

**Czech University of Life Science Prague**

**Faculty of Faculty of Economics and Management**



**Bachelor thesis**

**Analysis of e-business start-up project in fashion  
market**

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**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

Department of Economics

Faculty of Economics and Management

# **BACHELOR THESIS ASSIGNMENT**

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Thesis title

**Analysis of e-business start-up project in fashion market**

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### **Objectives of thesis**

To create and test clear, rational and real business plan for a start-up company performing its activities in the sphere of fashion.

### **Methodology**

Literary research; meta analysis; financial planning; statistical analysis; marketing strategy proposal.

### **Schedule for processing**

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**The proposed extent of the thesis**

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**Keywords**

e-shop, business plan, start-up, marketing plan, financial plan, business strategy, fashion market

**Recommended information sources**

e-Business: roadmap for success  
Ravi Kalakota and Marcia Robinson  
The 100 gratest ideas for making money on the Internet  
Ros Jay  
E-business start-up, Philip Treleaven  
E-supply chain, Charles C. Poirier & Michael J. Bauer  
Ebusiness systems and architecture for E procurement and E- resourcing,  
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Dean

## **Declaration**

I hereby declare to have compiled this final thesis “Analysis of e-business start-up project in fashion market” entirely myself and in accordance with recommendations of my supervisor, that I indicate all the literature and other supporting materials used in the index of bibliography. Therefore I declare that I have not violated any right of third parties while writing my master’s thesis.

Prague, \_\_\_\_\_



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# Analýza e-business start-up projektu na trhu módy

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## Analysis of e-business start-up project in fashion market

### **Anotace**

Bakalářská práce se zabývá sestavením podnikatelského záměru pro otevření internetového obchodu s luxusními módními šperky. Práce obsahuje podnikatelský plán, marketingový plán a statistické analýzy. Bakalářská práce zahrnuje analýzu trhu módy v České republice a jeho porovnání s Evropským.

Cílem práce je vytvořit a otestovat racionální a reálný podnikatelský plán pro start-up společnost podnikající v oblasti módy. Podnikatelský plán bude obsahovat případné rizika, náklady a odhad investic pro společnost.

**Klíčová slova:** internetový obchod, business plán, start-up, marketingový plán, strategie podnikání, trh módy

### **Abstract**

The bachelor thesis deals with a creating of Internet based shop, which focuses on fashion market. This work contents business plan, marketing plan and statistical analyses. The project will show analysis of fashion market in Czech Republic and compare it with the rest of Europe.

The aim of the project is to create and test rational and real business plan for start-up of the company performing its activities in the sphere of fashion. The business plan will also contain potential risks, costs and estimation of investments for the company.

**Keywords:** e-shop, business plan, start-up, marketing plan, business strategy, fashion market

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# 1 Introduction

As market is developing and customer's needs are unlimited, entrepreneurs enter with innovations. One of the significant innovations for the last forty years was online shopping system. This technical novelty bring more comfort into our 's life and also more profit to firms. Nowadays almost every firm has it's own web pages where people can get acquainted with the services and goods of a given firm. Moreover we know examples of firms that don't have a brick-and-mortar store but only Internet based shops. For instance most profitable e-shops in USA are Amazon.com and Ebay.com or Heuerka.cz and Mall.cz in Czech Republic.

I've chosen fashion brand jewelry for my e-business start up project because jewelry is definitely different type of product in contrast with clothes or cosmetics and it requires completely different approach. In addition this product doesn't exclude male's attention. Therefore business could rely on both potential customers: males and females.

My goal is to estimate business strategy and concept for e-business and also to determine target segment. In addition I will consider risks such as quality, customer privacy and competition and how to manage them. For the better progress of business the threats and opportunities can't be ignored.

## 2 Literature Review

For the purpose of writing this thesis, different publications available in open access in both print and electronic forms will be used. They are required to obtain valuable theoretical and practical data on the research topic, and to subsequently draw comprehensive conclusions.

Among other publications, the following bibliographic sources will be used: Wojciech W. Gasparski, Csv Leo Ryan, Stefan M. Kwiatkowski. *Entrepreneurship: Values and Responsibility*; Gordon B. Baty, Michael Blake. *Entrepreneurship: Back to Basics*; Lucie Scholz. *Brand Management and Marketing of Luxury Goods*; Uché Okonkwo. *Luxury Online: Styles, Systems, Strategies*; Linda Pinson. *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*; Sherif Kamel. *Electronic Business in Developing Countries: Opportunities and Challenges*; Lee, In. *Electronic Business: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications*; etc.

The publication of Wojciech W. Gasparski, Csv Leo Ryan, and Stefan M. Kwiatkowski deals with the issues related to entrepreneurship. The authors investigate the key theoretical aspects related to this business phenomenon, theoretical approaches to the implementation of entrepreneurial skills, and methods for evaluating the results of such business activities. This is important to understand for starting a business which is one of the goals of this thesis. (Gasparski, Ryan and Kwiatkowski, 2011)

Gordon B. Baty and Michael Blake tend to consider entrepreneurship from another perspective, with is practical and empirical rather than theoretical. The authors provide an overview of the conditions of doing business in different countries around the globe, and explain how different governments promote entrepreneurship. (Baty and Blake, 2003)

In Lucie Scholz's publication, the focus is put on the market of luxury goods and its specificities. The author describes how the market of luxury goods is developed, the particularities of demand and supply on it, etc. The researcher also provides valuable theoretical data, such as the different classifications of luxury goods, behavioural motivations for purchasing such products, etc. (Scholz, 2014)



Uché Okonkwo regards the market of luxury goods from the perspective of its online segment, i.e. the sales of luxury goods on the Internet. The author investigates the specificities and particularities of such business activities, and provides valuable information on the trends on this market segment. (Okonkwo, 2007)

Linda Pinson's publication deals with the issue of business plans in corporate activities. The author shows the importance of planning in any company, and provides an overview of how business plans should be compiled. The researcher provides useful tips and recommendations for entrepreneurs on how to draw up effective business plans ensuring high corporate performance. (Pinson, 2008)

Sherif Kamel's publication is dedicated to the general aspects of electronic business. The author investigates the specificities of online sales, and the legislative approaches to them adopted in different countries around the globe. Also, the researcher analyzes the technical requirements to online shops for ensuring their maximum performance. (Kamel, 2006)

Lee In's publication is dedicated to electronic business as well, however, the author focuses on the overview of business cases providing valuable practical information to entrepreneurs who seek running business activities online. (Lee, 2008)

All the data contained in the above bibliographic sources provide valuable information on various aspects related to the research topic, and will be used for ensuring the maximum value of the findings of this thesis.

### **3 Goals and Methodology**

#### **Goals**

The main goal of theoretical part of this thesis is to introduce to the reader what is meant by e-business. Not only to get acquainted, but also to be able to distinguish types of Internet business models and orientate in this area. As it will be speech about starting a business, precisely running an Internet business, business plan will take big part of thesis. The aim of practical part is to analyze luxury goods market in fashion industry, more precisely fashion jewelry. In like manner it is important to compare Czech and international market in the area of interest. Moreover the main point of the project is profitability of start-up, which will be also evaluated.

#### **Methodology**

In this Bachelor thesis was used various methods that were learned from different sources such as academic literature and suitable websites. In the theoretical part was used study and description of business plan, which was based on relevant literature. For risks of Internet based business was implemented number of formulas. Practical part deals with such methods of investigation as:

- Market research
- Pest analysis
- SWOT analysis
- Competitor analysis
- Statistic analysis
- Strategy and time limit for implementation
- Marketing plan

All these methods were applied for the better understanding and analyzing of start up project with luxury jewelry.

## 4 Theoretical part

In theoretical part would be mentioned definitions, which will be used in this bachelor thesis. Theoretical part deals with important aspects that are related with establishing a business. Considering about being an entrepreneur it is important to determine pros and cons that come with the establishment of business.

The main component of theoretical part is to explain difference between e-shop and physical store. How to define target group of customers and what are the main forms of propagation.

An important part of the bachelor thesis is a business plan, which includes processing, formal aspects and content. This section deals with selection of activity and form of business and the possibility of obtaining funds.

### 4.1 *Fashion industry*

Fashion industry does not include only clothes but related accessories such as jewelry, various bags, shoes, furniture and much more. Fashion is not only apparel for people. It is way of thinking, new trend and progress.<sup>1</sup>

We distinguish fashion in two ways, there are: luxury fashion and daily apparel. Daily apparel is designed for everyone and most people from different social groups can afford it. Such companies produce more items but sell it for lower prices. Nevertheless, luxury fashion is not affordable for everyone. It is a passion for wealthy people. Luxury things can be such things as clothes by couture, expensive cars and watches.<sup>2</sup>

The fashion industry is a product that nowadays is counted as a trend not need. From the middle of 19<sup>th</sup> century clothes was primary custom-made. Only individuals could content with hand-made clothes. In 20<sup>th</sup> century new technologies were discovered and clothing manufactures raised up. Tailoring became more profitable and mainly it became faster. The development of factory system started to grow and global capitalism rose. Retail and department stores started to appear on the streets and clothing comes to be

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<sup>1</sup> SCHOLZ, Lucie. *Brand Management and Marketing of Luxury Goods*, pp. 4-5

<sup>2</sup> OKONKWO, Uché. *Luxury Fashion Branding: Trends, Tactics, Techniques*, pp. 17-18

mass-product that was sold in at fixed prices. Factories produced clothes in in a big scale and more labor was needed.<sup>3</sup>

Fashion firstly developed in USA and Europe and now it is a globalized international market. For many years America was a great employer, but in 21<sup>st</sup> century situation has changed due to the economic factors, mainly costs that are related to material, shipping and especially factors of production- land, labor and capital. So that clothes can run around several countries. For example, it was designed in Italy, made in China and finished in America. For that reason clothing have lower costs for the manufacture, cheaper for customer and it's still Italian.<sup>4</sup>

