: Income tax (15%), Guaranty fund (0,01%) and Social tax (30,98%). Technological force is not very important because “Astran” Ltd. will move facilities from Estonia to Lithuania.

Step Four: *Rank by Importance and Uncertainty.* The ranking of key factors and driving forces on the basis of two criteria: first, the degree of importance for the success of the focal issue or decision identified in step one: second, the degree of uncertainty surrounding those factors or trends. The point is to identify the two or three factors or trends that are most important and most uncertain. Scenario cannot differ over predetermined elements because predetermined elements are bound to be the same in all scenarios” (Ringland, 1998, pg. 230). The main issue of company relocation is sales to Icelandic company “Adakrisson” Ltd. Following, we have other two: transportation distances and taxes (Table 2).

Table 2 Key Factors and Driving Force of Relocation

Issue	Estonia	Lithuania
Sales to Iceland (unit)	56 000	56 000
Transportation distances (km)		
To Belorussia	700	500
To Klaipeda seaport	550	65
Taxes (%)		
Income tax	21%	15%
Guaranty fund	1,4%	0,01%
Social tax	33%	30,98%

According to Table 2, Lithuania has better location for logistics. It is closer to Belorussia and Klaipeda seaport is very near. Taxes in Estonia are higher than in Lithuania. This data shows that relocation of company is good and profitable decision because the quantity of produced EURO pallets is the same.

Step Five: *Selecting the Scenario Logics.* “The results of this ranking exercise are, in effect, the axes along which the eventual scenarios will differ. Determining these axes is among the most important steps in the entire scenario –generating process. The goal is to end up with just a few scenarios whose differences make a difference to decision-makers”(Ringland, 1998, pg. 230). As it was mentioned above, the main reason of “Astran” company relocation is sales to “Adakrisson” Ltd. According it, we will make three different scenarios:

Scenario 1 – the best case – All EURO pallets are sold to Adakrisson” Ltd.

Scenario 2 – the base case – “Astran” Ltd. sells the same quantity of EURO pallets to “Adakrisson” Ltd. and other customers, as it does in Estonia.
Scenario 3 – the worst case – All EURO pallets are sold to other customers.

Step Six: Fleshing Out the Scenario. The most important forces determine the logics that distinguish the scenarios, fleshing out the skeletal scenarios can be accomplished by returning to the list of key factors and trends (Table 5) identified in steps one two and three. Each key factor and trend should be given some attention in each scenario” (Ringland, 1998, pg. 232). According to Step Six, we will make mini review about each of scenario.

Scenario 1: Sales to Icelandic company. All the EURO pallets which are produced by company are sold to “Adakrisson” Ltd. The quantity of produced EURO pallets is 66667 units per month. The cost of one pallet is 4,5 €, because “Astran” Ltd. sells EURO pallets in elements, it means that pallets are not full complected; Transportation. “Astran” Ltd. organises two trips one from Lithuania to Belorussia and another one between two Lithuanian towns: Plunge and Klaipeda. Taxes. The amount of money which is paid for payroll taxes will change because “Astran” Ltd. do not need to have so many factory workers and marketing employees. Income tax depends on Income from operations amount.
Scenario 2: Sales to “Adakrisson” Ltd. Company sells 56 000 unit of EURO pallets to Icelandic company for 4,5 € and 10 667 units of full complected pallets to other customers for 6 €. Transportation. Company organises two trips one from Lithuania to Belorussia and another one between Lithuanian towns: Plunge and Klaipeda. Taxes. Income tax depends on Income from operations amount and amount of Payroll tax depends on quantity of employees at company in Scenario 2 case.
Scenario 3: No sales to Iceland. The EURO pallets is sold to other customers for 6€ per each. Transportation. Company organises only one trip from Lithuania to Belorussia and other trip to Klaipeda seaport is cancelled. Taxes. Company needs to hire more employees for EURO pallets collecting and Marketing sector expands because company has to find new customers to sell EURO pallets and it will has influence on Payroll tax. Income tax depends on Income from operations amount.

Step Seven: *Implementation.* “Once the scenarios have been developed in some details, then it is time to return on focal issue or decision identified in step one to rehearse the future. How does the decision look in each scenario?” (Ringland, 1998, pg. 232).

Step Eight: *Selection of Leading Indicators and Signposts*“. It is important to know as soon as possible which of the several scenarios is closest to course of history as it actually unfolds” (Ringland, 1998, pg. 232). The different scenarios have been flashed out and their implications for the decision determined, then it is worth to analyse it more. If indicators are selected carefully and imaginatively, the company will know what the future holds for and how that future is likely to affect strategies and decisions. (Ringland, 1998).

