Business Plan for a Barbershop and Hairdressing Sample

Table of Contents

1. Introduction 5
1.1. Objectives of the study and research questions 5
1.2. Scope and Delimitations 6
1.3. Limitations 6
1.4. Research methods 7
1.5. Theoretical framework 7
2. Barbering and Hairdressing Industry 7
3. Lappeenranta 8
4. Effectual Service Entrepreneurship 11
4.1. Business Planning 11
4.1.1. Business idea 11
4.1.2. Business Plan 15
4.2. Service Strategies 16
4.2.1. Strategy 16
4.2.2. Strategic Planning Approach 20
4.2.3. Strategic Analysis 23
4.2.4. Strategic Implementation 27
4.3. Financial Planning for Start-ups 31
4.3.1. Financial Planning Process 32
4.3.2. Financial Ratio Analysis 40
4.4. Service Pricing Strategies 42
4.4.1. Pricing Objectives 43
4.4.2. Pricing Strategies 44
5. Business Plan for a Barbershop and Hairdressing Salon 51
5.1. Business Model 51
5.1.1. Basic information 52
5.1.2. Business activities 53
5.1.3. Barbershop Blueprint 54
5.1.4. Code of conduct 55
5.2. Market Research 56
5.2.1. Research Methods 56
5.2.2. Competitor Analysis 60
5.3. Strategic Planning – Analysis and Implementation 62
5.3.1. SWOT 62
5.3.2. Porter's Five Forces Analysis 63
5.3.3. Strategic Implementation 65
5.4. Financial Planning 66

5.4.1. Start-up expenses 66
5.4.2. Profitability Plan 68
6. Conclusions 70
Figures 71
References.....73
Appendices 77

Appendices

Appendix 1 BARBERSHOP DECORATION STYLES
Appendix 2 DIFFERENT HAIRSTYLES
Appendix 3 PRICE LIST

1. Introduction

“Good intentions might sound nice, but it’s positive actions that matter.” – Tim Fargo “By failing to prepare, you are preparing to fail.” – Benjamin Franklin

Each and every one of business student might have thought of being an entrepreneur once in their study time. However, not all of them are able to become entrepreneurs because opening a business is quite risky and usually they are not ready to take all the risks or set up a vivid and practical business plan.

Everything has a start and business is the same. Business plan is the best start for implementing a business in real life, such as a business plan for a barbershop and hairdressing salon, to avoid risks and understand the market well so that the business will be profitable and stable.

The author has worked more than one year as a freelancer in this field, therefore, he has experience and plans to set up a barbershop and hairdressing salon after graduation. By writing this thesis, he would like to give any future entrepreneur and insight into the field and how they could establish this business in Lappeenranta.

1.1. Objectives of the study and research questions

This thesis will be a complete business plan for entrepreneurs or freelancers who are interested in opening a salon or barber shop for men in Lappeenranta. In this area, as far as the author notices, there are quite many salons, which are conducted by local citizens but not by foreigners. The number of international students in Lappeenranta is increasing gradually therefore, the demands for diverse hairdressing styles are escalating as well.

The main purpose of this research is how to create a new and modern hair salon or barbershop which is suitable for male students as well as male locals.

The main research question:

How to create a practical, applicable and distinctive business plan for a barber and hairdressing salon in Lappeenranta?

Sub research questions:

1. What kind of a potential salon business model might be suitably applied in Lappeenranta?
2. Is there a potential market for this new and modern salon in Lappeenranta?
3. What is the long-term plan for a profitable salon business?

1.2. Scope and Delimitations

This study focuses on barber and hairdressing service for men in Lappeenranta. Lappeenranta is the only place to conduct the research and survey for the thesis. Additionally, the aim of this study is clearly defined as a business plan for a barber and hairdressing salon, therefore, the contents will not include other areas besides business plan for a salon in Lappeenranta. In other words, geography, industry, population and sample size are the main delimitations in this study.

This thesis consists of theoretical and empirical parts, which are two main ideas in the study. In the theory section, the author discusses in depth about effectual entrepreneurship, which includes a systematic guide for a business plan as well as service strategy and building venture identity. The empirical section consists of project-based content about how to practically open a barber and hairdressing salon in Lappeenranta, a questionnaire and a survey.

1.3. Limitations

This study is a practical business plan which includes most of the key points to apply practically. However, due to time limitation, the study does not cover all the in-depth features. Therefore, there are many assumptions in the study such as assuming that the readers have knowledge about basic business terminologies, financial calculations, bookkeeping etc.

1.4. Research methods

The thesis is carried out as project-based thesis. Quantitative research method is added to collect information and data for this study and create concrete business plan. The survey is conducted as English questionnaires on the Internet and responded by international students in Lappeenranta. The population of this research is miscellaneous but not big, there are only less than 50 respondents. The questionnaire consists of 10 - 15 easy and fast to answer questions. The results are collected and analyzed by IBM SPSS Statistics software.

1.5. Theoretical framework

Theoretical framework for this thesis includes theories of business plan, concepts of entrepreneurship, Porter's 5 forces analysis, SWOT analysis, Porter Generic Strategies, Marketing Strategy, risk analysis etc.

The first chapter describes barber and hairdressing service in general, as well as in Lappeenranta. This chapter includes information about customers' needs for barber and hairdressing service, as well as famous salons in Lappeenranta. Business plan, history, background and concepts of entrepreneurship are discussed as a base for further study in theoretical part. In service strategy section, business planning process, service strategy and building venture identity are the cornerstones.

In the empirical part, a business plan for barbershop and hairdressing salon is written in depth. Starting with business idea, customer segments are mentioned thereafter. A detailed description of the service of the salon is written in details.

2. Barbering and Hairdressing Industry

Barber is defined as a person who cuts men's hair and shaves or trims beards as an occupation (Oxford Dictionary 2018). Additionally, hairdresser is defined as a person who cuts and styles hair as an occupation. Hence, barbershop is a haircutting shop for men and hairdressing salon could be haircutting and styling store for both men and women. In this study, hairdressing salon is specialized for men.

Barbering services were invented by Egyptian nobility from 5000 B.C. The tools were crude and made of flint or oyster shells. In the Middle Ages, barbers were called barber-surgeons since they also dressed wounds and performed surgical operations. Later, in fourteenth century in England, barbers were divided into two classes: the ones who giving barbering services and the ones who practiced surgery. Barbering and hairdressing industry kept developing equipment, technology and technique until present. Barbering industry has never become outdated due to its significant benefits in daily life.

Barbering and hairdressing industry offers personal care, especially haircare services. As the industry is developing, the services offered to customers include haircutting, hairdressing, beard trimming, hair dying, face and head massage etc. Due to the growing number of service types, the market is gradually filled with specialized haircare shops, such as beauty salons, barbershops and hairdressing salons to service various types of customers. Labor in this industry is specialized in different titles as well, such as barber, hairdresser, hair stylist, hair colorist and hair designer. Hair stylists are the ones who are trained to style customers' hair fashionably and professionally. Hair colorists are specialized in hair dying and coloring. Hair designers are barbers and hairdressers, however, specialized in designing abnormal or new hairstyles, transforming customers' current hair and coloring their hair as well.

(The National Barber Museum & Hall of Fame 2014).

3. Lappeenranta

Lappeenranta is located in South-East Finland, near the Russian border and is a part of South Karelia region. The city is a so-called summer town on the shores of Lake Saimaa as well as university town. According to Statistic Finland, there were approximately more than 73 000 people in Lappeenranta by the end of 2016. (Pylsy, J & Marttinen, A 2015).

		2016	
		Males	Females
Lappeenranta	Age groups total	36,159	36,713
	- 14	5,375	5,240
	15 - 24	4,990	4,136
	25 - 44	9,376	8,166
	45 - 64	9,584	9,867
	65 -	6,834	9,304

Figure 1. Population of Lappeenranta by age groups and sex at the end of 2016 (Statistic Finland 2017)

Besides Lappeenranta University of Technology and Saimaa University of Applied Sciences, there is Sampo or Saimaa Vocational College, which offers vocational education, such as hairdresser, beautician etc. and work-related development services. Hence, there are quite many barbershops and hairdressing salons in the town. As a university city, Lappeenranta welcomes a huge number of international students every year. The demand for affordable haircutting service is proportional to the number of incoming students. However, compared to other cities, Lappeenranta's barbershops and salons offer high-end services which are, by some means, hard for international students to afford.

According to Bureau of Statistics of Finland (2017), barbering and hairdressing industry falls under "Other Personal Service Activities" category (Figure 2). The following first figure indicates the number of enterprise openings and closures, and the second figure illustrates this trend of other personal service in Lappeenranta region from 2015 to the beginning of 2017.