Fashion includes not only design and sewing but it is a whole system of it's production. Firstly, raw materials, textiles, fibers, leather and fur must be produced. Second, designers have to come up with new designs and after that manufacture will produce clothes. Third level is a retailer, which will sell goods. And finally it is a multiplicity of advertising campaigns, commercials and promotions. These departments are separated but depended on each other. The whole process is directed to satisfy client's needs under condition of profit.<sup>5</sup>

## **4.2 Jewelry industry**

Strong development, stability and ability to create innovative and trend products, are factors that influence entrance to the jewelry industry. Volume and sales of jewelry market is growing rapidly each year. One of the reasons why this industry is considered to be stable is that jewelry will never go out of fashion.<sup>6</sup>

There are many functions of jewelry, for example in fashion people use jewelry to fix their look or hair or to know time (if this are watches). Jewelry is used also to point at a social status or marital status. It could be form of membership of ethnical group or religious. One more function in which people believe is amulet, that has to protect from evil.<sup>7</sup>

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<sup>3</sup> OKONKWO, Uché. *Luxury Fashion Branding: Trends, Tactics, Techniques*, pp. 25-26

<sup>4</sup> SCHOLZ, Lucie. *Brand Management and Marketing of Luxury Goods*, pp. 7-8

<sup>5</sup> OKONKWO, Uché. *Luxury Fashion Branding: Trends, Tactics, Techniques*, pp. 20-21

<sup>6</sup> OKONKWO, Uché. *Luxury Fashion Branding: Trends, Tactics, Techniques*, pp. 28-30

<sup>7</sup> SCHOLZ, Lucie. *Brand Management and Marketing of Luxury Goods*, pp.34-35

Many people are willing to spend high amount of money for jewelry for anniversaries. So jewelry is assumed as a sumptuous gift. People are also willing to have fashionable, beautiful and new products, which increases demand. This is a permanent demand, which confirms the stability of jewelry industry.<sup>8</sup>

Sales of jewelry is headed mainly by eight world markets, which is more than three fourth of global sales. The USA is the biggest market and it is estimated 31% of world's sales in 2005. India and China increased market share to 8.3% and 8.9%. In 2012 consumption of jewelry is mainly concentrated in India, which is totaled at 552 metric tones, China and third place took U.S.<sup>9</sup>

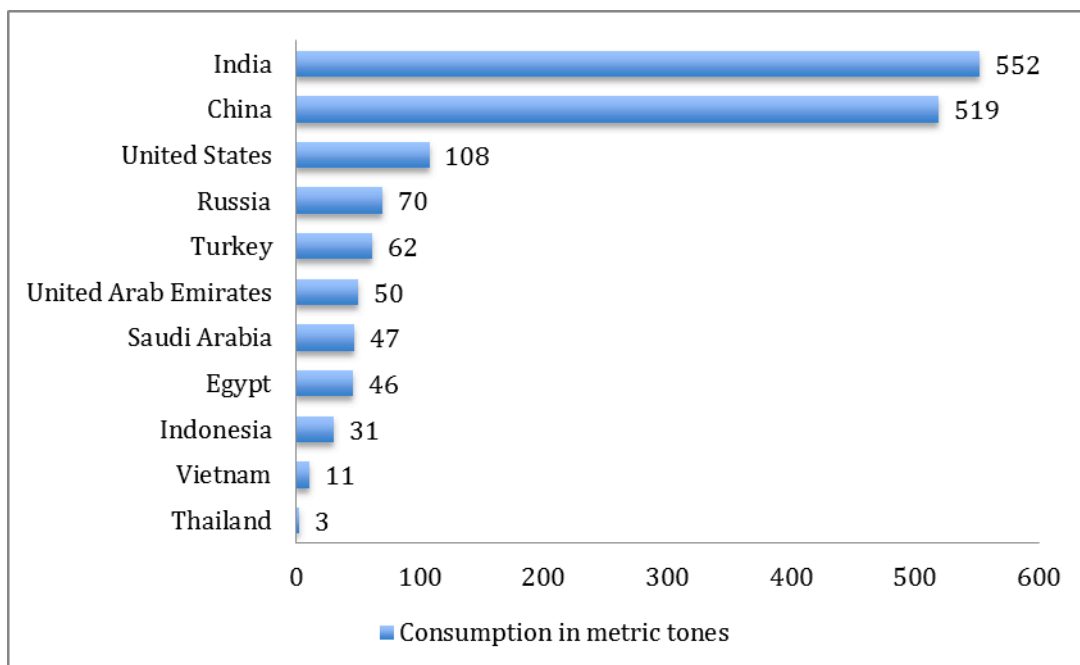


Figure 1: Major countries in global jewelry consumption in 2012 (Statista 2015; own computation)

<sup>8</sup> HATTEN, Timothy S., *Small Business Management*, p. 23

<sup>9</sup> SCHOLZ, Lucie. *Brand Management and Marketing of Luxury Goods*, pp.37-38



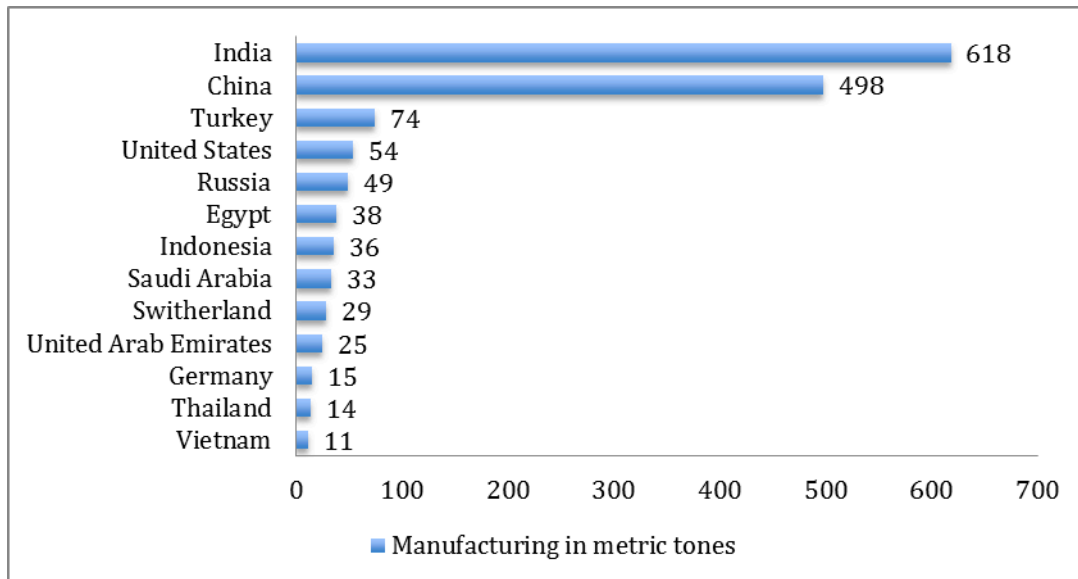


Figure 2: Major countries in global jewelry manufacturing in 2012 (Statista 2015; own computation)

In the same year statistic shows that global jewelry manufacturing, sorted by major countries, India topped the list with 618 metric tones and China 498 metric tones. United States took fourth place with 54 metric tones of jewelry. On the third place appeared Turkey by manufacturing 74 metric tones.

### 4.3 Entrepreneurship

Nowadays, when everyone has devices that allow to be connected to Internet almost twenty-four hours a day, it became easier to do your work without leaving home. Everyone can sell or buy using the Internet and it's much more easy to do your business now. But really everyone can sell via Internet and what's the difference between 'shop on the corner' and 'e-shop'?<sup>10</sup>

Before realization of business, which involves proper study of commercial law and other issues, entrepreneur has to determine the difference between physical shop and online shop. Due to the commercial law of Czech republic "*entrepreneurship means a systematic activity conducted separately by entrepreneur's own name and on his or her own responsibility for the purpose of profit.*"<sup>11</sup> Based on this statement it is important to

<sup>10</sup> GASPARSKI, Wojciech W., RYAN, Leo, KWIATKOWSKI, Stefan M., *Entrepreneurship: Values and Responsibility*, pp. 21-22

<sup>11</sup> §2, odst. 1 zákona č. č. 513/1991 Sb., obchodní zákoník, [Section 2, para. 1 of Law No. 513/1991 Coll., Business law]

underline that no one but entrepreneur is responsible for decisions and for the results of business.

Hereinafter responsible person has to legalize his or her activity for the secure business. For that reason he or she is require to obtain a trade license or to establish a company and run online shop by this company. The main difference between the stone store and online store is a method of concluding contract with customers. In the most cases purchasing agreement is provided to customer in a distance, and that means that client has to 'sign' and agree with the conditions through the Internet.<sup>12</sup>

From the point of view of law, establishing and operation of e-shop is slightly different in contrast to physical store. In fact buyer of online shop has a little more benefits than buyer of a classic store. What concerns retailer, he or she must to fulfill some specific responsibilities associated with communication technologies.<sup>13</sup>

#### **4.3.1 Business models**

Browsing Internet to find some certain information, searchers hardly think of what is this or that site was created for. Of course it is obvious that some web pages were designed for selling purposes, some carry information about particular advertisements or organizations, etc. However, all commercial sites are based on business models, which are many.<sup>14</sup>

Defining types of the business model for organization can help to raise business from the ground. Business model is a fundamental for the start- up. It describes values of a company, what type of business strategy and concepts will be used, how the company achieves its aims.<sup>15</sup>

There are numerous of business models for each type of business activity. They can be implemented and combined in a different ways. Models are divided into different categories:

- Brokerage

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<sup>12</sup> MORRIS, Michael, KURATKO, Donald, COVIN, Jeffrey, *Corporate Entrepreneurship & Innovation*, pp. 74-75

<sup>13</sup> BATY, Gordon B., BLAKE, Michael, *Entrepreneurship: Back to Basics*, p. 8

<sup>14</sup> MINNITI, Maria, ZACHARAKIS, Andrew, SPINELLI, Stephen, RICE, Mark P., HABBERSHON, Timothy G., *Entrepreneurship: The Engine of Growth*, pp. 19-20