The Step Seven and Eight will be revealed in Application part. It presents company activities in Estonia, descriptions and financial analysis of each scenario in relocation to Lithuania case and helps to find out the profitability which company can expect if she decides to relocate.

3. APPLICATION

This unit presents "Astran" Ltd. company and its activities before and after relocation. This company was working in Estonia before it took the decision to relocate to Lithuania. We will review sales, transportation and financial statements forecasting.

Astran Ltd. produces EURO pallets and wood products. The main customer of Astran Ltd. is Icelandic company - Adakrisson Ltd. The sales to main costumer is 56 000 EURO pallets in elements and 10 6667 full complected EURO pallets to other customers. The company has 34 employees. Every month it spends 39944,26 € for salaries and Payroll tax takes 10223,83 € of this amount. Astran Ltd. organises two trips: to export wood from Belorussia (Trip 1) and to deliver pallets to Klaipeda seaport (Trip 2), every month it costs 89 004 €. Net profit of company is 44 162 € after one month and 913 119 € of all 2010 year. The only asset which company has is facilities, other things are rented.

The Art of View method is adapted to Astran Ltd. relocation case. According to it, the main focal issue is Astran Ltd. relocation from Estonia to Lithuania. The key forces which have influence for company relocation are sales to Icelandic company Adakrisson Ltd., high transportation cost and lower taxes in Lithuania. According to this scenario method, it was created three scenarios: the best case – All EURO pallets are sold to Adakrisson Ltd.; the base case – Astran Ltd. sells the same quantity of EURO pallets to Adakrisson Ltd. and other customers, as it does in Estonia; the worst case – All EURO pallets are sold to other customers.

The main issue why "Astran" Ltd. decided to relocate was partnership agreement with "Adakrisson" Ltd. According to this agreement, company has to deliver EURO pallets to Klaipeda seaport. "Astran" Ltd. decided to reduce expenses because it may help to get more profit from this agreement. The main costs which company can reduce are transportation ones. It took a decision to relocate company to Lithuania because this country is closer to Belorussia than Estonia and Klaipeda seaport is located in Lithuania. As it was mentioned before, company has only facilities and other things are rented. "Astran" Ltd. has to move its facilities from Estonia to Lithuania. The relocation of "Astran" Ltd. facilities from Estonia to Lithuania have cost 11 955 € and takes five days.

Following company relocation case, this section presents three different scenarios: the best case, the base case and the worst case. These scenarios are based on company sales to Icelandic company "Adakrisson" Ltd. and present changes of salary, transportation cost and show financial forecasting in every case of 5 five years.

- ✓ Scenario 1 (The best case). "Astran" Ltd. sells all production (66 667 units of EURO pallets) to "Adakrisson" Ltd. Company has 25 employees and has 26 482 € expenses of salary. "Astran" Ltd. organises Trip 1 and Trip 2, transportation cost 61 929 € per month. The company gets 52 676 € Net profit after one month. The break-event point is 20 796 units of EURO pallets. The low-risk scenario.

- ✓ Scenario 2 (The base case). “Astran” Ltd. sells 56 000 units of EURO pallets to Adakrisson Ltd. and 10 667 units to other customers. Company has 28 employees and has 28 275 € expenses of salary. “Astran” Ltd. organises Trip 1 and Trip 2, transportation cost 61 267 € per month. The Company gets 61 065 € Net profit after one month. The break-event point is 14 014 units of EURO pallets. The middle-risk scenario.
- ✓ Scenario 3 (The worst case). “Astran” Ltd. sells all EURO pallets to other customers. Company has 30 employees and has 29 380 € expenses of salary. “Astran” Ltd. organises only Trip 1, transportation cost 57 809 € per month. The Company gets 158 338 € Net profit after one month. The break-event point is 10 568 units of EURO pallets. The high-risk scenario.

Scenario 2 is the most suitable because it has middle-risk, “Astran” Ltd. sells pallets to “Adakrisson” Ltd. and to other customers, organise both trips, financial data shows profit and is the most similar to the company‘s activities in Estonia before relocation to Lithuania.

There are calculated Payback and Return on Investment financial ratios. Payback ratio shows “Astran” Ltd. relocation buy off very fast: Scenario 1 needs 11 days, Scenario 2 – 8 days and Scenario 3 – 4 days. ROI ratio calculations present that investment to relocation buy off 36 times or 3 615% in the best case scenario, 45 times or 4 598% in the base case scenario and 105 times and 10 523% in the worst case scenario.

