BUSINESS MODEL: TOOL FOR THE ELIMINATION OF THE FINANCIAL BANKRUPTCY OF THE COMPANY

[a]SIMONA MEGOVÁ, [b]LADISLAV PÁLKA

Brno University of Technology, Faculty of Business and Management, Kolejní 2906/4, 612 00 Brno, Czech republic
email: [a]megova@fbm.vutbr.cz, [b]ladislav.palka@csystem.cz

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Abstract: Each company operates according to some business model, even though it may not be directly defined enterprise and does not always work. Today there is no doubt about the importance of financial instruments in the management of the company as at the running, as well as in the course of business. This article describes the business model, which ensures the financial stability of the enterprise and reduces the risk of the financial bankruptcy. The new Business model was created based on the research, which was conducted in eleven start-ups and fourteen mature companies.

Keywords: Business model, tool for financial management, finance

1 Introduction

Business model as a tool for financial management of the company has to be part of the whole system, which we call business plan. Elaborating a business plan goes, in today's world of reviewed and in detail described business activities, without saying. Considering advanced information technologies, there is also a lot of tools. This topic has been covered in many book publications, or comments on web sites. There are also specialized companies that focus on applying them in praxis.

Although many failures, and repeating mistakes in high rates together with operating of companies for high number of companies. The aim of this article definitely is not to look for mistakes in elaborating the business plan, analyzing its parts and creating conclusions from these analyzes. We are not searching, which part of the business plan most often causes its failure. We claim that the business plan should be simple and mostly it should have clearly defined aim. This aim should be in maximal rate respect with the reality of outside world and not become just a simple idea from area of fantasies and illusions. These facts raised in us a thought of tool that could early and clearly take these plans into reality. Each business plan has to be supported by well elaborated tool for financial management of the company. As a model for achieving this aim, we have created specific type of business model, which is based on three basic frameworks of financial system. All these frameworks contain key to revealing if the plan and planned strategy are able to succeed. If there will be sufficient financial resources of each emerging company, that means cash obtained from customers, suppliers, investors, or all three together and if it would be possible to transform them into potentially prospering and sustainable company.

2 Literature overview

2.1 Business model

Although the term Business model got attention of academics and experts only recently, it was part of expression of businessmen for longer period of time and its origins can be found already in publications from Peter Drucker (Veit, 2014). Despite of increasing number of literature about this topic, there is no equal definition of it (Veit, 2014; Afuah, 2004; Mullins, 2010; Johnson, 2008; Teece, 2010; Chesbrough, 2002; Zoot, 2010; Demil, 2010, Wirtz, 2010, Casadesesus-Masanell, 2011, McGrath, 2010, Yunus, 2010, Shafer, 2005, Margaretta, 2002, Osterwalder, 2010, Watson, 2005).

Concepts of Business models differ in degree of details and complexity of showcasing corporate sources and processes inside of the company or also related sources and processes in its surroundings (Magretta, 2002). The range goes from difficult and maximalist models, for example based on Osterwalder – Pigneur (2010), Watson (2005). Chesbrough (2002) continuing by models covering key sources and processes, for example models of Zotta and Amita (2010) end ending with simple and partial models, for example McGrath (2010). The degree of complexity and details of showcasing does not have to be essential condition of quality.

2.2 Financial management

Financial management plays in the life of a company one of the vital roles (Hessler, 2002). Without good financial management the company can survive only for a short time in competitive environment (Pallis, 2014).

Jiang (2013) defines financial management as an active activity of managers aimed to gaining required volume of monetary resources and capital, their allocation in different items of assets and distribution of profit in order with goals of the financial plan. Drucker holds opinion that in reality a company can contribute to common welfare only if it's highly profitable (Galagan, 1998).

3 Methodology

There was conducted a quantitative research from January to April 2016, which was based on researching emerging and longer period established companies, and their tools for financial management. The research took place in Czech Republic, in South Moravia region. The total number of companies that were included in this research was 25. Based on the examination of longer period established companies, we have defined Business model for financial management of emerging companies.

Empirical evidences are based on qualitative data gathered through combination of standardized, structured survey with qualitative, partially differentiated interview, based on which it is possible to clarify how respondents interpret certain facts.

Qualitative research of companies that are established for longer period was focused on individual parts and systems, which they used for management of financial flows and for designing into basic architecture creating business model. Qualitative research of emerging companies was focused on the rate of using this business model during entry on the market.

For purpose of qualitative research we had available management of eleven emerging companies and fourteen of established companies.

The low amount of respondents and also focusing on quality enabled us, as research consultants, to gather data personally.