<sup>15</sup> GASPARSKI, Wojciech W., RYAN, Leo, KWIATKOWSKI, Stefan M., *Entrepreneurship: Values and Responsibility*, pp. 23-24

- Advertising
- Infomediary
- Merchant
- Manufacturer (Direct)
- Affiliate
- Community
- Subscription
- Utility<sup>16</sup>

For the purposes of electronic shop, only few models will be characterized that can be implemented to the project. The manufacturer model or direct is a most common model especially for e-shops. Manufacturer is a company that produces some product or service and its goal to reach a direct channel with customers. Model is based on the power of Internet, customer service and understanding their needs. This model includes such options as purchase, lease and license.<sup>17</sup>

Brokerage model is a model that brings byers and sellers together. This model can include B2B, B2C and C2C markets. Broker can take a fee or commission for the transactions were made. Merchant model is the next option especially for e-commerce shop. Merchants are wholesalers or retailers that offer their goods or service for the concrete price or byers have a through auction. E-business model helps firm to set information flow, services and sources of income. In addition it enables benefits for customers and suppliers.<sup>18</sup>

Considering the e-shop with brand jewelry, choosing a proper business model must be one of the primary keys. Due to the above, convenient business model for the site with brand jewelry will be merchant model or a combination of merchant and brokerage models. Therefore company will have its own web pages where customers are able to make a purchase. Since it would be a multi brand jewelry e-chop, customers could choose

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<sup>16</sup> MORRIS, Michael, KURATKO, Donald, COVIN, Jeffrey, *Corporate Entrepreneurship & Innovation*, pp. 70

<sup>17</sup> RAPPA, Michael, *Business Models*, [online]. [cit. 2014-12-15]. Available from: <<http://digitalenterprise.org/models/models.html>>.

Michael Rappa is a professor at North Carolina State University.

<sup>18</sup> GASPARSKI, Wojciech W., RYAN, Leo, KWIATKOWSKI, Stefan M., *Entrepreneurship: Values and Responsibility*, pp. 36-37

from a variety of products and brands. The advantage of this type of business that our company is not a manufacturer but a retailer, hence company's revenues are independent from manufacturer costs, but only dependent on customers purchasing jewelry from e-shop. What concerning advertising, there are already brand items that do not need to be promoted. Nevertheless we still need an advertisement of a new multi brand jewelry e-shop. This problem can be solved, by adding advertisement to the familiar web pages. So the communication transaction is business-to-consumer (B2C) and business-to-business (B2B). There are numerous business models that are accessible for firms and each is trying to be unique by offering special selling proposition.<sup>19</sup>

#### **4.4 Business plan**

What is a Business plan? Business plan is a presentment that explains and analyzes business and how the business will be developing. Since majority of starting entrepreneurs doesn't dispose of initial capital, they need financial backing. However Investors probably wouldn't provide money to a venture. For those purposes starting entrepreneurs has to establish a business plan, which may interest an investor or bank, and obtain money for the realizing an idea. Creating of business plan shows to the investors that appropriate work has been done. It includes, in particular, analyses of different details, research of benefits and losses, calculating of costs and revenues of business plan. These indicators show in what direction the firm will grow, and on what will be focused on.<sup>20</sup>

Due to the Veber's Entrepreneurship of small and medium firms, business plan is defined as " a planning tool, the base for decision making process, checking tool etc., particularly when entrepreneur establishing the company and when the firm is faced to significant changes, which could influence its process".<sup>21</sup>

Initially business plan primarily is designed for entrepreneur. Meantime entrepreneur should know the aims of the firm, realize the risks of business and challenges. Moreover business plan is a prediction for development of financial flow and further necessary financial sources. Business plan also deals with basic objectives of the firm and

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<sup>19</sup> MINNITI, Maria, ZACHARAKIS, Andrew, SPINELLI, Stephen, RICE, Mark P., HABBERSHON, Timothy G., *Entrepreneurship: The Engine of Growth*, pp. 27-30

<sup>20</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 39-40

<sup>21</sup> VEBER, Jan, SRPOVÁ, Jitka, *Entrepreneurship of small and medium firms*, p. 98

its current growth. In addition business plan includes competitiveness, market development and human resources.<sup>22</sup>

For the elaboration of business plan some basic parameters have to be applied. First of all it is important to have a realistic and truthful business plan. It is impossible to feature unreal or supposed information, which were not certified by preliminary analysis. In case of pessimistic progress of firm, the calculation of financial prognosis has to take place in business plan in order to prepare investors for the unsatisfied outcome. This also concerns an optimistic and realistic financial valuation, because firm can have a good scenario, which is undoubtedly profitable for the investor and for the entrepreneur.<sup>23</sup>

Secondly business plan has to be intelligible not only for entrepreneur but for other concerned persons too. Furthermore it has to be logical. Therefore thoughts and assumptions presented in business plan have to be consecutive and lead to a logical summary.<sup>24</sup>

Subsequently there are some evaluation criteria that have to occur in business plan in order to attract investors or bank. These criteria can be considered as universally valid:

- Clarity and distinctness of business plan
- Complexity of information about the industry and competition
- Quality and experience of the originator of team
- Sophistication of business and marketing strategy
- Financial attractiveness
- Possibility for protecting thoughts
- Sophistication of first steps
- Confidence of entrepreneurs in their own business
- Measure of risks and its restriction
- Overall benefit to business plan

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<sup>22</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>23</sup> BLACKWELL, Edward, *How to Prepare a Business Plan: Create Your Strategy; Forecast Your Finances; Produce That Persuasive Plan*, pp. 77-78

<sup>24</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 42-43



It is obviously that every investor will emphasize different criteria in his own manner. However it is better to take a look on each parameter and to check business plan properly.<sup>25</sup>

#### 4.4.1 Structure of business plan

There are numerous possibilities how to organize structure of business plan. Some requirements are related directly business structure, some are related to design. Almost every entrepreneur has individual structure of business plan and there is no common rule for it. Nevertheless there are some points that can be observed in most economic sources:<sup>26</sup>

- Executive summary

The executive summary is most important part of business plan. It should contain company's goals, missions and ways to achieve these goals. Aim of executive summary is to interest reader in the project.<sup>27</sup>

- Company summary

Company summary covers such information as type of company, what company presents and why it would be successful. Include a statement when company will be formed, if it is not exist yet. It has to tell about founders, employees and location of the firm.<sup>28</sup>

- Products

This is a statement that describes product. What product will be selling the firm? How far will be progressing the development? What is different between product of the firm and the existing products on the market?

This section can cover demand, supply and costs on products.<sup>29</sup>

- Management team

This part is about key persons in a firm that are responsible for running company. This part should describe qualification of members in management team, their tasks and duties concerning company and its well performance. Involvement of

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<sup>25</sup> SRPOVÁ, Jitka a kol., *Business plan and strategy*, p. 34

<sup>26</sup> An official website of the United States Government. *U.S. Small Business Administration*. [online]. [cit. 2014-12-20]. Available from: <<http://www.sba.gov/content/business-plan-executive-summary>>.

<sup>27</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 39-40

<sup>28</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 39-40

<sup>29</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 39-40

experienced specialists such as PR managers, IT developers, accountants, is a good indicator for investors.<sup>30</sup>

- Marketing and competition

Sections that explain reasons of foundation the company, how the company will exist and develop in future. Also reader could see in this part an investigation of competition and how to deal with it. It covers company's understanding of customers, which is a base for the successful business. Generally after studying this statement, reader should understand reasons for existence of the company and why the company is better than competing firms.

- Segmentation: Selection of the target customer and planning marketing strategy to promote the product.<sup>31</sup>

- Market analysis

This statement is about specification of the market and description of the niche, in which company will be operating. Analysis also specifies size of the market, competition and factors that affects development. Entrepreneur should be an expert in his or her industry, and understand current market and competitors. Moreover there could be presented market trends to know if the demand for company's products changes through the time.<sup>32</sup>

- Business system organization

It is a systematic activity that company is planning to perform in order to gain a successful result.<sup>33</sup>

- Web plan

It is a suggested sketch of ideal site for e-commerce. There could be done some researchers such as what are design trends for online store now or what designs customers like more, etc. These researchers may help to create a proper web site.<sup>34</sup>

- Implementation schedule

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<sup>30</sup> FINCH, Brian, *How to Write a Business Plan*, pp. 39-40

<sup>31</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>32</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>33</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>34</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

Investors are likely want to see more specific information about business. Implementation schedule presents a forecast of productivity and sales. Prognosis of customer acquisition and service won't be superfluous. This schedule specifies timeframes of implementing the business.<sup>35</sup>

- Opportunities and risks

Shows risks that could threaten the business and how to deal with it. Investors must be preparing for dramatic outcome.

Opportunities have to be displayed to demonstrate benefits of the overall business idea.<sup>36</sup>

- Financial planning and financing

Financial planning has to present such important information as budget planning, break-even analysis, expected cash flow, and expected profit and losses.<sup>37</sup>

- Appendix

This part of the document is used for extra information, for instance charts, additional calculations, articles or advertisements.<sup>38</sup>

#### **4.4.2 Financial valuation of business plan**

Every financial project is expected to invest money in it. Obviously not every project has to be profitable. Well-allocated finance will increase performance of organization. Finance must be valued correctly from the point of view of pay back period. Also must be take in count returns on investments, return period, income from invested funds, etc. To reckon with profitability several methods are exist to calculate it. Some of them will be described in this bachelor thesis.<sup>39</sup>

#### **ROI- return on investment**

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<sup>35</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>36</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>37</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>38</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 130-131

<sup>39</sup> PINSON, Linda, *Anatomy of a Business Plan: The Step-by-step Guide to Building Your Business and Securing Your Company's Future*, pp. 146-148

This measurement is used to express the efficiency of an investment by dividing net profit by cost of investment. It helps to determine the return of money that initially were invested to business. Calculation of ROI could be fitted to the specific situation. The result is measured in percent or ratio.<sup>40</sup>

The return on investment formula:

$$ROI = \frac{(Gain\ from\ Investment - Cost\ of\ Investment)}{Cost\ of\ Investment} \quad [Formula\ 1]$$

### **Payback period**

The definition of payback period: the period of time that is necessary to cover the costs of investments. For instance, the project requires an investment 2000000 CZK and these investments will be returned 1000000 a year. So the payback period is two years.<sup>41</sup>

$$Payback\ period = \frac{Cost\ of\ project}{Annual\ Cash\ Inflows} \quad [Formula\ 2]$$

At the same time, time value of money in this calculation is not considered. This indicator determines present value of each period of the project. So there is an alternative decision how to calculate payback period considering time value of money:<sup>42</sup>

### **Discounted payback period:**

$$Discounted\ Cash\ Inflow = \frac{Actual\ Cash\ Inflow}{(1+i)^n} \quad [Formula\ 3]$$

Where,

i- discounted rate

n- the period to which the cash inflow relates

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<sup>40</sup> Investopedia.com. *Return On Investment*. [online]. [cit. 2014-12-25]. Available from: <<http://www.investopedia.com/terms/r/returnoninvestment.asp>>.