According to analysis of key factors, we can calculate the amount of money which “Astran” Ltd. saves per one month of company relocation from Estonia to Lithuania (Table 3).

Table 3 Saved Money of “Astran” Ltd. after One Month Relocation

Key factor	Cost in Estonia(€)	Cost in Lithuania (€)	Saved amount of money (€)
Transportation			
Trip 1	68 235,31	57 809,80	10 425,51
Trip 2	20 768,91	3 457,67	17 311,34
Taxes			
Payroll tax	10 223,83	6 277,17	3 946,66
Income tax	14 475,08	12 201,96	2 273,12
		Total:	**33 956,53**

Table 3 presents amount of money which “Astran” Ltd. saves of relocation from Estonia to Lithuania after one month activities. It is 33 956 €. If we compare this money with company relocation cost (11 955 €) we will become to conclusion that it is really profitable and worth to relocate “Astran” Ltd. company.

Advantages of Company Relocation from Estonia to Lithuania:

1. Shorter distances. Transportation is cheaper and faster because the distance between Lithuania and Belorussia is shorter than between Estonia and Belorussia;
2. Lower taxes. Income and Payroll taxes are lower in Lithuania than in Estonia;
3. Klaipeda seaport is located in Lithuania. This advantages lets to reduce transportation cost of Trip 1;
4. Smaller number of employees. Shorter distances let to hire smaller number of drivers and save money.
5. Lithuania is closer to Eastern, Western and Southern Europe markets than Estonia. Better connection with Europe, it is easier to find new costumers.

Disadvantages of Company Relocation from Estonia to Lithuania:

1. Relocation process and cost. Relocation cost money and time. Company has to stop working while all facilities will be relocated from one country to another.
2. Far from Northern Europe market. “Astran” Ltd. may lose customers from this part of Europe;
3. Recruitment. “Astran” Ltd. has to find experienced and trustful employees in Lithuania and it may cost extra expenses;
4. Entering to Lithuania EURO pallets market. This market may have strong competitors and can be very difficult to gain a foothold in this market. The entering to new market asks researches, time and additional costs.

The advantages and disadvantages of “Astran” Ltd. relocation from Estonia to Lithuania present that there are more advantages than disadvantages. Company relocation to Lithuania is good decision because “Astran” Ltd. earns more money, saves money of transportation and taxes, and it is closer to other customers. Disadvantages are based of relocation process and cost, recruitment and “Astran” Ltd. may lose customers with who was working till company relocation. As result, “Astran” Ltd. relocation from Estonia to Lithuania is wise and profitable decision.

CONCLUSIONS

The main purpose of this paper is to make the financial analysis of company relocation business plan by providing to use scenario method in financial decision making. It is achieved, adapted and examined from literature and application point of view.

Business plan is necessary in business planning and developing. Business plan presents a business idea, how it will be reached and what a profit will be got from it. It contains a market analysis and details of strategic marketing, management structure, personnel and finance forecasting. There are two types of business plans: start-up and company expanding.

Type of business is very important in business plan preparing process. There are five different types of business as: retail, wholesaler, service, manufacturing and project development. Manufacturing companies are the most stabile ones and to make changes in this business is hard but sometimes it is obligatory for better access, bigger market, lower transportation cost. Business plan for manufacturing company has to be prepared carefully and based on reliable estimations.

Business plan is made from different sections and one of them is financial plan. Financial plan includes financial analysis. Financial analysis is the process of determining and weighing the financial impact of business decisions. It analyses past, current and future financial situation of business. Financial analysis consists of financial statements and ratios.

Financial plan includes three financial statements: balance sheet, cash flow and income statements, all of them are pro forma (forecasting) and there can be added operating forecast, break-even analysis and financial ratios. The most important is cash flow statement and financial ratios.

The conception of scenario is variable. The terms planning, thinking, forecasting, analysis and learning are commonly attached to the scenario conception. Analysis of scenario definition presents four major outcome categories: changed thinking, informed narratives or stories about possible or plausible futures, improved decision making about the future, enhanced human and organization learning and imagination.