			2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
405 Lappeenranta	96 Other personal service activities	Enterprise openings	5	3	5	3	10	5	6	4	6
		Enterprise closures	5	5	5	5	7	2	7	7	3

Figure 2. Other service enterprise openings and closures - by municipality and industrial activity (Statistic Finland 2017)

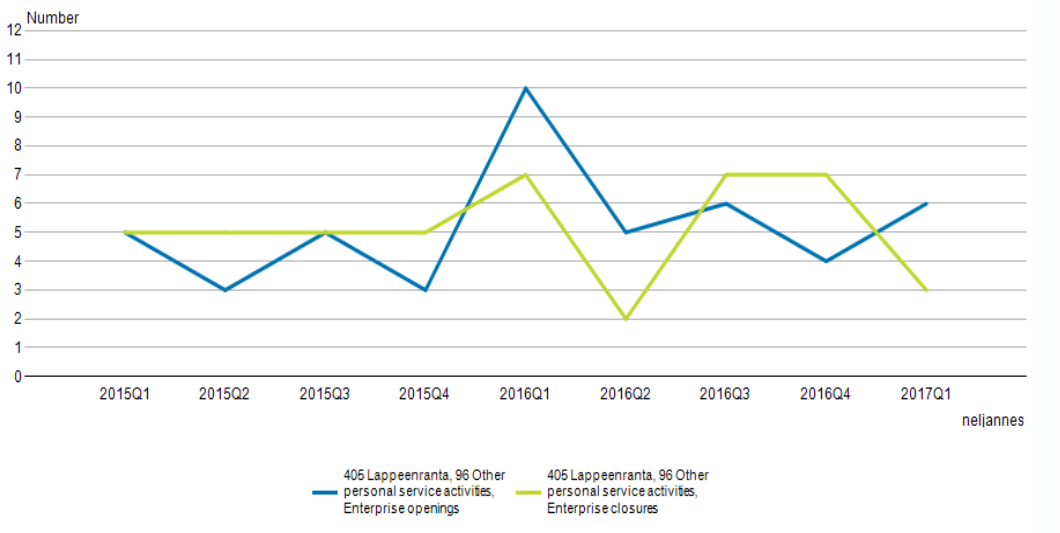


Figure 3. Other service enterprise openings and closures trend - by municipality and industrial activity (Statistic Finland 2017)

In 2015, there were totally 16 enterprise openings and 20 enterprise closures. The trend raises in 2016 for 25 openings and 23 for closures in total. However, the number of openings is bigger than closures. At the beginning of 2017, there was a tendency of increasing in enterprise openings and decreasing in enterprise closures. According to these figures, other service activities seem to have a promising future in Lappeenranta.

4. Effectual Service Entrepreneurship

The word “Entrepreneur” derives from French and was used to describe individual who take on the risk or undertake a task related to opening new ventures (Barringer & Ireland 2006). An entrepreneur has various roles in a firm, such as a manager who undertakes an activity, an agent of economic change in terms of effects they have on economic systems and an individual in terms of psychology, personality (Wickham 2006).

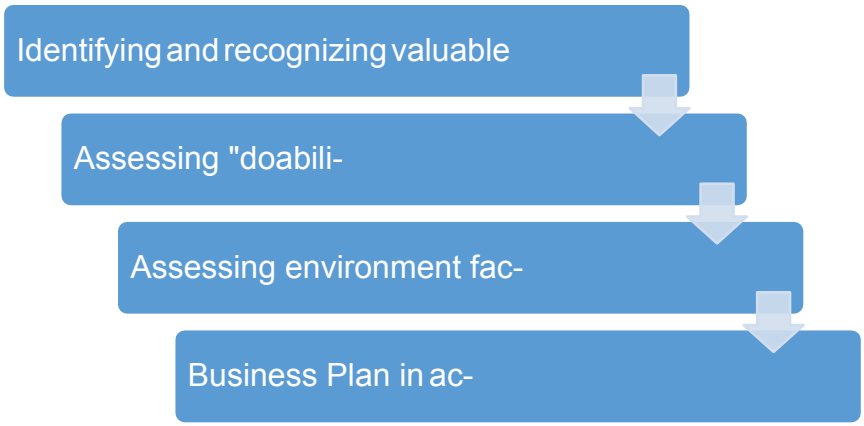
There are various definitions of entrepreneurship through time from simple and concise to intricate and meaningful. For instance, in 1755, Cantillon defined entrepreneurship as “*self-employment with an uncertain return*”. Additionally, Hart, Setevenson & Dial implied “*entrepreneurship entails the pursuit of opportunity without regard to resources currently controlled, but constrained by the founders*’ *previous choices and industry-related experience*”. (Volkmann, Torkasi & Grünhagen 2010).

Generally, people are enthusiastic to become entrepreneur because they are enthusiastic to become bosses who are able to pursue their unique and new ideas and receive financial rewards that they deserve. Or simply, “Nothing ventured, nothing gained”. However, becoming an entrepreneur is getting used to taking and dealing with risks, which is one of entrepreneur’s tasks. Besides founding new organizations and owning them, entrepreneur’s tasks include bringing innovations to market as well as identifying market opportunity. Successful entrepreneur recognizes opportunity, brings innovations out into market and implement it.

4.1. Business Planning

1. Business idea

There is no accurate definitions for good or bad business idea because “there are only ideas we implement and ones we do not” (Read & Sarasvathy & Dew & Wiltbank & Ohlsson 2011). Good business ideas are sometimes disregarded and bad ones



are considered as opportunities. Any business idea should be planned and considered seriously if entrepreneurs intend to implement them.

There are a few steps to whether a business idea is worth implementing or not.

Figure 4. Assessing business idea's value

Identifying and recognizing valuable idea

A business idea should not be considered as good or bad, any business idea is worth implemented if it has value. Brainstorming to generate a great number of ideas is a cornerstone. Next, identifying and recognizing a valuable business idea is essential. Ideas come from various aspects in life and valuable ideas might be created based on entrepreneur's characteristics. Some entrepreneurs identify business idea based on their prior experience or creativity or following the trends. Additionally, interest and enthusiasm of the entrepreneur is as important as recognizing a valuable idea.

Assessing "doability"

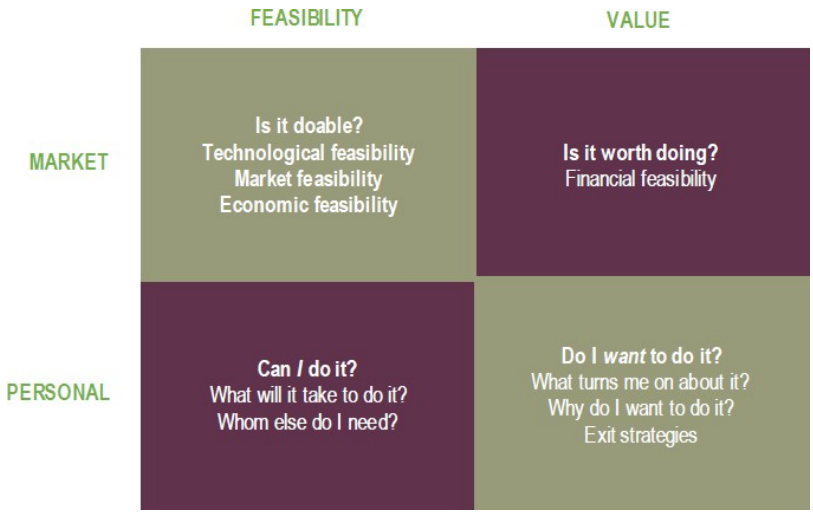


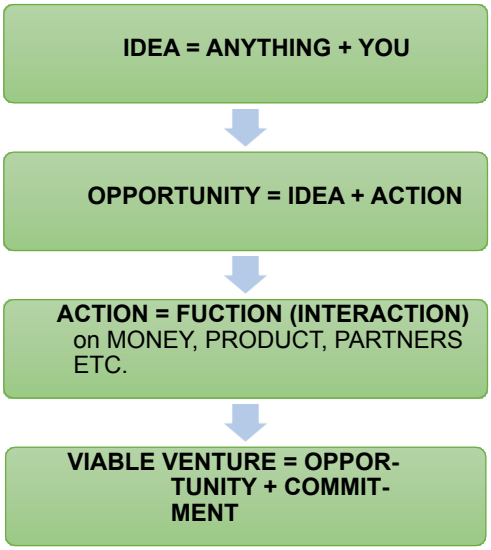
Figure 5. Assess Opportunity "Doability" (Read et al. 2011)

After recognizing the value idea, assessing if the idea is applicable is tremendously necessary. Entrepreneurs should consider external as well as internal factors. External factors include technological, economical, market feasibility and customer. Internal factors include financial feasibility and entrepreneur himself/herself. As mentioned, entrepreneur's interest and capability in implementing the idea are cornerstones.

Assessing environment factors

There are crucial forces, which affect business both directly and indirectly, which entrepreneurs must consider.

- Economic force – inflation and deflation – the force decides when consumers are willing to spend their money on products or services to improve their lives.
- Social force – culture, demographic etc. – For instance, high tendency of opening coffee shops in a society which has habit of hanging out or doing business in coffee shops.



- Political force – laws and regulations – entrepreneurs have to mind about politics when opening business in any place. Political changes affect laws and how a business should be run tremendously.
- Technological force – staying updated about new technologies is crucial in modern business. Only one new technology advance might change the way a business should run. Following new technology helps attract customers and serve them effectively.

Business Plan in action

After considering “doability” of value idea, an entrepreneur is ready for the next step: creating business plan. Business plan is a second step in order to implement business idea in reality.

Figure 6. The Idea-to-Venture Formula (Read et al. 2011)

There are plentiful ideas, action turns mere idea into valuable opportunity. Action is implementing, finding business partners and interaction with the world. Finally, commitment turns opportunity into venture. Business plan is a part of commitment of entrepreneurs into business ideas.

2. Business Plan

Business plan is a narrative description of a new business, which helps company develop a “road map” to follow in executing strategy and plans successfully internally as well as introduces potential investors and other stakeholders with business opportunity externally (Barringer & Ireland 2006).

Alternatively, a business plan is a written document that details a proposed venture. It must illustrate current status, expected needs, projected results of new business and every aspect of venture needs to be described (Kuratko & Welsch 2004).

Business plan is key factor that set an entrepreneur apart from others. It is not random that business plan is one of the main aspects taught in entrepreneurship. A business plan is essential because it is an internal document that helps an entrepreneur implement a theoretical business plan in real life from its business model and solidify its goal. Additionally, it is also a selling document for a company which provides mechanism for young company to present itself to investors or suppliers (Barringer & Ireland 2006).