<sup>41</sup> SHIM, Jae K., SIEGEL, Joel G., *Handbook of Financial Analysis, Forecasting, and Modeling*, pp. 101-102

<sup>42</sup> PETERSON, Pamela P., FABOZZI, Frank J., *Analysis of Financial Statements*, p. 75

**Internal rate of return:**

$$\left[ \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \dots \right] - \text{Initial Investment} = 0 \quad \text{[Formula 4]}$$

Where,

r- the internal rate of return

CF<sub>1</sub>- the period one net cash inflow

CF<sub>2</sub>- the period two net cash inflow

CF<sub>3</sub>- the period three net cash inflow, and so on...<sup>43</sup>

#### 4.5 Defining e-business

For the further understanding of how this model can be implemented the models of e-commerce transaction must be defined. Transaction can be described as a link between organization and stakeholders. There are some models that are distinguished:

	Government	Business	Consumer
Government	G2G (Co-ordination)	G2B (Information)	G2C (Information)
Business	B2G (Procurement)	<b>B2B (e-business)</b>	<b>B2C (e-commerce)</b>
Consumer	C2G (Tax compliance)	<b>C2B (Compare price)</b>	<b>C2C (Auctions)</b>

**Table 1: A Framework for e-business markets (Combe 2006)**

Initially market has extensive channels for business to communicate and trade with customers and partners.

The e-business models can be summarized as:

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<sup>43</sup> BRAGG, Steven M., *Financial Analysis: A Controller's Guide*, pp. 61-62



- Business-to-Consumer (B2C): commercial transaction between organization and customer, that allows to sell goods or services to consumer through the Internet (e-shop, e-malls, manufacturer model).<sup>44</sup>
- Business-to-Business (B2B): commercial transaction between organization and other organization (e-procurement, e-marketing, value chain service providers, e-distribution).<sup>45</sup>
- Consumer-to- Consumer (C2C): permit consumers to conduct informational or financial transaction to each other, usually through a site. (e-auctions, blogs and communities, social networks).<sup>46</sup>

Referring to the Table 1 could be suggested that companies that sale goods as a manufacturer will probably focused on B2C markets. Nevertheless such companies can also combine several communication models including B2C, C2C and B2B. For instance B2C service may probably need to be supported by B2B transactions, since such service is based its revenues on advertising. Advertising based services are a fundamental for social networks and communities or searching engines, for example Facebook, YouTube, Google.<sup>47</sup>

#### 4.5.1 Use of Internet sales in retail

Customers are considered to be such clients that need adjusting things. In time of technical progress and particular in the lack of time, most customers prefer electronic services. Czech customer prefers extended payment options for goods. According to the online store Mall.cz Czech customers are very conservative. Although each year, significantly increasing popularity of online shopping. People do not underestimate payment for goods ordered. The majority of them still prefer to pay after goods were delivered.<sup>48</sup>

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<sup>44</sup> SAMPSON, Geoffrey, *Electronic Business*, p.43

<sup>45</sup> SAMPSON, Geoffrey, *Electronic Business*, p.43

<sup>46</sup> CHAFFEY, D., *E-Business and E-commerce Management: strategy, implementation and practice*. [online]. [cit. 2014-12-25]. Available from: <Info.czech@vfishelpline.com>.

<sup>47</sup> KAMEL, Sherif, *Electronic Business in Developing Countries: Opportunities and Challenges*, pp. 58-59

<sup>48</sup> STANFORD-SMITH, Brian, KIDD, Paul T., *E-business: Key Issues, Applications and Technologies*, pp. 166-167

According to Czech Statistical Office was reported that popularity of using Internet for purchasing goods and services is increasing. In 2010 purchased through the Internet 25% and in 2013 already over 34%. Among them 50% were young people in the age group of 16-34 years. The survey, which was achieved in the second quarter of 2013, shows that among individuals of age over 16 years were mostly purchased clothes, shoes and accessories (47%).<sup>49</sup>

### **Internet sales versus physical stores**

Strong competition forces retailers to come up with new ideas to support sales of their products and to widen group of customers. In 2011 survey showed that 21% of trader sold their products in physical stores as well as through the Internet. This proportion increased by 2.5% in the year 2013.<sup>50</sup>

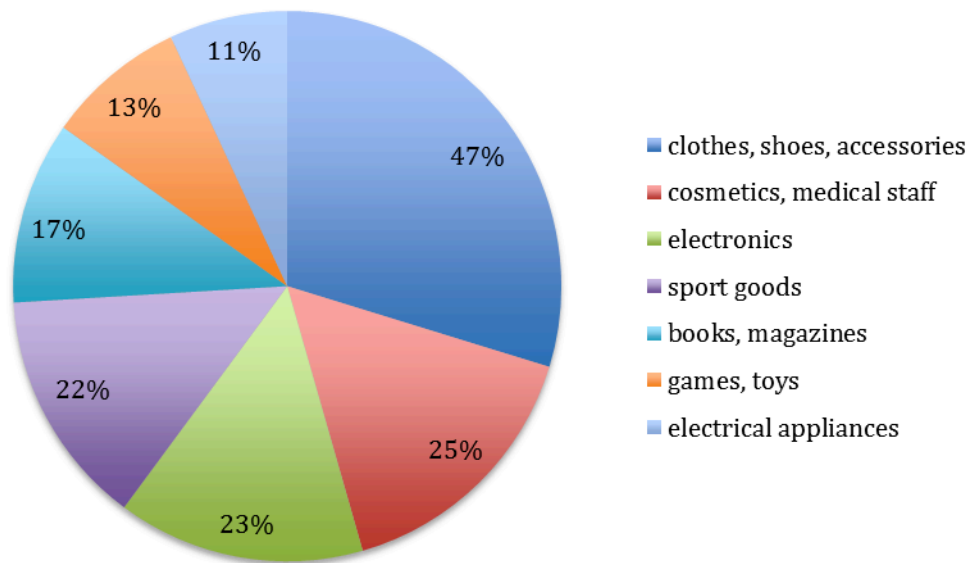
It was found out, that in 2011 nearly 43% of physical stores, a place where customers can select and purchase goods, ran also online stores. This means that not always is enough to see product but also to touch and explore. Nevertheless, in 2013 this proportion has slightly decreased to 39%.<sup>51</sup>

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<sup>49</sup> SAMPSON, Geoffrey, *Electronic Business*, p.46

<sup>50</sup> KAMEL, Sherif, *Electronic Business in Developing Countries: Opportunities and Challenges*, pp. 60-61

<sup>51</sup> IN, Lee, *Electronic Business: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications*, p. 55



**Figure 3: Percentage of customers using e-shops (czso 2015; own computation)**

#### **4.5.2 Risks of Internet based business**

Internet based business is a specific form of enterprise, for the reason that entrepreneur has a distant contact with final customer. So the payment is transacted impersonal, which is a benefit on the one hand and disadvantage on the other hand. The relation between buyer and seller is also specific.<sup>52</sup>

Doing business on Internet is obviously risky venture. This concept of online business, which is called e-commerce, differs from classical. The distinction between them is a way of trading, when the purchase contract is conducted through the Internet. E-commerce concept is used for non-cash payments by credit card via Internet.<sup>53</sup>

Security is probably one of the most discussed risks in term of e-commerce. Customers feel insecure, because information about credit card number can be stolen, despite the fact that modern e-banking technologies are advanced nowadays. There is still

<sup>52</sup> IN, Lee, *Electronic Business: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications*, p. 61-62

<sup>53</sup> KAMEL, Sherif, *Electronic Business in Developing Countries: Opportunities and Challenges*, pp. 73-74

a risk that system in context of hardware can crash. The platform of online-shopping has to provide privacy assurance to avoid personal information leakage of consumers.<sup>54</sup>

Another operational risk that concerns rather administrative sense than technical is a non-compliance of delivery conditions. A common problem is late delivery or delivery of another product, than was initially bought.<sup>55</sup>

The eternal problem of Internet purchases is inability to try and check the product. The situation that could come is a surprising of customer, when he or she will receive another item than customer expected. Then it is easy to figure out next problem of online shop, which is a return and in the sequel refund. In other words, there is no profit for the owner, however costs for shipping were paid. Organization should take into account such risks as for example legislation, regional differences, economic situation in a country and competition.<sup>56</sup>

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<sup>54</sup> CRUZ-CUNHA, Maria Manuela, *E-Business Issues, Challenges and Opportunities for SMEs: Driving Competitiveness: Driving Competitiveness*, pp. 66-67

<sup>55</sup> IN, Lee, *Electronic Business: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications*, p. 61-62

<sup>56</sup> CRUZ-CUNHA, Maria Manuela, *E-Business Issues, Challenges and Opportunities for SMEs: Driving Competitiveness: Driving Competitiveness*, pp. 68-69

## **5 Practical part**

After defining basic definitions, assumptions and formulas for calculating the efficiency of the investment is time to start drawing up a business plan based on the structure, which was mentioned in the theoretical part. But first it is important to identify main differences of online business with jewelry.