“The Art of View” method is adapted to “Astran” Ltd. relocation case. According to it, the main focal issue is “Astran” Ltd. relocation from Estonia to Lithuania. The key forces which have influence for company relocation are sales to Icelandic company “Adakrisson” Ltd., high transportation cost and lower taxes in Lithuania. According to this scenario method, it was created three scenarios: the best case – All EURO pallets are sold to “Adakrisson” Ltd.; the base case – “Astran” Ltd. sells the same quantity of EURO pallets to “Adakrisson” Ltd. and other customers, as it does in Estonia; the worst case – All EURO pallets are sold to other customers.

There are calculated Payback and Return on Investment financial ratios. Payback ratio shows “Astran” Ltd. relocation buy off very fast: Scenario 1 needs 11 days, Scenario 2 – 8 days and Scenario 3 – 4 days. ROI ratio calculations present that investment to relocation buy off 36 times in the best case scenario, 45 times in the base case scenario and 105 times in the worst case scenario.

The expected case scenario is the most suitable because it has middle-risk, “Astran” Ltd. sells pallets to “Adakrisson” Ltd. and to other customers, organise both trips, and financial data shows profit and is the most similar to the company’s activities in Estonia before relocation to Lithuania.

The advantages of “Astran” Ltd. relocation are shorter distances, lower taxes, Klaipeda seaport is situated in Lithuania, smaller number of employees and Lithuania is closer to Eastern, Western and Southern Europe markets than Estonia.

The disadvantages of “Astran” Ltd. relocation are relocation process and cost, far from Northern Europe market, recruitment and Lithuanian EURO pallets market.

Company that carries out of detailed and reliable financial analysis makes financial decisions that will bring future profits. Scenario method is one of the tools which helps to do it right and correct.

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Appendix Definitions and Dependent Variable of Scenario (Chermack, 2002, p.p. 370-372)

Author (Year)	**Definition**	**Dependent variable**
Porter (1985)	“An internally consistent view of what the future might turn out to be—not a forecast, but one possible future outcome”	A view of one possible future outcome
Schwartz (1991)	“A tool for ordering one’s perceptions about alternative future environments in which one’s decisions might be played out”	Ordered perceptions about alternative future decision-making environments
Simpson (1992)	“The process of constructing alternate futures of a business’ external environment”	Constructed alternate futures
Bloom & Menefee (1994)	“A description of a possible or probable future“	A described possible or probable future
Collyns (1994)	“An imaginative leap into the future”	An imagined future
Thomas (1994)	“Scenario planning is inherently a learning process that challenges the comfortable conventional wisdoms of the organization by focusing attention on how the future may be different from the present”	Challenged comfortable conventional wisdoms about the future
Shoemaker (1995)	“A disciplined methodology for imagining possible futures in which organizational decisions may be played out”	Imagined possible decision-making futures
Van der Heijden (1997)	1. External scenarios are “internally consistent and challenging descriptions of possible futures” 2. An internal scenario is “a causal line of argument, linking an action option with a goal” or “one path through a person’s cognitive map”	Descriptions of possible futures Explicit cognitive maps
De Geus (1997)	“Tools for foresight-discussions and documents whose purpose is not a prediction or a plan, but a change in the mindset of the people who use them”	Changed mind-sets
Ringland (1998)	“That part of strategic planning which relates to the tools and technologies for managing the uncertainties of the future”	Managed future uncertainties
Bawden (1998)	“Scenario planning is one of a number of fore sighting techniques used in the strategic development of organizations, which exploit the remarkable capacity of humans to both imagine and to learn from what is imagined”	Human imagination and learning made explicit
Fahey & Randall (1998)	“Scenarios are descriptive narratives of plausible alternative projections of a specific part of the future”	Plausible alternative projections of a specific part of the future
Alexander & Serfass (1998)	“Scenario planning is an effective future tool that enables planners to examine what is likely and what is unlikely to happen, knowing well that unlikely elements in an organization are those that can determine its relative success”	Examined future likelihoods and unlikelihoods
Tucker (1999)	“Creating stories of equally plausible futures and planning as though any one could move forward”	Stories of equally plausible futures that inform planning
Kahane (1999)	“A series of imaginative but plausible and well-focused stories of the future”	Plausible stories of the future
Kloss (1999)	“Scenarios are literally stories about the future that are plausible and based on analysis of the interaction of a number of environmental variables”	Informed, plausible stories about the future
Wilson (2000)	“Scenarios are a management tool used to improve the quality of executive decision making and help executives make better, more resilient strategic decisions”	Improved executive strategic decision making
Godet (2001)	“A scenario is simply a means to represent a future reality in order to shed light on current action in view of possible and desirable futures”	A represented future reality