Additionally, a business plan helps an entrepreneur to avoid project which is prone to failure. Many entrepreneurs get their projects financed by banks or venture capitalists after they show promising and concrete business plans. By showing business plans to investors, they might seek better investments as well because investors tend to carefully catch a glimpse of projects that have solid backgrounds.

If being creative is crucial in creating business idea, being conventional in writing business plan is significant. Investors expect to find critical information easily; therefore, entrepreneurs should follow a conventional structure instead of creative one.

There are three main types of business plan: summary business plan, full business plan and operational business plan. Summary business plan is usually used for introducing ideas and taking a quick insight whether investors are interested in or not. Next, full business plan is meant for concrete and ready-implemented ideas that

need funding or financing. Finally, operational business plan is blueprint for company's operation hence meant primarily for internal employees.

Regardless the types of business plan, a solid, promising and conventional plan should include executive summary, company description, fundamental business differentiators, revenue model, operating approach, marketing approach, financial approach, human resources approach, financial approach and critical risk factors and risk management.

4.2. Service Strategies

1. Strategy

Every newly born venture is desperate for strategy to be set apart from the others in the same industry. Strategy gives ventures distinct competitive advantages and reduces costs, which are essential and crucial. In this part, service strategy will be discussed the most.

"A firm's strategy is defined as its theory about how to gain competitive advantages" (Barney & Hesterly 2012). In order to be successful, a venture has to choose strategy carefully and systematically - strategic management.

According to Wickham (2006), strategy should relate to three elements: product range, market scope and competitive approach. A firm needs to have clear definition and description of their products by deciding what type and range of products they supply to their markets. Additionally, segmenting their customers and market would be wise as a market strategy in order to focus on targeting right product to right customers. Last but not least, competitive advantage is key element to distinct one business to another although they are in the same industry. This approach is also a cornerstone for sustainable business in highly competitive market or industry. Any strategy in the organization should be aligned with its missions and visions. In order to have outstanding and effective competitive advantages, entrepreneur should have clear objectives to conduct analysis externally and internally. Finally, the

entrepreneur derives strategic decisions from analysis and implements strategy as competitive advantages.

Even though strategy is the cornerstone of an organization, organization's success does not totally rely on only it. Without strategy presence, firms are more flexible for experiments and innovation. On the other hand, according to Mintzberg, lacking strategy is temporary and even essential. He believes that strategy keeps organizations inflexible when they have to be. This might easily steer firms to sail straight into iceberg occasionally. Strategies and theories are not reality themselves, eventually everything changes and although strategy is based on stability, establishing strategy becomes liability (Mintzberg & Ahlstrand & Lampel 2005).

Nevertheless, entrepreneurs are usually on the path of excessively concentration on creating distinct competitive advantages, hence mistaken a bad strategy as a good one. In the book of the year 2011 "Good Strategy, Bad Strategy", Richard Rumelt has indicated diverse types of good strategy and bad strategy from his point of view, which are worth noticed.

Bad Strategy

Fluff

Fluff could be defined as restatement of the obvious, combined with generous sprinkling of buzzwords that masquerade as expertise designed to mask the absence of thought (Rumelt 2012). There is a misconception of marketing, for instance, that the message delivered to customers is unnecessarily wordy, full of implications and complicated concepts. Marketers intend to create outstanding and different path to successful business or tries to exceed customer expectations through those messages. Nevertheless, trying to achieve many objectives at once might be overwhelming for entrepreneur and one will be easily distracted from firm's missions and visions. Additionally, if the venture could not meet all customer expectations, it would be considered as "masking an absence of substance" or "empty vessel makes the greatest sound".

Failure to face the problem

According to Rumelt, a strategy is an approach to overcoming an obstacle, if challenge is not defined or you fail to identify and analyze the obstacles, you are not being able to reject a bad strategy or improve a good one or have a strategy (Rumelt 2012).

Mistaking goals for strategy

An entrepreneur usually makes mistakes performance goals for strategy. For instance, one would list a set of objectives – long list of “things to do” - that a company should accomplish annually and think that it is a strategy. Strategy, from Rumelt’s point of view, is obtaining higher performance by identifying critical obstacles to forward progress to overcome them coherently. Moreover, he believes the need for true strategy work is episodic, not necessarily annual (Rumelt 2012).

Bad Strategic Objectives

Good strategic objectives define critical challenges and build connection between the challenge and action to accomplish and overcome challenge effectively. A “to do list” is definitely not a good strategic objective because focusing on solving a few critical challenges is better than wasting time and effort on so many objectives and have no clue to overcome them.

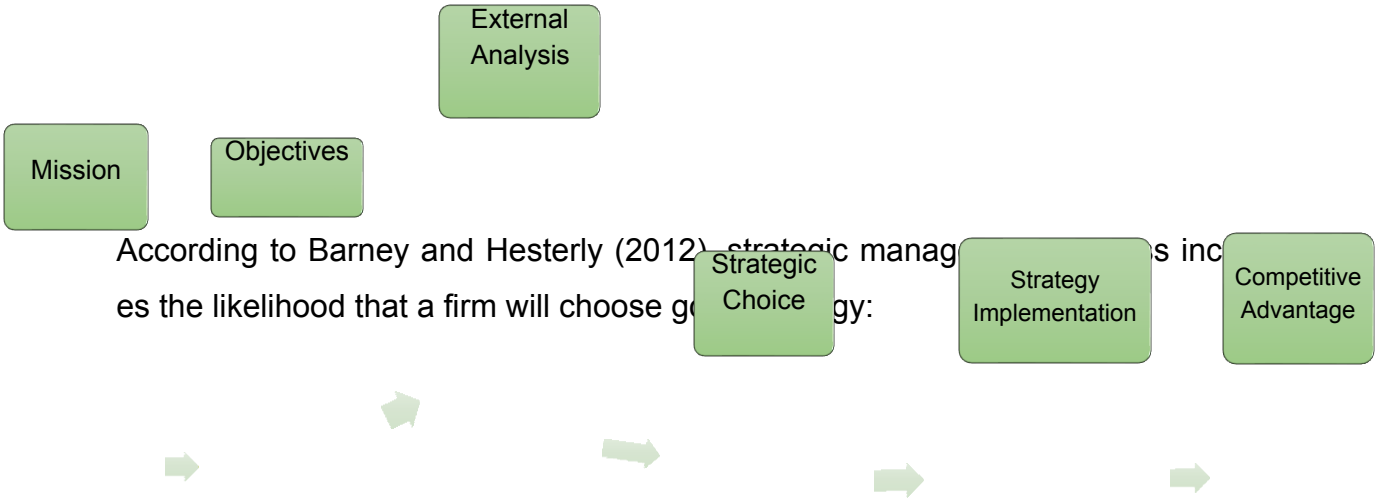
The bare-bones of good strategy

There are various reasons for having a lot of bad strategy such as lack of commitment to hard work, following strictly to template without considering the adaptability of that template-based strategy to an organization’s environment, or the misconception of new thoughts while it is actually another version of old ideas.

How can entrepreneurs avoid bad strategy?

According to Rumelt, there are three elements in building good strategy:

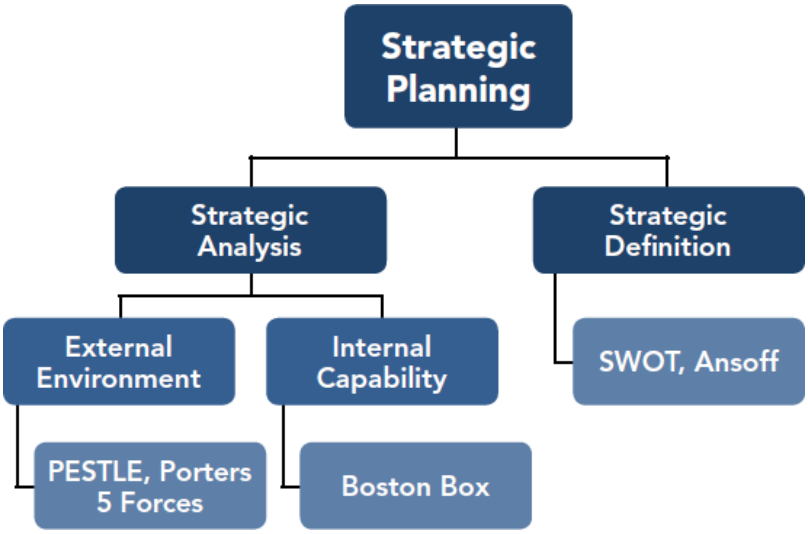
- *A diagnosis* is simply analysis that defines or explains nature of challenge
- *A guiding policy* is overall approach chosen to overcome challenge identified in diagnosis
- *A set of coherence* actions which are meant for carrying out guiding policy



According to Barney and Hesterly (2012), strategic management process includes the likelihood that a firm will choose good strategy:

Figure 7. The Strategic Management Process Model (Barney & Hesterly 2012)

After defining long-term purpose and values or so-called mission of the organization, an entrepreneur should specifically indicate out measurable targets or objectives for the firm. Strategic planning process occurs right after the objectives are clearly indicated, which includes strategic analysis (external and internal analysis) and strategic definition (strategic choice). The following diagram illustrates clearly



the idea of strategic planning

Figure 8. Strategic Planning Process and Essential Business Analysis Tools (Team FME, 2013)

Strategic analysis is quite similar to “a diagnosis” of Rumelt. This step helps entrepreneur to understand deeply about the nature of firm’s challenges. To overcome the challenges, “a guiding policy” is needed, which might be called business analysis tools which are Porter’s Five Forces Analysis, Boston Box and SWOT analysis etc. Porter’s Five Forces and SWOT analysis will be mentioned, explained and used in this business plan. Finally, strategic implementation is the most important step to achieve competitive advantages. Rumelt mentioned in “a set of coherence action” element, planning without any action of implementation would make the whole planning process useless.