### ***5.1 Brief description of business plan***

In the following chapters will be described the main and most important aspects of business plan.

#### **5.1.1 Introduction of organization, key persons**

Running an Internet business is free trade activity that can be operated on the basis of trade license or a legal entity. To simplify administrative steps and funding it was decided to start a business as sole trader on the basis of trade license.<sup>57</sup>

The company will be an online shop selling jewelry of the world's leading jewelry brands such Swarovski, Zarina, Pandora, etc. As the company is planned to be registered as a sole trader, it will be subject to simplified taxation and reporting, and therefore the number of staff required to ensure its effective market activities will be significantly reduced.

The key official in the entity will be its director responsible for both the strategic development of the company in the context of formulation of its aims, goals, values and mission, and for the operational activities undertaken for the purpose of generating income from the company's activities. At least on the first stage of corporate development, the director will be responsible for the conclusion of contracts with the world's leading jewelry brand for the supplies of products to the company's warehouse. However, as soon as the company is able to develop and show its effective market results, this role will be assigned to a separate manager responsible for the establishment of partnership ties and conclusion of contracts with suppliers.

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<sup>57</sup> IN, Lee, *Electronic Business: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications*, pp. 61-62

The chief accountant will perform accounting. The main task here is to comply with all the rules and prescriptions of the Czech legislation, and to pay all taxes to the budget in full and in a timely manner.

The transportation of products to customers will be outsourced to proven expeditors, as it is unprofitable for the company to run those activities separately.

The chief marketer will be responsible for the promotion of products on the market, and for the advertising campaigns and promo events run by the company with this aim. His field of responsibility will also include public relations. Those activities should be assigned particular value, as they will to a large extent predefine the company's success on the market, and the customers' brand loyalty.

With the company's growth, the number of staff employed may be enlarged, and the functions performed by each key person may be reshaped.

### **5.1.2 Strategy and characteristics of entrepreneur, defining the mission, time limit for implementation**

The company's mission is to provide its customers with high-quality jewelry products with maximum convenience via the Internet.

The company's vision consists in the framework of its activities run on the market. Thus, it seeks bringing to the world a wide range of high-quality jewelry products able to satisfy the needs of all customers on this segment. The entity sees its partners, the world's major brands in the field of jewelry and fashion, as members of the same network creating synergic value aimed at satisfying the needs of customers. The company seeks to satisfy the needs of its customers within short delays, thus remaining a highly effective and adaptive market organization.

The entity's values are quality (as it aims to promote and sell only high-quality products satisfying the needs of customers in full), diversity (as it seeks selling the widest range of products provided by worldwide famous brands), leadership (as the company wishes to become the leader on the segment of Internet sales of jewelry products), and cooperation (as the company wishes to work not only as a seller of goods seeking commercial profits, but also as a link between the manufacturers and consumers of high-quality products of the fashion and jewelry industry).

As the company is new to the market, its strategy is currently to ensure a share of 15% of sales on the market of online jewelry trade of the Czech Republic. This is the first milestone to be reached by the company for subsequently developing its activities and expanding them on the Czech market.

The time limit initially set by the company for reaching the 15% share of the Czech market of online sales of jewelry products is the first quarter of 2016.

### 5.1.3 Market research

The market of jewelry is a very specific market, and therefore the activities on it should be run taking into consideration all such nuances. In recent years, the global market of luxury goods, which include jewelry products, has been constantly demonstrating positive growth dynamics.

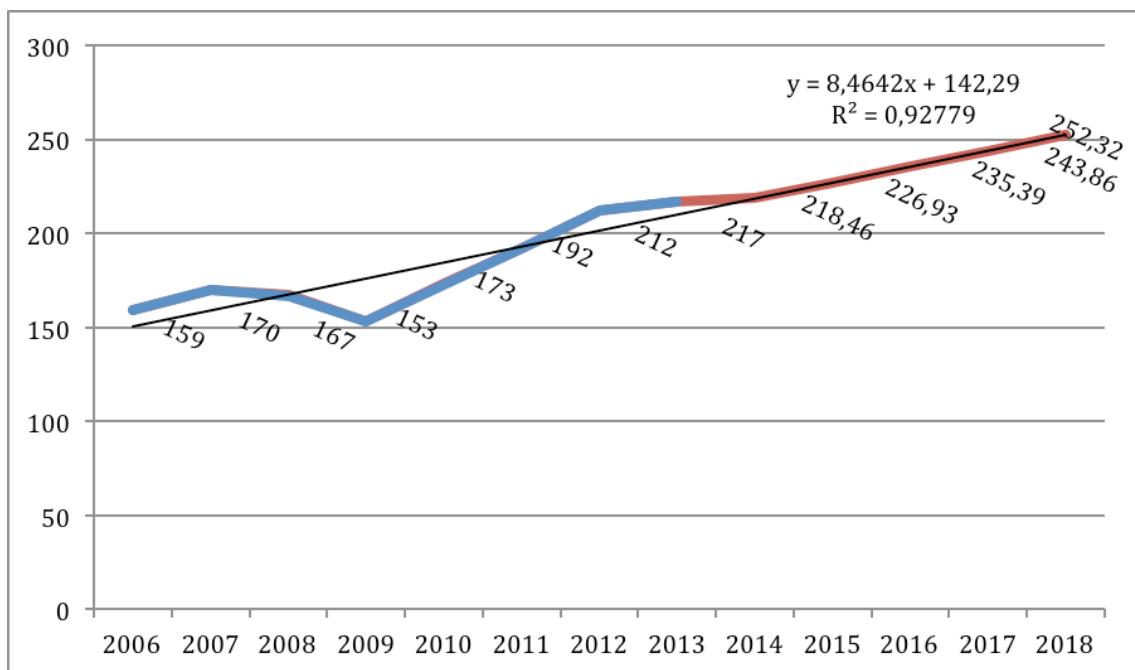


Figure 3: Value of the global luxury goods market in 2006-2018, in EUR billion (Statista 2015; own computation)

As it could be seen from Figure 3 above, the trends have remained positive on the global market of luxury products until today. Moreover the trend shows that the numbers continue to grow until 2018. In 2015 the growth is not significant. However, starting from 2016 the trend line is growing rapidly up. Thus, in 2013, the market reached its unprecedented peak of sales amounting to 217 billion euros. As compared with 2006, the

total market volume grew by more than 36%. It is worth noting that there was one slowdown in the period analyzed in terms of the aggregate sales on the global market of luxury goods. Thus, in 2009, the aggregate market volume dropped to 153 billion euros. This was obviously preconditioned by the negative consequences of the 2008 global financial and economic crisis. As the crisis provoked recession of the global economy, customers were forced to shrink their expenses, and the field, which suffered most, was the industry of luxury goods, as consumers first of all maintained their expenses related to primary needs, and cut the ones which were not primordial for them. However, already since 2010, the global market of luxury goods regained its growth pace, and the total volume of sales on it again started growing, as the purchasing power of the population increased after the crisis.

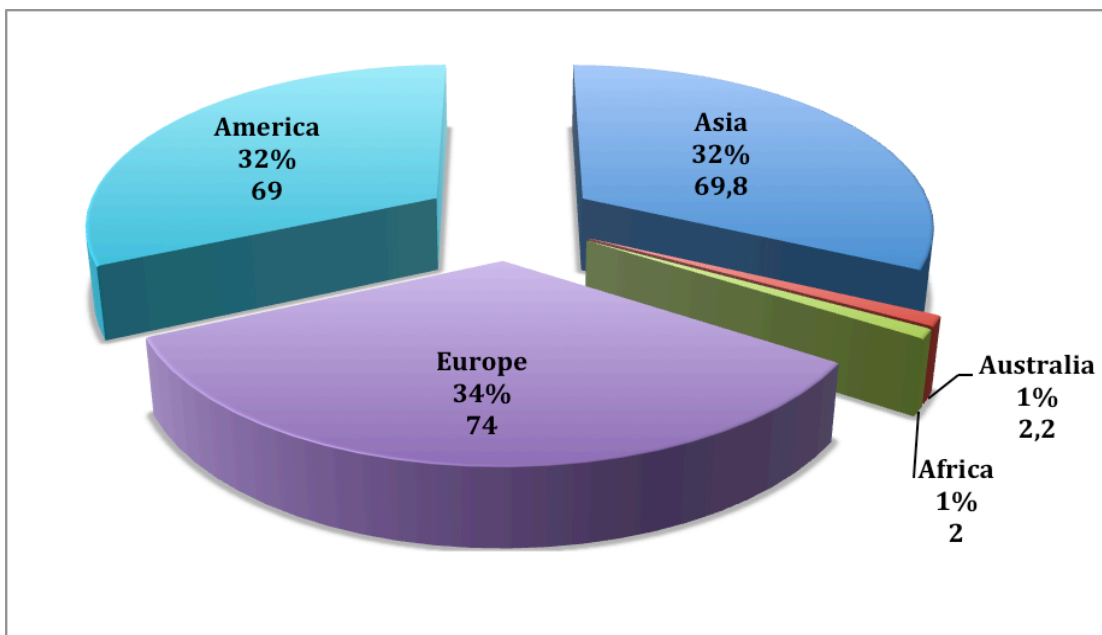
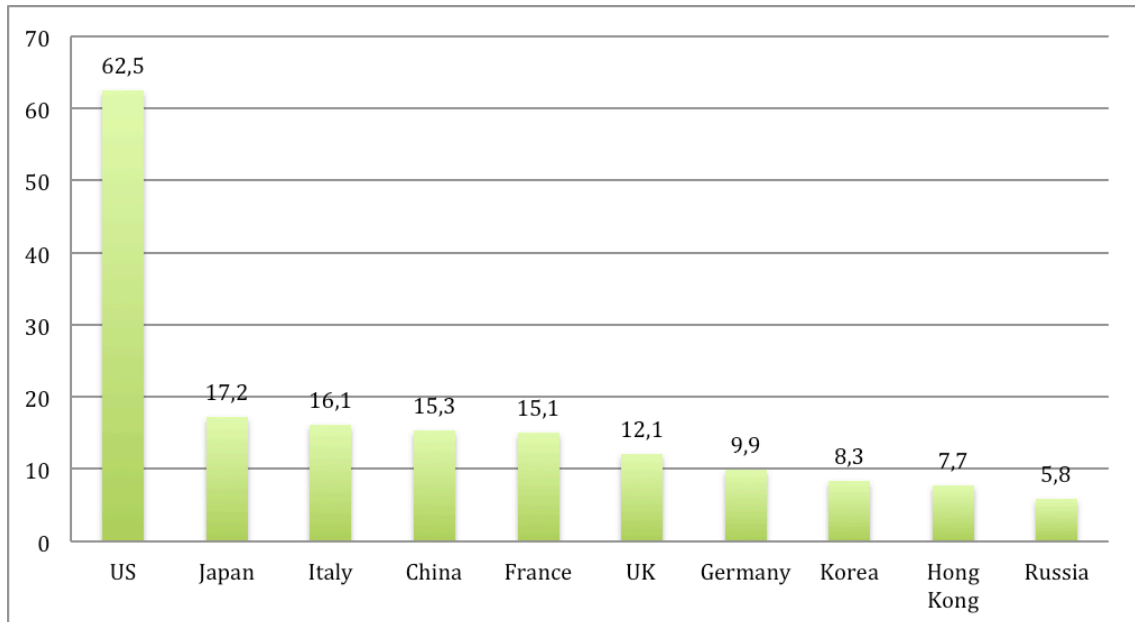