4 Discussion

If we want to truly professionally define the possibilities of business model as a tool for financial management of the company, it is vital to first mention the term Business model. The definition is created based on individual parts of our research as we perceive it in relation to process of financial management of the company. Thus as a certain architecture of economic activities and processes based on cash flowing in and out of the company serving for different purposes in the correct time. This whole architecture altogether determines if we earn or lose cash.

We see this architecture as a system, which consists of three basic elements. The result of the research orients on permeability of this model from view of financial flows. The best adjustment of individual elements for the purpose of this permeability gives certainly correct tool for financial management of the company.

Input model is, in principle, oriented on customer. Following and organizing customer potential, precise underpinning of number of customers, their purchasing power, orientation on our offer and satisfying their needs. The company should have a way of monitoring frequency of purchases of individual customers, ability to monitor the price and method of payment and at the same time costs of establishing this process from the company's side.

At the same time within the input model the company has to have correctly adjusted strategy and to it subordinate system for determining the most preferable product lines based on margin cleaned of all other costs. That means to have within this model correct way of determining rate of high and low revenue elements of product mix.

In examining successful companies, which operate on the market for longer time period, we find similar principles of this model within economic and managerial systems for managing financial flows of the company.

Emerging companies, which were subject of the research, did not have this system defined in advance – from the process point of view. It was not included in any parts of the business plan. Plans were generally built on analyzes (e.g. market and product). The idea or the way of working with customer potential based on some system was clearly postponed for later period.

A bit better situation in emerging companies is with orientation and cost structure and gathering information about gross profit for further work on this value. It can be explained by higher emphasis on these values within the business plan. However if we are looking for a tool, which should estimate the correct concept of working with this value within the input model, not even in this area have companies prepared this part of the system in advance.

In emerging companies is a model that we have called model of reserves. To some very small extent it is expressed only in business plan, or in some of its parts. It is expressed mostly in business intention and in sources of financing. That however does not create an integrated system, which shall define what way the company will regulate flow of income against level of costs, and that in percentage of these items in order to create correct amount of reserve.

In already existing companies, which show accounting documents, are items of reserves quite clearly defined within the economic system. This system however is not comparable with our model of reserves, which is related mainly to strategy of the company in the phase of its creation and development.

Dynamics of development of emerging company is because of high number of factors hard to be predicted. It is due to that the model of reserves is directly dependant on model of financial secure and on input model. The correct strategy of these models and their mutual connection should create correctly defined model of reserves. Its system is based in flow of incomes, level of costs in absolute or relative way and serves as background for correct strategy of further planning. The base value of this model is correctly adjusted level of operational costs and correct system for their lowering.

Inseparable part of the model of reserves has to be system for creating investment capital. In well established company the way of saving and using investment capital is bound to operation and results of the company or directly related to plan of developing strategy of the company, for example expansion etc. In case of emerging company we have not seen almost any system for creating a further management of investment capital, nor is it the part of development strategy of the company. We think that in the moment of dynamic and successful development at start of a company, such system should exist. It can be used in case of development or in opposite scenario – in case of hard times of the company.

This model is the most important in emerging company. Or more precisely, it is most visible from the point of view of managing the company – either from inside or outside. It is based on financial capital designed for common operation of the company – from salaries of employees to stock. From accounting point of view this model can be to some degree defined as current assets or current liabilities of the company. This definition is however general only to certain accounting level. For the correct start of the company should this model be prepared very precisely and it should be able to work for example on principle of daily budget and regular assessment and controlling of fulfilling the budgeting rules. Also this model is in close relation with previous models, because it is to some degree driving force of their operation.

As a result of that, we emphasize the connectivity of these models, while even a good elaboration of individual models of emerging companies can result in a fail due to poorly adjusted way of communication.

5 Conclusions

The topic of the article was research and comparison of fulfilling the business plan with main focus on its financial management and its supporting systems. In our case we have chosen as a supporting model the Business model, which we have based on our research defined by three models. For basic principles of correct business operation we have compared already established and emerging companies, which focus on customers and their needs, behavior features and patterns.

Based on this information we have elaborated input model, which can be deduced from already operating companies and monitor to what degree do emerging companies work with such model, more precisely to what degree it is a part of business plan.

As the next part of our Business model for financial management of emerging company we have created model of reserves. Thanks to it we have adjusted correct balance of profits to costs in percentages with aim to get as closest as possible to planned strategy. We have oriented also on maximal possible way of lowering costs and included in it a system of storing investment capital for both cases – optimistic and pessimistic development of the company.

Model of financial secure is third and from our point of view the most important model of whole way of financial management of emerging companies. This model, as a part of our Business model, is at the same time one of the most important elements of established company as well. It has however generally already tools for working and monitoring correct operation of financial flows and all related activities. In emerging company we have however such model, as we describe it, found only hardly. Further we paid attention to mutual connection of all described models within whole Business model as a part of basic attributes of properly operating system.

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