2. Strategic Planning Approach

Before getting into strategic analysis, an entrepreneur should establish a specific strategy model to assess long-term strategy and ensure that firm’s profitability after penetrating markets.

For creating ideal and overall picture of promising successful business, Business Model Canvas is an essential tool to illustrate how a new venture should operate, especially for start-up or small new business.

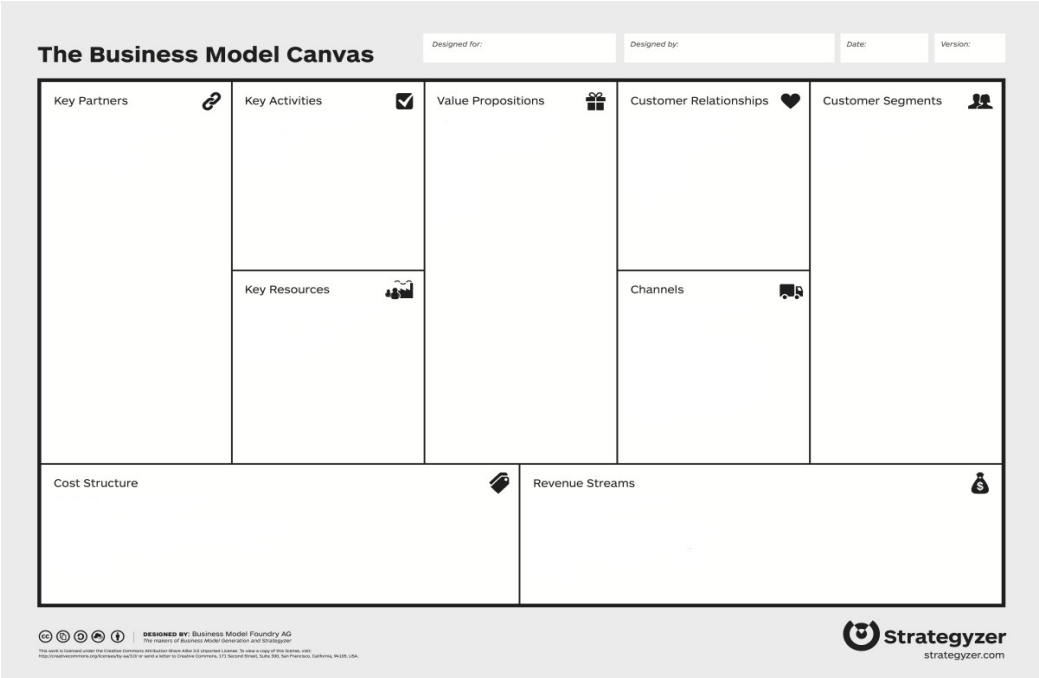


Figure 9. The Business Model Canvas (Osterwalder and Strategyzer 2017)

Key Activities

Key activities, which produce company's value proposition and compete on a day-to-day basis, should be mentioned in this block. These activities should be indicated in detail rather than only listing products or services that an organization offers.

Primary questions for this block are, for instance:

- ✓ How does business deliver their value to customers?
- ✓ Is business going to sell products or offer services with lower price than competitors?
- ✓ What processes will ensure business run efficiently?
- ✓ How will entrepreneur manage marketing, human resources, customer services, finance and R&D?

Value Proposition

Value Proposition is the core of any business. It could be simply the answer to what the venture does and promises to customers.

Primary questions could be:

- ✓ How does products or services meet the needs of customers?
- ✓ What value company deliver to customer segments?

Customer Segments

There is a huge market with various types of customers out there for any business. Therefore, targeting only a few groups of customers would be the wisest choice for a new venture to ensure that the business is able to serve the targeted customer segments efficiently.

Key questions for this block:

- ✓ Who does business sell products or services to?
- ✓ What are customers' characteristics and personas?

Customer Relationships

After defining customer segments, an entrepreneur should focus on building long-term relationships with the targeted customer segments. There are many different techniques to retain customers' loyalty from providing outstanding customer service, to offering unbeatable prices and loyalty discounts (Newton 2017).

Key questions that entrepreneur should think of:

- ✓ How will the venture interact and communicate with customers?
- ✓ How will the business convince customers to use their products or services?
- ✓ How will the business retain customers and maintain customers' loyalty?

Channels

Clear strategies for how venture is going to deliver products or services to targeted customers are extremely important. For a business that offers services, the most common way are online and own stores.

Key Resources

Key resources are things which give the business competitive advantages both tangible and intangible assets.

- ✓ What human, financial and physical resources does the business need?

Key Partners

Venture needs strategic partnerships in order to run a cost-efficiently business. The most common key partner is a firm's supplier. An entrepreneur

should figure out who are considered key partners and how to maintain good relationships with them.

Cost Structure

This is a crucial part to recognize what will it cost to launch and maintain a business. This block will give entrepreneur an overall picture to prepare a good financial strategy to keep the business running.

Revenue Streams

Simply, this is how business makes money.

Primary questions are:

- ✓ How much income will customers generate?
- ✓ What is the pricing strategy?

3. Strategic Analysis

External Analysis

New emerging businesses are extremely fast-paced born, therefore highly competitive markets are unavoidable. Entrepreneurs usually have the mindsets that competitors within the industry are greatest threats, however, the real threats are these emerging competitors or new technologies. Porter's Five Forces Analysis is meant for determining the competitive intensity, hence, attractiveness of a market (Fitzsimmons & Fitzsimmons 2011). In other words, Porter's Five Forces Analysis is a tool for analyzing organization's position in the market (strategic positioning). That is why this is an excellent tool for analyzing external environment of any venture.

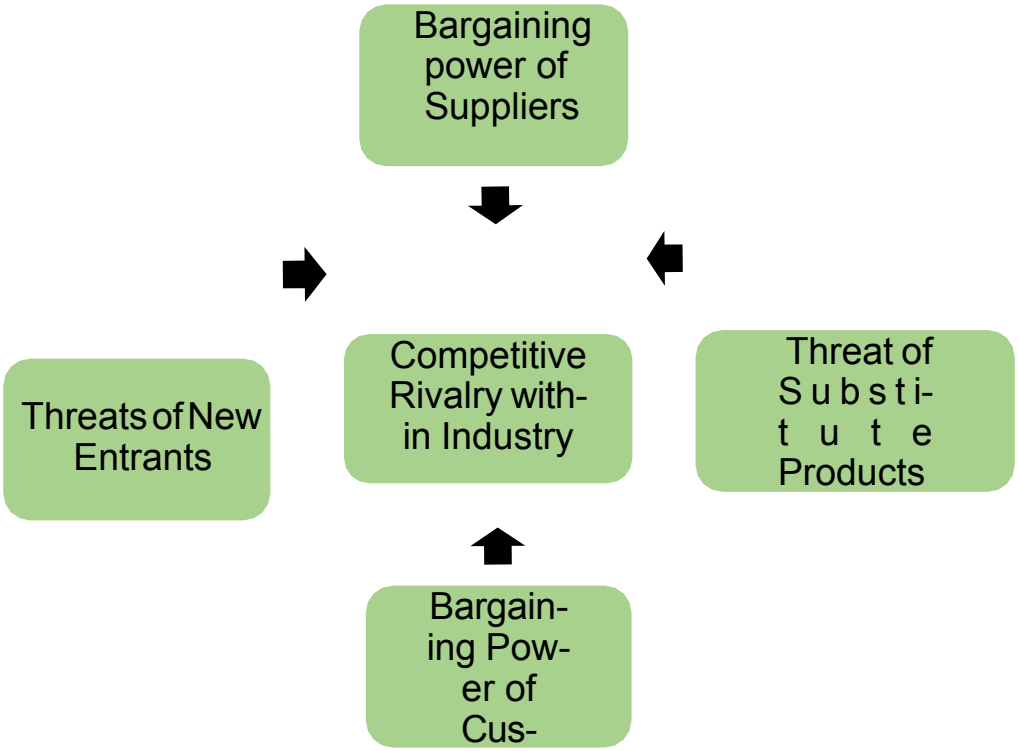


Figure 10. Porter's Five Forces Model

Porter's Five Forces Analysis was developed by Michael E Porter of Harvard Business School in 1979. He indicated that this tool is fundamental for venture which is going to enter an industry with a new service offering. Five forces model analyzes the competitive intensity to determine "attractiveness" of the market. The success of business is not based on which venture is bigger or has more sales or market shares than the other. On the other hand, profitability is the cornerstone of the competition. According to Porter, profitability is defined by five forces:

- **Competitive rivalry within Industry**

This force is the dominance of the whole model because rivalry within industry is always the main concern of any business. Entrepreneurs should be careful with this fierce competition because this might reduce everyone's profitability.

- **Bargaining power of customers**

Customers are content when business offers higher quality or quantity products with low prices. This is always an arduous quiz for entrepreneurs to solve.

- **Bargaining power of suppliers**

Keeping good relationships with core suppliers is extremely important. However, this is not a simple task. Powerful suppliers have a tendency to raise prices or demand more favorable terms. Therefore, in order to keep balance, entrepreneurs should have good strategy in negotiating with suppliers. Win-win is the perfect situation for both sides. In several occasions, business might be in disadvantaged position. However, “one step back, two steps forward”, hence, if entrepreneurs have logical and efficient strategy, it is not a totally bad situation.