Figure 4: Sales on the global luxury goods market by regions, as of 2013, in EUR billion (Statista 2015; own computation)

Figure 4 above depicts the breakdown of the total sales on the global market of luxury goods by different geographic regions. As can be seen from the chart, Europe, Asia and the region of Americas account for the greatest shares in the global sales of luxury goods. Thus, Europe's share makes up 34%, while Asia and Americas account for 32% each. Africa and Australia only account for 1% of the total global sales each. It is worth noting here that regions with the higher level of development, and thus higher purchasing power of the population, account for greater shares of global sales, which is quite



understandable, as luxury goods are costly, and are only affordable to people with a high level of income.



**Figure 5: Sales of luxury goods by countries, as of 2013, in EUR billion (Statista 2015; own computation)**

Figure 5 above shows the top countries in terms of the amounts of sales of luxury goods. As chart depicts, the world's leader in those terms is the United States. In 2013, the sales of luxury goods in the country amounted to 62.5 billion euros, while other countries significantly lagged behind the US. Thus, the second global leader in sales of luxury goods, Japan, only reached the levels of sales making up 17.2 billion euros in 2013, and the country ranked third, Italy, only reached 16.1 billion euros. Also, it is worth noting here that four out of ten top countries in terms of sales of luxury goods are Asian states, namely Japan, China, Korea, and Hong Kong. Also, Russia ranks tenth in the world. Other countries are European states with a high level of GDP per capita, and thus the population's purchasing power, and therefore such statistics are quite understandable.

In the Czech Republic, the market of luxury goods is quite developed, although the level of sales on it is considerably smaller than in Western European countries such as Germany, France, or the United Kingdom. Local distributors sell jewelry products of the leading global brands, and the range of luxury products is very wide.<sup>58</sup>

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<sup>58</sup> SCHOLZ, Lucie, *Brand Management and Marketing of Luxury Goods*, p. 123

#### **5.1.4 Specification of market or branch, to which enterprise enters**

The market of luxury goods is a very specific market, as its development is much dependent on external factors predefining the purchasing power of people, and thus their readiness and willingness to spend funds on buying luxury goods, and namely jewelry, which never represent primary human needs, and only serve to satisfy the immaterial desires of people.<sup>59</sup>

On this market, brand loyalty plays a very important role. Customers consuming jewelry products are most often adepts of particular brands. Moreover, it is worth understanding here that the consumption characteristics of goods are not the most important factor here, as people value the intangible parameters of such goods. Therefore, although the quality of materials used for producing particular goods plays an important role, just as in any other production sector, the non-material factor is not less important.<sup>60</sup>

Finally, it should be understood that our company plans to enter the market of distribution, and not manufacturing of jewelry products. On this market segment, the distributor's responsibility plays an essential role, as customers wish to have their desires satisfied within brief delays, and with the highest quality of service possible. Therefore, a crucially important aspect here is to have contracts with the world's major brands for making direct supplies of high-quality brand products, at the same time avoiding all possible counterfeits. Also, customer support plays a very important role, as the entity plans to run its activities as an Internet shop.<sup>61</sup>

#### **5.1.5 PEST analysis**

PEST analysis stands for the investigation of the macroeconomic environment in which an entity has to operate. Such environment is believed to include several key groups of factors, namely political, economic, social, and technological.<sup>62</sup>

The political situation in the Czech Republic is very stable. The country is a member state of the European Union, and fully complies with all its internal regulations and other legislative acts. Therefore, regardless of the political party currently holding

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<sup>59</sup> OKONKWO, Uché, *Luxury Fashion Branding: Trends, Tactics, Techniques*, p. 66

<sup>60</sup> SCHOLZ, Lucie, *Brand Management and Marketing of Luxury Goods*, p. 128-129

<sup>61</sup> OKONKWO, Uché, *Luxury Fashion Branding: Trends, Tactics, Techniques*, p. 75-76

<sup>62</sup> SHIM, Jae K., SIEGEL, Joel G., *Handbook of Financial Analysis, Forecasting, and Modeling*, p. 72

power in the country, the Czech Republic adheres to the principles and approaches promoted by the European Union, and this significantly reduces, or even completely eliminates all political risks associated with any business activities run on the country's territory.<sup>63</sup>

The economic development of the Czech Republic is quite high as well. With the value of the GDP per capita by purchasing power parity of over 27,000 USD, the country ranks in the world's fourth dozen. Thanks to this, the country is able to ensure stable economic development, and the purchasing power of the population is thus gradually increasing.<sup>64</sup>

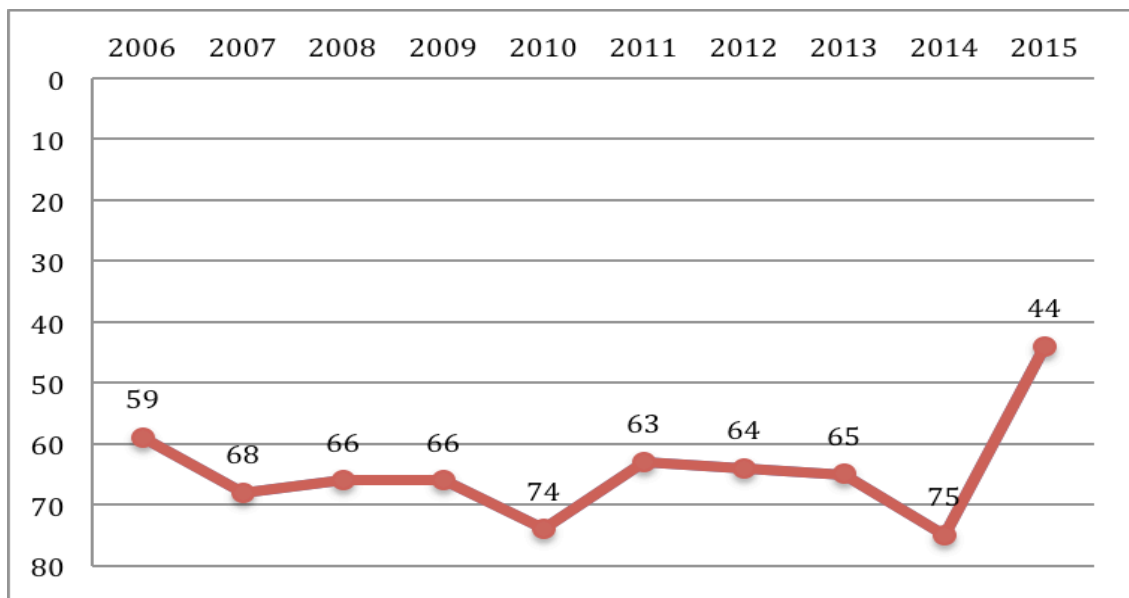


Figure 6: Czech Republic in the Ease of Doing Business ranking in 2006-2015 (doingbusiness 2015)

As Figure 6 above shows, the Czech Republic's positions in the Ease of Doing Business ranking are rather low, and this testifies that the impact of bureaucracy in the country is quite high, and therefore there are some technical obstacles to the quick opening of a business. However, in 2015, the country stepped thirty positions higher, and this proves that there have recently been significant improvements in the conditions of doing business in the Czech Republic.

The social environment in the Czech Republic is rather favorable for business activities as well. Thus, there are many universities offering high-quality education in the

<sup>63</sup> STEVES, Rick, VIHAN, Honza, *Rick Steves' Prague and the Czech Republic*, pp. 18-19

<sup>64</sup> TRUE, Jacqui, *Gender, Globalization, and Postsocialism: The Czech Republic After Communism*, pp. 110-111

country, and they are popular not only among the local students, but also among foreigners. 7.5% of the country's GDP are allocated to the field of healthcare, which is a very high figure. Thanks to this, the Czech Government ensures a balanced social situation, and aims to raise the standards of living in the country.<sup>65</sup>

The technological development of the Czech Republic is quite high as well. This is especially visible taking into account the impact of transnational companies running their activities in the country, as they are major importers of new and up-to-date technologies.

Thus, overall, it can definitely be stated that the macro-level environment in the Czech Republic is favorable for the planned business activity of our entity.<sup>66</sup>

### **5.1.6 Competitor analysis**

The competition on the Czech market of online sales of jewelry products is rather high. Thus, the main competitors on the market are *myczechrepublic.com*, *expats.cz*, and *granat-shop.com*. The precise market shares of those companies are hard to calculate due to the lack of statistical data available. However, the statistics of site visits allow approximately evaluating the aggregate market share of those three web shops on the level of almost 50%. This means that the market of online sales of jewelry in the Czech Republic is rather dominated by several major companies with the greatest experience and customer bases in the field.