- **Threat of substitute products**

New technologies or products are significant threats for businesses, especially for services. Substitutes threats do not only come from the same but also different industry.

- **Threat of new entrants**

Any new entrant creates much tension on the competition within an industry. New entrants are equipped with recently developed strategy and technology. However, new entrants are threats only when cost of entry into an industry is lower than potential profits. New entrants will only enter the industry if they could predict that they obtain profits enough to compensate for their cost of investment. Therefore, there are barriers that organizations should notice and develop to create significant obstacles and counter the tension that new entrants cause:

  - Product differentiation: new entry does not possess brand identification and customer loyalty as existing firms. For this reason, new entrants suffer from standard and start production costs as well as costs to overcome current firms’ differentiation advantages. Hence, this is a significant barrier for them to enter the industry if potential profits are not higher than those costs.

Inte Analysis

If Porter's Five Forces is the tool to analyze external environment, then SWOT analysis is an essential tool to as [redacted] nd internal environment. However, unlike Porter's Five Forces, SWOT analysis focuses more on analyzing organization's internal capabilities. SWOT could be used as a simple tool to analyze every product, service or market. This technique helps entrepreneurs to identify profitable and suitable market segments for the product or service. Nevertheless, this tool has a disadvantage which is its subjectiveness. For this reason, SWOT should be used as guidance or analyzed by more than one person, which is a good stimulant for collaboration within a firm. SWOT consists of four key factors which are Strengths, Weaknesses, Opportunities and Threats. Main objectives of SWOT analysis are verifying firm's position against competitors, identifying best future opportunities and highlighting current and future threats (Team FME 2013).

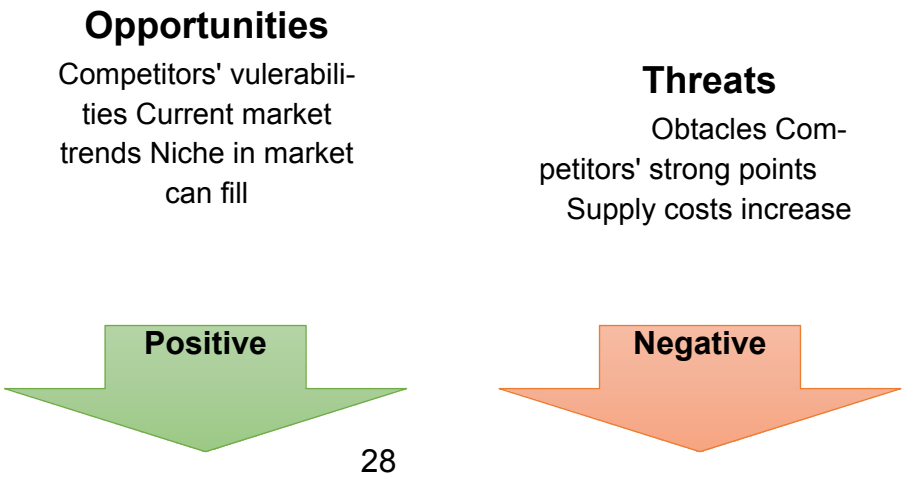


Figure 11. SWOT analysis model

According to the figure, internal analysis includes strengths and weaknesses, external analysis consists of opportunities and threats. By answering the questions for each section, entrepreneurs will be able to complete the whole analysis. Strengths and Opportunities are positive factors that entrepreneurs should identify to strengthen companies' advantages. On the other hand, Weaknesses and Threats are negative factors that should be indicated out carefully to improve and align firms' capabilities with the market.

In order to reach strategic decisions with SWOT, there are two methods: "matching" and "converting" (Team FME 2013). Managers should "match" strengths to opportunities to gain competitive advantages. In other words, combining firm's strengths and opportunities could help to highlight strong points of an organization over competitors. Threats and weaknesses should be converted into strengths and opportunities by carefully identifying threats as well as weaknesses and developing or changing them into advantages.

4. Strategic Implementation

Implementing strategy is the key step of the whole process after planning and analyzing. Considering that an organization is a foundation to launch the projectile – product or service – into the market, after finishing two mentioned steps, the firm is ready for launching that projectile by implementing well-prepared strategy. The aim of strategic implementation is achieving capabilities to compete with rivals and attaining "fit" in niche market.

Since organization is considered as a foundation for launching missile, it consists of many parts which all together build up a concrete base. The following figure illustrates the essential factors to form a strong foundation as well as projectile:

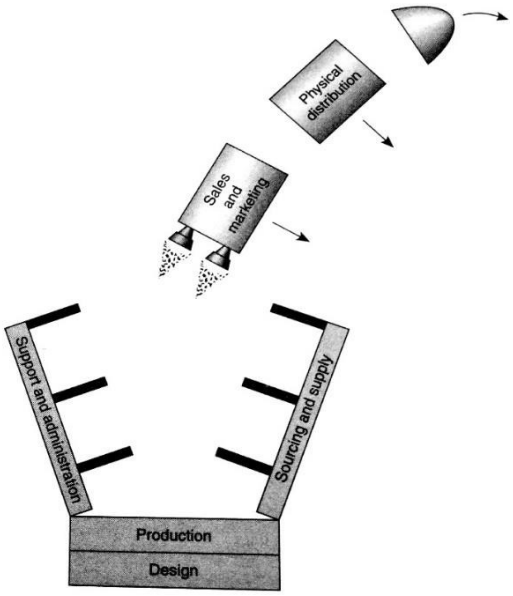


Figure 12. Organization as a foundation for “projectile” (Mintzberg & Ahlstrand & Lampel 2005)

To build up a sustainable base, production and design are two basic and critical factors platform for the projectile. These are the features that decide the success of the product or service as well as distinguish a firm’s missile from competitors’. Meanwhile, support and administration together with sourcing and supply are the wings to support and align the projectile along the building phase. For business to function effectively and sustainably, all kinds of resources and assets are crucial, which support firm’s core competences and capabilities such as ability to produce products or services inexpensively.

The missile itself consists of three parts. Sales and marketing as well as physical distribution are the booster for launching the projectile. The top of the projectile is the products or services that organization will launch into the market (Mintzberg et al. 2005). In order to launch it effectively to gain competitive advantage, Porter

argued that Porter's Generic Strategies could be applied to characterize the product or service.

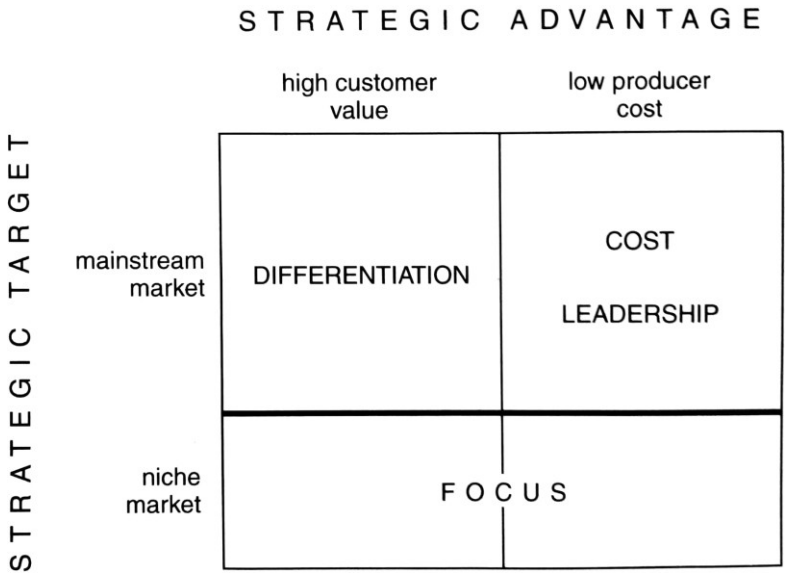


Figure 13. Porter's Generic Strategies (Barnes 2003)

Overall Cost Leadership

Cost leadership gives organizations advantage in low producer cost and its strategic target is the mainstream market. Cost leadership is powerful because it is able to revolutionize an industry. There are several approaches to achieve low-cost leadership.

- Seeking out low-cost customers: there are two types of customers in a particular market segment, high-cost and low-cost customers. Low-cost customers are the ones who cost less to serve than the other type. Picking out these low-cost customers and prioritize them might lower much cost leadership for organization.
- Standardizing a customer service: designing routine customer services to reduce variable costs and stabilize fixed costs.

- Reducing personal element in service delivery: reducing personal interactions with customers might help to reduce overall costs but should be applied only when it increases convenient results.

Differentiation

Differentiation gives companies advantage in perceiving high customer value and its strategic target is also mainstream market. The aim of differentiation strategy is creating customer loyalty.

- Making the intangible tangible: services are usually intangible by their nature, for this reason, businesses should come up with tangible souvenirs or objects to remind customers about the companies.
- Customizing the standard product: adding personalizing features such as mood music, customized surroundings, addressing customers by names etc. are the ways to build up closer relationships with clients. Customized products or services are essential to differentiate a business from the others within an industry.
- Reducing perceived risk: usually when customers are reluctant if they should use a particular service over others, one of the reasons for them to be indecisive is trust issues. Providing them more information, building up brand identity and image or offering warranty are the best way to boost up risk-taking sense in customers.
- Controlling quality: building trust relationship between customers and organizations is always crucial and difficult. Delivering consistent level of service quality is a challenge but also the most essential factor to gain customer loyalty and create differentiation as well. (Fitzsimmons & Fitzsimmons 2011.)

Focus

Focus strategy gives both advantages in low producer costs as well as gaining high customer value. However, this strategy should be applied in niche market instead of mainstream one. In depth, focus could be applied for a particular market segment to

serve that customer group more effectively, consequently, achieve competitive advantages. In other words, this strategy is the application of cost leadership and differentiation strategy for a narrower market to attain “fit”.

Mintzberg also claimed that there are generic strategies that could characterize the missile – product or service – itself:

- Low cost or price differentiation strategy
- Image differentiation strategy: nice packaging, service customization etc.
- Support differentiation strategy: after-sales service etc.
- Quality differentiation strategy: more reliable, higher performance, more durable etc.
- Design differentiation strategy: difference in function, different way of service operating etc.

(Mintzberg & Ahlstrand & Lampel 2005.)

4.3. Financial Planning for Start-ups

Financial aspect is considered as the most important factor in business. Business exists for achieving profits from business activities. In order to manage the business effectively to pursuit profitability, accounting is the tool for both external and internal parties to monitor business’ financial state. Accounting is a so-called business’ language. Thus, could be considered to have different “dialects” which are the main different focus areas: financial accounting and management accounting.

Financial accounting focuses on providing essential information for external parties who are investors and creditors. On the other hand, management accounting is necessary for gathering financial and nonfinancial information for internal users such as managers within an organization. Managers use this information to communicate, analyze and implement strategy. Cost accounting could be seen as intersection between financial and management accounting. Cost information is provided to external parties for investments and credit decisions as well as internal parties for

controlling, decision making and evaluating performance. In this section, cost accounting and management accounting are the main focus.

In accounting there are several terminologies that should be understood clearly.

Revenue

Revenue or sales are the amount of money that organization achieves within a specific period of time, including discounts and deductions for returned merchandise. Revenue per unit is constant. Therefore, total revenue fluctuates proportionally to level of activity or volume.

Cost drivers

Costs drivers are the measures of activities which cause costs in business for requiring the use of resources.

Variable costs

Total variable costs change proportionally to changes in cost driver or level of activity or volume. However, on per-unit basis, variable costs are constant.

Fixed costs

Changes in cost driver do not affect fixed costs immediately. Total fixed costs are constant but on per-unit basis, fixed costs does not change proportionally to volume.

1. Financial Planning Process

Financial planning in start-up's perspective is simpler than preparing financial plan for SME or big companies. A concrete and persuasive financial plan consists of twelve-month profit and loss projection, twelve-month cash flow projection, opening day balance sheet and break-even analysis or cost-volume analysis. Additionally, start-up expenses spreadsheet should be prepared in business plan for entrepreneur to have an insight about the total costs since there are many expenses even before beginning operating the newly-opened business. The aim of financial planning for start-up is carefully acknowledging total costs of the business to forecast and maintain the profits equal to or same as break-even point. The process starts

by preparing the statements and solid financial business plan. Next step is applying for loans and capital funding if necessary.

1.1. Start-up Expenses Spreadsheet

Start-up costs include registration, insurance, equipment, installation, etc. In the spreadsheet, the costs could be divided into fixed costs and average monthly costs as in the following figure.

COSTS	Estimated
Fixed Costs	
Advertising for Opening	500
Basic Website	50
Brand Development	1,000
Rent	2,000
Building Improvements/Remodeling	-
Business Cards/Stationery	200
Business Entity	400
Business Licenses/Permits	500
Computer Hardware/Software	100
Decorating	700
Employee Uniforms	300
Internet	50
Legal/Professional Fees	200
Machines & Equipment	500
Office Furniture	3,000
Operating Cash (Working Capital)	2,000
Prepaid Insurance	500
Salaries for Employee Trainers/Trainees	2,000
Setup, installation and consulting fees	350
Tools & Supplies	1,000
Total Fixed Costs	**15,350**
Average Monthly Costs	
Advertising (print, broadcast and Internet)	500
Business Insurance	200
Cleaning Services	-
Employee Salaries and Commissions	400
Health Insurance	200
Internet Connection	30
Lease Payment	2,000
Owner Salary	2,000
Payroll taxes or Self-employment tax	1,000
Telephone	63
Website Hosting/Maintenance	24
Total Average Monthly Costs	**6,417**
x Number of Months	6
Total Monthly Costs	**38,502**
Total COSTS	**53,852**

Figure 14. Start-up expenses spreadsheet example (Brunel University London, 2018)

1.2. Income statement (profit or loss account)

The first key financial statement is income statement or so-called profit and loss account. “Income statement shows whether the difference between revenue (sales) and expenses (costs) is a profit or a loss over a given time period” (Mariotti & Glackin 2012). Income statement is crucial because it not only shows the profitability but also reveals problems cause loss in the business.

Profit and loss account is composed of several key factors such as revenue, COGS or COSS (Costs of goods sold / Costs of services sold), gross profit, other variable costs, fixed operating costs, taxes, net profit / loss etc.

COGS or COSS are costs of material used to make products or deliver the service plus costs of direct labor. Definition of variable costs has been mentioned, so basically other variable costs have the same idea as variable costs, however, it is calculated by subtracting variable costs from COGS or COSS. Fixed operating costs consist of various types of costs and usually there are seven common types which could be easily remembered with the acronym USAIDIR: **U**tilities (electric, telephone, internet service etc.), **S**alaries (indirect labor), **A**dvertising, **I**nsurance, **D**epreciation, **I**nterest and **R**ent. According to Mariotti and Glackin, depreciation is the percentage of value of a tangible asset subtracted each year until the value becomes zero. In other words, depreciation is a method of allocating tangible asset's value over its lifetime (Mariotti & Glackin 2012). The following figure is an example for a basic income statement over a period of time.

Exhibit 13-1 *Basic income statement.*

A Basic Company, Inc.
Income Statement
for the Month Ended June 30, 2011

Sales/Revenue			$ 24,681
COGS (Cost of Goods Sold)			
Total Materials	$ 2,468		
Total Labor	3,579		
Total COGS	$ 6,047	$ 6,047	$ 6,047
Gross Profit			$ 18,634
Other Variable Costs			
Commissions	$ 1,234		
Packaging	236		
Total Other Variable Costs	$ 1,470	$ 1,470	1,470
Contribution Margin			$ 17,164
Fixed Operating Costs (USAIIRD)			
Utilities	$ 200		
Salaries	3,000		
Advertising	600		
Insurance	300		
Interest	300		
Rent	1,000		
Depreciation	50		
Other	50		
Total Fixed Operating Costs:	$ 5,500		$ 5,500
Pre-Tax Profit			$ 11,164
Taxes (0.34%)			3,796
Net Profit			$ 7,368

Figure 15. Basic income statement (Mariotti & Glackin 2012)

There is a common expression “bottom line” that we usually hear not only in business. It refers to the last line of income statement which shows whether the business is profitable or not. Achieving mission and goals as well as filling a need in community are another “bottom line’ for organization regardless for-profit or non-for-profit purpose. Therefore, “double bottom line” is essential aim for any type of company – making profit and achieving mission at the same time.

1.3. Balance Sheet

“Balance sheet is a financial statement that shows the assets (what the business owns, liabilities (debts) and the net worth (owner’s equity) of a business”. Balance sheet is snapshots of assets, liabilities and equity at a point in time (Mariotti and Glackin 2012). This financial statement is like financial X-ray through business enterprise because it shows company’s financial strategy.

Balance sheet consists of two sides because it follows the rule: $Assets = Liabilities + Owner's\ Equity$. Assets simply are all items company owns that are worth money, which are reported on company’s balance sheet. There are two types of assets: short-term and long-term assets. Short-term assets (current assets) are cash or items that could be turned into cash quickly or will be used by the business within one year. Long-term assets (fixed assets) are those that will stay in the business on long-term basis. Liabilities are debts that the organization has that must be paid. Similar to assets, liabilities also have two types: current liabilities and long-term liabilities. Current liabilities should be paid within one year and on the other hand, long-term liabilities are paid over a period of more than one year. Additionally, Owner’s Equity (net worth) is the difference between assets and liabilities, which shows amount of capital in the business.

The following figure is a good example of balance sheet, which is called horizontal balance sheet because the structure is presented horizontally. If the structure is presented vertically, the balance sheet will be called vertical balance sheet.

Exhibit 13-4 *Balance sheet (horizontal).*

A Basic Company, Inc.
Balance Sheet
As of December 31, 2011

Assets		
Current Assets		
Cash		$75,000
Accounts receivable		250,000
Inventory		500,000
Supplies		80,000
Prepaid expenses		15,000
Total Current Assets		**$920,000**
Long-Term (Fixed) Assets		
Land		$500,000
Buildings	$700,000	
Less accum. depreciation	70,000	630,000
Vehicles	$200,000	
Less accum. depreciation	60,000	140,000
Equipment	$250,000	
Less accum. depreciation	12,500	237,500
Furniture and fixtures	$50,000	
Less accum. depreciation	10,000	40,000
Total Fixed Assets		$1,547,500
Intangibles (goodwill)		$0
Total Assets		$2,467,500

Liabilities	
Current Liabilities	
Accounts payable	$475,000
Notes payable	175,000
Accrued wages payable	75,000
Accrued taxes payable	20,000
Accrued interest payable	25,000
Total Current Liabilities	**$770,000**
Long-Term Liabilities	
Mortgage	$900,000
Notes payable	500,000
Total Long-Term Liabilities	**$1,400,000**
Owner's Equity	
Prime Owner, paid in capital	$197,500
Common stock	100,000
Total Owner's Equity	**$297,500**
Total Liabilities and Owner's Equity	**$2,467,500**

Figure 16. Horizontal Balance Sheet (Mariotti & Glackin 2012)

Opening day balance sheet is the same as ordinary balance sheet, however, it is meant for measuring the value of total assets of the company in opening day.