However, it is also worth noting that there are many smaller online stores offering jewelry in the Czech Republic, and there are no restrictions for the newcomers to start their business activities on the market. Therefore, even though the level of competition is overall high, new market competitors may enter the market without any significant difficulties. At the same time, a newcomer should be able to offer some unique features or options in order to withdraw such a dense competition.

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<sup>65</sup> KLYUEV, Vladimir, SNUDDEN, Stephen, *Effects of Fiscal Consolidation in the Czech Republic*, pp. 107-108

<sup>66</sup> BELOHLÁVEK, Alexander J., CERNÝ, Filip, ROZEHNALOVA, Naděžda, *Czech Yearbook of International Law - Regulatory Measures and Foreign Trade – 2013*, pp. 77-78

## 5.2 Marketing plan

### 5.2.1 Description of main customers, target groups and target auditorium

The main customers of luxury products are obviously people with high income, because such goods are not affordable to everyone. However, as our company plans to offer the widest range of products over the Internet, such items sold will also include some cheaper jewelry products that will be affordable to a wider audience.

Thus, there are two target groups for the company: first of all, those are businessmen and other wealthy people able and ready to spend significant amounts on jewelry products, and the second group is lovers of jewelry products with average income. The average age of customers in both groups is likely to vary from 30 to 50, and people aged in this range are the target customers of the entity.

It is also worth noting that the target audience of the company is located in cities, and their access to the Internet is a prerequisite for using the company's services.

### 5.2.2 Statistic analysis of target customers

Based on the data gathered by the author from online social networks, it is possible to confirm that people aged 30 to 50 years old represent the company's target audience.

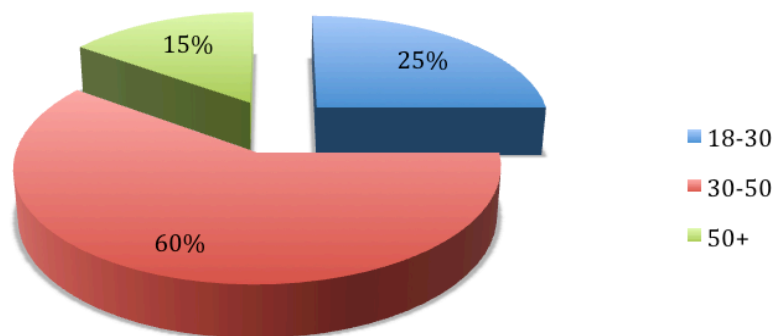


Figure 7: Breakdown of the company's target customers by age (own computation)

As can be seen from Figure 7 above, the approximate share of people aged 30 to 50 years old in the structure of the company's customers makes up 60%; people aged 18 to 30

years old account for 25% in the structure of customers, and the share of people older than 50 only amounts to 15%.

It is particularly worth noting that most of the company's customers have at least the average level of income, and are wealthy people that can afford buying expensive goods other than the primary-need products.

### **5.2.3 Marketing communications**

The marketing communications recommended for promoting the online shop selling jewelry products may significantly vary, and may include the widest range of promo events run on both online platforms and in real life. The opportunities offered by online social networks should be used in full, as they allow covering the widest audience possible at no expense at all.

First of all, the company may establish a loyal reward program for its customers. On the Internet, this functionality can be easily implemented through the possibility of signing up for personal accounts on the entity's website. Thereafter, users who regularly purchase products from the company's website or reach a particular amount of purchase are offered rewards or bonuses on the part of the entity. This is important for promoting brand loyalty and avoiding the dissipation of the customer base.

Price deals may become an effective tool for promoting the company on the Czech market, at least on the initial stage of its activities. Such deals assume that the price for particular goods is temporarily reduced for attracting higher customer demand. This may be used for rapidly expanding the company's customer base, and for letting the largest number of customers becoming acquainted with the products offered on the market.

Bonus pack deals may be used for promoting sales as well. Thus, it is possible to provide customers with discounts, if they buy several products at once, and the amounts of such discounts may vary depending on the particular products acquired.

Coupons or mobile coupons may be offered to customers on particular dates or events. Such coupons may provide them with an opportunity to get discounts or some other useful material bonuses.

Interactive online games may become another important tool for both promoting the company's image and increasing its trade turnover. This is especially effective when

online social communities largely popular among customers are used. For instance, a game may provide the 100<sup>th</sup> customer who has liked the company's profile on Facebook with some gifts, discounts, coupons, or any other bonuses. The interactive approach allows rapidly spreading the information on the company, which contributes to the expansion of its customer base.

Also, seminars may be organized with trainings on how to distinguish the true and original pieces of art from counterfeits. Such events may help attract large masses of customers, and make them become acquainted with the company's brand.

#### **5.2.4 Phases of marketing process**

Implementation and Control is the process that concerns implementation of plan that was previously created and control of it. Controlling includes setting goals, measuring performance and evaluating. After these steps proper actions can be taken.<sup>67</sup>

For the newly opened shop the first phase of marketing process starting from creation of profiles on social networks ( Facebook, Linkedin, Vkontakte) and ordering promotional materials ( bags, boxes and pamphlets). The total budget for the first level of marketing activity is approximately 15 000 CZK. The estimated length of preparation phase is one month. In this month the style of Internet shop and original logo must be prepared.

The second phase of marketing process will concerns advertising and cooperation with other partners. Advertising includes banners, leaflets and commercial. Banners and leaflets placed in malls, shopping centers and street could attract customer's attention. The estimated capital for the second phase is 30 000 CZK. The duration of implementation could last from few months to one year.

The third phase of activity uses various marketing channels to promote online store for instance: radio, television, magazines and advertising on another webpages. The maximum cost of this type of advertising is 30 000 CZK/ month. Summary of all marketing costs gives 33 750 CZK in month.

#### **5.2.5 SWOT analysis**

After all investigations it's time to make a SWOT analyses, which illuminates company's strengths, weaknesses, opportunities and threats. Thus company can judge what

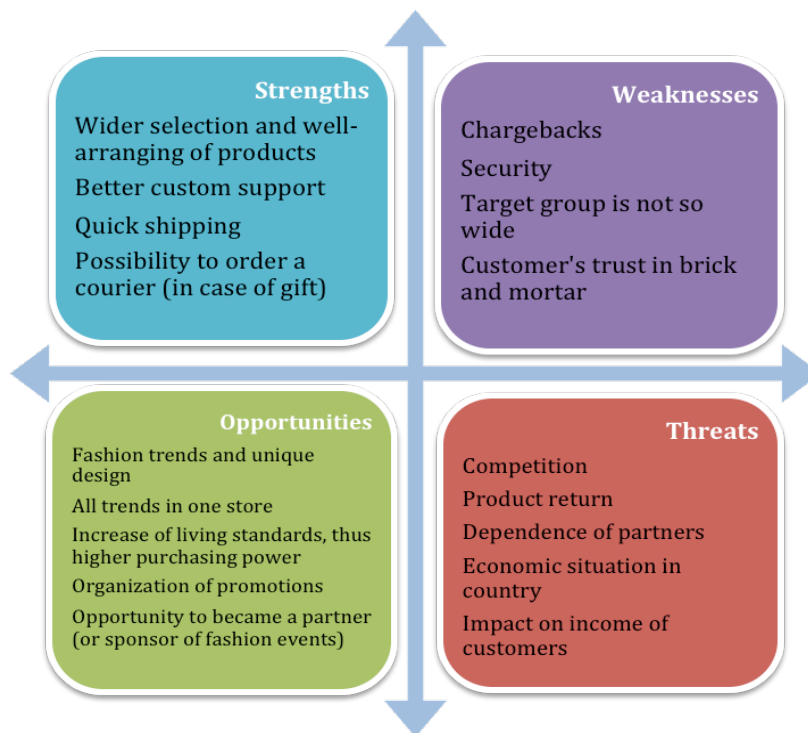
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<sup>67</sup> Phillips, C., Doole, I. and Lowe, R. (2008). *International marketing strategy*. London: Routledge.

sides need reinforcement and improvement, and what sides have to be stable. SWOT analysis allows evaluate advantages with respect to other entrepreneurs operating in the market and branch.

SWOT analysis main goal is to determine the internal and external factors that are important in achieving an objective. These factors are divided into two groups: <sup>68</sup>

1. Internal factors are primarily strengths and weaknesses; organization can influence it.
2. External factors are the opportunities and threats; depends on environment. <sup>69</sup>



**Figure 8: SWOT analysis matrix (own computation)**

<sup>68</sup> Ferrell, O. and Hartline, M. (2014). *Marketing strategy*. Mason, OH: South-Western/Cengage Learning.

<sup>69</sup> Ferrell, O. and Hartline, M. (2014). *Marketing strategy*. Mason, OH: South-Western/Cengage Learning.



As could be seen from the matrix forecasts for the company are not frightening. As regards opportunities and strengths it is significant to support performance of organization's advertisement, IT managers, innovations in latest trends regardless technical aspect and to expand clientele. What concerns weaknesses, as long as it internal factor, should be strengthened or even eliminated.

## 6 Financial valuation

For the purpose of investigating the actual estimated economic outcome of the luxury shop's activities, its is worth drawing up a detailed business plan describing its activities, taking into consideration the planned initial investment, different expenses borne by the company, and the expected level of profitability. This would allow understanding the payback period required for reaching the break-even point and further ensuring the luxury shop's subsequent steady economic growth.

For the purpose of drawing up the company's financial plan, we would assume the expected initial investment to amount to CZK 340,000. The main items of expenses borne by the company will include material costs (for purchasing products for the subsequent distribution on the Czech market, labor costs (for paying the employees' wages), marketing costs (for promotion), rent of servers, and legal expenses. The company's gross profit would be subject to taxation at a rate of 19%.