1.4. Cash flow statement

Cash flow statement is one of the most important financial statements as the blood of start-up company. The statement of cash flow projects the cash flow activities and the impact of firm's operating, investing and financing activities on cash flows. This statement provides information of firm's cash inflows and outflows (Jackson, Sawyers & Jenkins 2009). Cash flow statement could forecast when and how much cash organization should raise. If projected cash balance is negative, company needs to raise start-up capital. The following figure illustrates twelve-month cash flow statement in spreadsheet.

Twelve-Month Cash Flow

Fiscal Year Begins: 07/01/25

Company Name
Address, City, State, ZIP
Phone, Email, Web

Cash Flow Summary

	Beginning	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Monthly Average	Overview
Cash Summary															
Cash on Hand (beginning of month)	55,000	67,593	54,265	55,739	69,290	65,618								62,501	
Cash Available (on hand + receipts, before cash out)	67,593	76,065	83,301	91,032	89,662	76,200								83,252	
Cash Position (end of month)	67,593	54,265	55,739	69,290	65,618	51,413								59,265	
Cash Receipts															
Cash Sales	5,616	3,889	24,411	31,642	14,647	3,034								15,525	
Collections from CR accounts	4,498	3,493	1,987	1,029	2,911	4,234								2,731	
Loan/ other cash	2,479	1,090	2,638	2,622	2,814	3,314								2,496	
Total Cash Receipts	**12,593**	**8,472**	**29,036**	**35,293**	**20,372**	**10,582**								**8,646**	
Cash Paid Out															
Purchases (specify)		521	323	274	451	104								335	
Gross wages (exact withdrawal)		10,572	14,514	10,561	13,170	12,478								12,259	
Supplies (office & oper.)		250	428	165	1,168	345								471	
Repairs & maintenance			2,200	163	67									486	
Advertising		1,100	625	1,356		2,560								1,128	
Rent		3,500	3,500	3,500	3,500	3,500								3,500	
Utilities		285	318	151	134	228								223	
Other (specify)		123	234	123	234	123								167	
Loan principal payment		4,000	4,000	4,000	4,000	4,000								4,000	
Capital purchase (specify)		679	700	679	650	679								677	
Other startup costs		400	350	400	300	400								370	
Reserve and/or Escrow		300	300	300	300	300								300	
Owners' Withdrawal		70	70	70	70	70								70	
Total Cash Paid Out		**21,800**	**27,562**	**21,742**	**24,044**	**24,787**								**9,995**	
Essential operating data (non-cash flow information)															
Sales Volume (dollars)	2,000	2,500	2,257	2,387	2,664	2,324								2,355	
Accounts Receivable	1,500	500	886	1,035	1,775	839								1,089	
Bad Debt (end of month)	300	200	225	269	448	359								300	
Inventory on hand (eom)															
Accounts Payable (eom)															
Depreciation															

Figure 17. Twelve-month cash flow statement (Microsoft Corporation, 2018).

1.5. Cost-Volume-Profit Analysis

CVP analysis is sometimes known as break-even analysis, however, it covers more than break-even thus the name “cost-volume-profit analysis” was born. Studying the relation between costs, volume and profits by using CVP analysis, profit-seeking managers could calculate the necessary sales volume to gain target profit. CVP analysis is one of the simplest tools to examine and analyze in crucial areas such as pricing policies, product mixes etc. The aim of CVP analysis is to help managers to make short-term planning decisions.

Break-Even Point

Profits could only be achieved when BEP is reached. Therefore, BEP is the starting point of Cost-volume-profit analysis (CVP analysis).

$$x = \frac{FC}{\quad} = \frac{FC}{\quad}$$

“Company’s break-even point (BEP) is that level of activity, in units or dollars, at which total revenues equal total costs” (Kinney & Raiborn A C 2009).

BEP is essential in financial analysis because organizations need to realize the amount of sales revenue for net income to cover all costs or equal to zero in order to be profitable. In other words, BEP is the level at which there is neither profit nor loss. There are two different ways to approach BEP: equation and graphing approach.

1. **Equation approach**
   - Break-even point in euro formula:

$$Breakeven\ Point\ (euros) = R(x) - VC(x) - FC = Net\ Income = 0$$

   - Break-even point in unit formula:

$$Breakeven\ (units) = R(x) - VC(x) - FC = 0$$

$$= R(x) - VC(x) = FC$$

$$= (R - VC)(x) = FC$$

R = Revenue (selling price) per unit → R (x) = Total revenue

VC = Variable costs per unit → VC (x) = Total variable costs

FC = Total fixed costs

x = units or sales volume

CM = Contribution margin per unit

2. **Graphing approach**

The Figure 18 illustrates an example to graph break-even point. From the graph, entrepreneurs could easily figure out key points of the relations between costs, volume of production and profits.

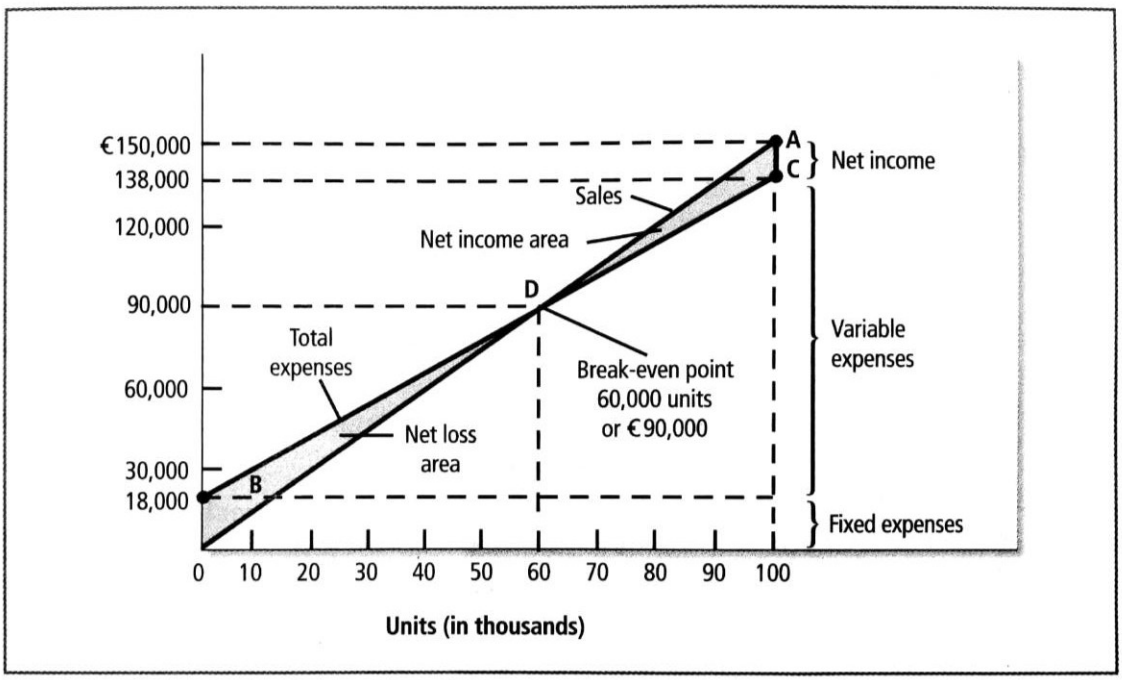


Figure 18. Cost-Volume-Profit Graph (Bhimani, Horngren, Sundem, Stratton, Burgstahler, Schatzberg 2012)

3. Selling price per unit (R)

From the break-even point in unit formula, we could simply calculate selling price per unit.

$$Selling\ price\ per\ unit\ (R) = \frac{FC}{x} + VC$$

Changes in selling prices and costs

Break-even point is the first step for entrepreneurs to figure out the amount of sales revenue to cover all costs for organizations to reach the state of neither profitable nor loss. However, stopping there is not a wise choice because the main purpose of business is achieving profits. In CVP analysis, managers might apply BEP to calculate the target profit as well as target selling price if there are changes in the business.

$$CM$$

From changes in selling price to target sales volume

Supposedly, there are changes in business procedures which make entrepreneurs decide to change the selling prices or variable costs for products or services, in this case, selling prices and variable costs are increased. Therefore, instead of only figuring out BEP, managers have to also calculate the target profit to cover the loss of the business.

In the previous section, contribution margin per unit was calculated as revenue per unit minus variable cost per unit. With the same formula of break-even point in euros, this time instead of assuming the equation's result is zero, we add in the target profit that the business would like to reach. From there, we could find out what is the target sales volume that the business should produce in order to maintain profitable. Thus, target sales volume could be calculated as shown in the following formula.

$$R(X) - VC(X) - FC = Target\ profit$$

$$R(X) - VC(X) = FC + Target\ profit$$

$$X = \frac{(FC + Target\ profit)}{R - VC} =$$

X = target sales volume

R = the new selling price per unit (if applicable)

VC = The new variable costs per unit (if applicable)

2. Financial Ratio Analysis

Financial ratios from income statement and balance sheet help entrepreneurs to analyze their business in greater depth. In business profitability is the most important factor, however, noticing other essential factors is necessary as well.

2.1. Income Statement Analysis

Return on Investment (ROI)

ROI is clearly important due to its ability to show entrepreneurs the amount of earnings for their investment. ROI could be calculated on annual and monthly basis, however, in some cases, managers might calculate ROI on daily basis as well. ROI consists of two elements:

- *Net profit (net income)* is the amount of profit beyond what is spent to cover business' costs.
- *Total investment* is the amount of funds that was required to open the business plus all additional funding.