	Month	Initial investment	Material costs	Labor costs	Rent of servers	Marketing costs	Legal expenses	Total costs	Total revenues	Gross profit	Corporate profit tax (19%)	Net profit	Balance as of the end of the period
2015	Jan												
	Feb												
	Mar	340000											-340000
	Apr		850000	30000	20000	33750	2000	935750	855000	-80750	0	-80750	-420750
	May		850000	30000	20000	33750	2000	935750	910000	-25750	0	-25750	-446500
	Jun		850000	30000	20000	33750	2000	935750	940000	4250	807,5	3442,5	-443058
	Jul		850000	30000	20000	33750	2000	935750	955000	19250	3657,5	15592,5	-427465
	Aug		850000	30000	20000	33750	2000	935750	955000	19250	3657,5	15592,5	-411873
	Sep		1100000	30000	20000	33750	2000	1185750	1200000	14250	2707,5	11542,5	-400330
	Oct		1100000	30000	20000	33750	2000	1185750	1200000	14250	2707,5	11542,5	-388788
	Nov		1100000	30000	20000	33750	2000	1185750	1200000	14250	2707,5	11542,5	-377245
	Dec		1100000	30000	20000	33750	2000	1185750	1210000	24250	4607,5	19642,5	-357603
2016	Jan		1250000	35000	23000	33750	2300	1344050	1370000	25950	4930,5	21019,5	-336583
	Feb		1250000	35000	23000	33750	2300	1344050	1370000	25950	4930,5	21019,5	-315564

Mar		1250000	35000	23000	33750	2300	1344050	1380000	35950	6830,5	29119,5	-286444
Apr		1250000	35000	23000	33750	2300	1344050	1390000	45950	8730,5	37219,5	-249225
May		1250000	35000	23000	33750	2300	1344050	1390000	45950	8730,5	37219,5	-212005
Jun		1250000	35000	23000	33750	2300	1344050	1410000	65950	12530,5	53419,5	-158586
Jul		1250000	35000	23000	33750	2300	1344050	1410000	65950	12530,5	53419,5	-105166
Aug		1400000	35000	23000	33750	2300	1494050	1550000	55950	10630,5	45319,5	-59846,5
Sep		1400000	35000	23000	33750	2300	1494050	1550000	55950	10630,5	45319,5	-14527
Oct		1400000	35000	23000	33750	2300	1494050	1550000	55950	10630,5	45319,5	30792,5
Nov		1400000	35000	23000	33750	2300	1494050	1600000	105950	20130,5	85819,5	116612
Dec		1400000	35000	23000	33750	2300	1494050	1600000	105950	20130,5	85819,5	202431,5

**Table 2: Financial plan of the jewelry shop's activities, all values in CZK (Own computation)**

Table 2 above describes the jewelry shop's financial plan for 2015-2016. As can be seen from the data above, the jewelry shop's activities are expected to steadily grow in terms of turnover in both 2015 and 2016. During the first two months of 2015, the entity is expected to incur net losses. However, in the subsequent period, the company is expected to gain net profits. The highest net profit values are expected to be reached by the jewelry shop in November-December 2016. The total amount of the company's net profit is expected to make up over CZK 200 thousand as of the end of 2016.

As can be seen from Table 2, the break-even point is expected to be reached by the jewelry shop in October 2016. This means that, by October 2016, the company is expected to return its initial investment and start gaining net profits from its operating activities.

Taking into consideration the company's expected break-even points, it can be stated that the jewelry shop's expected payback period makes up 19 months. This means that, taking into account the company's initial investment and all expenses and income, the jewelry shop will be likely to start generating net profits already 19 months after the start of its activities.

<b>Cash Flow Statement</b>		
	For the Year Ending	31.12.2015
	Cash at Beginning of Year	40 000
<b>Operations</b>		
Cash receipts from customers		
		9 425 000
Cash paid for		
	Inventory purchases	(8 650 000)
	General operating and administrative expenses	(501 750)
	Wage expenses	(270 000)
	Interest	-

	Income taxes	(20 853)
	<b>Net Cash Flow from Operations</b>	<b>(17 603)</b>
	<b>Investing Activities</b>	
	Cash receipts from	
	Sale of property and equipment	-
	Collection of principal on loans	-
	Sale of investment securities	-
	Cash paid for	
	Purchase of property and equipment	-
	Making loans to other entities	-
	Purchase of investment securities	-
	<b>Net Cash Flow from Investing Activities</b>	<b>-</b>
	<b>Financing Activities</b>	
	Cash receipts from	
	Issuance of stock	-
	Borrowing	-
	Cash paid for	
	Repurchase of stock (treasury stock)	-
	Repayment of loans	-
	Dividends	-
	<b>Net Cash Flow from Financing Activities</b>	<b>-</b>
	<b>Net Increase in Cash</b>	<b>(17 603)</b>
	Cash at End of Year	22 398

**Table 3: Cash Flow Statement of the jewelry shop (Own computation)**

Table 3 above provides the jewelry shop's Cash Flow Statement for the year 2015. As can be seen from the data above, the entity's income and expenses are generated through operating activities, while the jewelry shop doesn't run any investment or financial activities. The net cash flows from the company's operations during the first year of its activities are expected to be negative. This is due to the fact that the company's profitability during the first year of its activities is expected not to be very high. However, as can be seen from Table 2, already in 2016, the company's profitability and net cash flows will be expected to reach positive amounts.

<b>Profit And Loss Account</b>		
<b>INCOME</b>	<b>2015</b>	<b>2016</b>
<b>Operating Income</b>		
General operating income	9 425 000	17 570 000

Other	-	-
<b>Total Operating Income (OI)</b>	<b>CZK 9 425 000</b>	<b>CZK 17 570 000</b>
<b>Non-Operating Income</b>		
Interest Income	-	-
Rental Income	-	-
Gifts Received	-	-
Donations	-	-
Other	-	-
<b>Total Non-Operating Income</b>	<b>CZK -</b>	<b>CZK -</b>
<b>Total INCOME</b>	<b>CZK 9 425 000</b>	<b>CZK 17 570 000</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Accounting and Legal	18 000	27 600
Advertising	303 750	405 000
Depreciation	-	-
Dues and Subscriptions	-	-
Insurance	-	-
Interest Expense	-	-
Maintenance and Repairs	-	-
Material expenses	8 650 000	15 750 000
Rent	180 000	276 000
Research and Development	-	-
Salaries and Wages	270 000	420 000
Licenses	-	-
Travel	-	-
Other	-	-
<b>Total Operating Expenses</b>	<b>CZK 9 421 750</b>	<b>CZK 16 878 600</b>
<b>Non-Recurring Expenses</b>		
Furniture, Equipment and Software	-	-
Gifts Given	-	-
Other	-	-
<b>Total Non-Recurring Expenses</b>	<b>CZK -</b>	<b>CZK -</b>
<b>Total EXPENSES</b>	<b>CZK 9 421 750</b>	<b>CZK 16 878 600</b>
Net Income Before Taxes	CZK 3 250	CZK 691 400
Income Tax Expense	618	131 366
<b>NET INCOME</b>	<b>CZK 2 633</b>	<b>CZK 560 034</b>

**Table 4: Profit and Loss Account of the jewelry shop (Own computation)**

Table 4 above demonstrates the jewelry shop's expected profits and losses in 2015-2016. As can be seen from the Table, the company's expected net income in 2015 will be likely to amount to CZK 2,633m while already in 2016, it will be likely to grow already to

CZK 560,034. This testifies that the company's actual profitability will be likely to significantly grow in the second year of its activities. Thus, while the company's total expenses will be likely to increase from CZK 9,421,750 to CZK 16,878,600, its total income will be likely to grow from CZK 9,425,000 to CZK 17,570,000. So, the expected trend in the company's profitability is definitely positive, as it testifies that the jewelry shop will be likely to significantly raise its financial performance, thus gaining opportunities for the subsequent expansion of its market activities.

Overall, the financial evaluation of the jewelry shop's establishment shows positive forecasts, and the project of such online shop running its activities on the Czech market appears to be attractive for investment in terms of both absolute profits, and the expected payback period.

## **7 Conclusion**

This bachelor thesis deals with a running an Internet shop with luxurious fashion jewelry. Uniqueness of the e-shop is that it is a multi-brand shop and it doesn't exist in Czech Republic yet. The demand for the jewelry is still growing and especially in age category of 30-50 years.

Bachelor thesis includes market research of jewelry industry, competition analysis and marketing plan refereed to advertising and promotion of the products. Due to marketing phases the costs on advertisement were computed. Additionally, significant part of thesis includes business plan for online store focused on selling jewelry, where were underlined all main aspects.

Business risks can appear if the estimation of demand is incorrect or in case of dramatic changes in the state economy. Another reason can occur if target segment purchasing ability will decrease, then an entrepreneur may turn up in a situation of "pessimistic estimation". In this case, the return on investment, payback period and net present value of the investment are insufficient. Therefore it indicates the inappropriateness and ineffectiveness of business idea.

The main aim of this thesis was to create a business plan for an online multi-brand store focused on selling fashion jewelry. The goal was achieved through the knowledge that is included in theoretical and practical parts. This knowledge is necessary to start-up a functional online store.

Another objective is to provide an overview of business plan, which includes most important items. This was accomplished with regard to the required extent of the thesis. Some elements were described briefly, nut the most important factors were explored and analyzed in detail. Numerous of researchers and analyses were performed to find out whether business idea is good. According to assessment multi-brand online store with fashion jewelry is efficient start up project that deserves the investment. The project is beneficial as for customers in terms of comfort and for entrepreneurs in light of optimistic estimates.

The financial plan drawn up for the establishment of an online jewelry shop running its activities on the Czech market showed the project's attractiveness for investors.

Thus, the evaluation of the expected payback period and break-even point, and the financial statements compiled for the first two years of the jewelry shop's activities testify that the company's activities may start bringing net profits already in the two-year perspective, and therefore the project is economically justified.

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