From these factors ROI could be calculated as

$$ROI = \frac{Net\ Profit}{Total\ Investment} \times 100$$

Return on Sales (ROS)

ROS is also known as **profit margin**, which is essential measure of profitability of a business. ROS has quite the same idea as ROI:

$$ROS = \frac{Net\ profit}{Sales} \times 100$$

This measurement helps business to figure out a way to earn profit as much as possible.

Exhibit 13-11 *ROS (profit margin) table.*

ROS	Margin Range	Typical Product
Very low	2–5%	Very high volume or very high price
Low	6–10%	High volume or high price
Moderate	11–20%	Moderate volume and moderate price
High	20–30%	Low volume or low price
Very high	30% and up	Very low volume or very low price

Figure 19. ROS Table (Mariotti & Glackin 2012)

The figure indicates that if a business sells products at low volume or low price, their margin range has to be high to be profitable and vice versa.

2.2. Balance Sheet Analysis

Balance Sheet also has several important ratios that managers should notice.

Quick Ratio

Quick ratio is a measurement which assists business in noticing whether they have enough cash to cover their current debt or not. If quick ratio is less than 1, it means business does not have enough cash to cover all current debt. Hence, organizations should always keep quick ratio greater than 1.

$$Quick\ ratio = \frac{Cash + Marketable\ Securities}{Current\ Liabilities}$$

Marketable Securities are investments, which could be converted into cash within 24 hours.

Current Ratio

Current Ratio indicates whether a business could sell some of their assets to pay off all their debts or not. Therefore, firms should keep their current ratio greater than 1 as well.

$$Current\ ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

4.4. Service Pricing Strategies

Pricing strategies and techniques are sensitive and complicated because it is not one-size-fits-all proposition. In order to develop and implement effective pricing strategies, entrepreneurs must have good knowledge about their companies such as operational strategies, market segments etc. Pricing strategies should align with

company strategy, marketing strategy and objectives for successful outcome.

Developing a framework for pricing is the best and most effective way to reach wise pricing decisions. The following figure illustrates the logical pricing process that managers should go through:

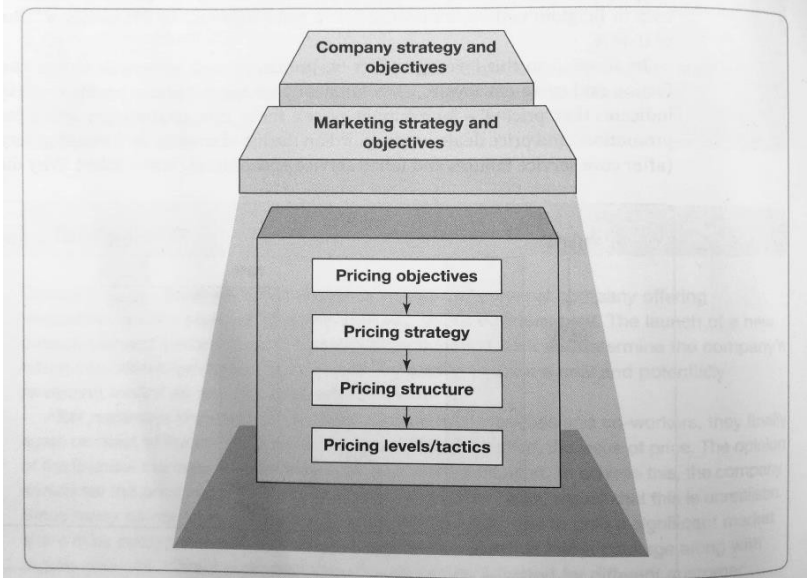


Figure 20. The Pricing Process (Gemmel, Looy & Dierdonck 2013)

1. Pricing Objectives

Pricing objectives are important when entrepreneurs are confusing if they should set low or high prices. Additionally, objectives help manager to narrow down the suitable techniques and strategies that they will apply. Clearly, gaining maximum profit is the first objective that any organization should set. However, there are many other essential goals that firms should consider such as:

- acquiring desired market share
- maximizing long-term and short-term profit
- making fast recovery of investments
- regulating demand

Depending on company's current strategies and business model, entrepreneurs could exclude unnecessary goals and include essential objectives for their business.

2. Pricing Strategies

In modern business, there are variety types of pricing strategies such as cost-based, customer-based and competition-based strategies. Unlike manufacturing businesses, service business is different which leads to diverse pricing strategies. This happens because service businesses could be categorized as service-oriented, product-oriented or people-based. Each type of service business requires different strategies and has its own difficulties. Barbering and hairdressing service is mostly service-oriented business. Therefore, this section will discuss and focus on pricing strategies and structure especially for service-oriented business.

1. Cost-based Strategies

Cost-based strategies (cost-plus pricing strategies) are the most popular pricing strategies due to their applicable versatility, time-efficiency and ease of use. These strategies could be used to apply in any business type. Entrepreneurs calculate the total costs for service and add desired profit margin to yield the suitable final price of the service. This method is also called mark-up pricing technique. For instance, there are four basic steps to calculate the total haircut price:

1. Service costs per hour

$$Total\ costs\ per\ hour = \frac{FC + VC - Materials}{Hours}$$

2. Service price per hour

$$Price\ per\ hour = \frac{Total\ costs\ per\ hour}{(1 - Net\ profit\ target\ \%)}$$

3. Mark-up on costs of materials

$$Markup\ price = Labor\ costs\ per\ haircut + Materials\ costs\ per\ haircut\ (1 - Desired\ markup\ \%)$$

Desired mark-up% is the percentage added to cover the costs and it could be varied depending on entrepreneurs' strategy.

(Mariotti & Glackin 2012)

4. Total service price

$$Total\ Service\ Price\ per\ hour = Service\ price\ per\ hour + Markup\ price$$

(Gemmel, Looy & Dierdonck 2013)

Cost-based strategies are fast and easy to apply. However, this method has several unavoidable disadvantages. Cost-based strategies are mostly based on assumptions and estimations of variable costs, labor costs and markup price. These costs may change frequently depending on the market and choices of suppliers. Due to intangible nature of services, costs for service business are difficult to measure. Therefore, this type of strategy should be used as guidance to have insights into costs and prices.

2. Customer-based Strategies: The Psychology of Pricing

Customer-based strategies clearly focuses on customers and their perceived value. Managers should notice the basic concept that price should be equivalent to the service delivered to customers. In other words, customers must feel that they receive equal value for money, which is so-called perceived value. “Perceived value is the consumer’s overall assessment of the utility of a service, based on perceptions of what is received and what is given” (Gemmel, Looy and Dierdonck, 2013). Customers have various definitions for value, if entrepreneurs are able to understand and determine them in depth, they might have appropriate strategies to define suitable price for the service:

- *Value is low price* – this type of customers perceive value equal with low price.
- *Value is whatever I want in a service* – price is not main focus of this type of clients, benefits they gain from the service is more important.
- *Value is the quality I receive for the price I pay* – value is trade-off for this type of consumers, price and quality are both important.
- *Value is what I receive for what I give* – besides quality, benefits and price, this type values other components such as time and effort as well. They take everything in consideration.

The other components that affect customer’s perceived value is called non-monetary costs, which include

- *search costs* – looking for an appropriate service provider
- *psychological costs* – worrying whether the price / quality will be suitable or not
- *convenience costs* – costs to reach service provider
- *opportunity costs* – waiting to be served

This type of strategy includes relationship pricing – building long-term relationship with customers, flat-rate pricing – agreeing about prices in advance, satisfaction-based pricing – assuring that there will be no uncertainty in the service etc.

3. Psychological Pricing

Consumers' perceived value is subjective that entrepreneur might think that it is somehow unpredictable. Nonetheless, unbelievably, consumers' perceived value or decision-making could be altered or predicted based on several psychological hidden forces according to Dan Ariely (2008).

Dan Ariely is the author of the best-selling book "Predictably Irrational", in which he stated, we – as human beings - "*are not only irrational, but predictably irrational – that our irrationality happens the same way, again and again*", regardless our social status statuses. "*We are all far less rational in our decision-making than standard economic theory assumes. Our irrational behaviors are neither random nor senseless: they are systematic and predictable. We all make the same types of mistakes over and over, because of the basic wiring of our brains*". In the book, he provided a great deal of descriptions of his experiments as examples for these theories of predictable irrationality.

The Truth about Relativity

The author illustrates this concept of relativity by giving an example of an experiment he conducted with his students about The Economist subscriptions. He noticed the subscription choices that The Economist put up on their website, he then used this idea to conduct an experiment. In the experiment, he gave the students two options: Internet-only subscription for $59 and Print-only subscription for $125, 68% of students chose the first option and 32% chose the second one. Subsequently, he

gave the students three options: Internet-only subscription for $59, Print-only subscription for $125 and Print-and-Internet subscription for $125, drastically, 84% of students chose the third option, 16% chose the first one and nobody chose the second one. Logically, the students thought that the third option was the most beneficial one, Print-only subscription costed the same as both subscriptions, it would be unreasonable if they choose the second option. He conducted several other similar experiments and the results came out the same.

This experiment indicates that consumers might not know the real value of the products or services they buy. Their perceived value is totally subjective, hence, comparing the costs would be the most reasonable way choose the products or services that they think financially beneficial the most to them. If entrepreneurs study consumers' relative thinking in depth, they could manipulate the choices of consumers, which they usually think they could not. As in the example experiment, The Economist's motive behind the put-up choices would be trying to get more readers to subscribe both internet and print, which costs much more than print-only or internet-only subscription. (Ariely 2008.)

The Fallacy of Supply and Demand

Anchoring is a term that Ariely uses for this theory. Anchoring is a long-term effect that influences our willingness to buy a new product or service. For instance, the first pair of jeans that a customer chooses to buy is worth $20. Although that person's decision to buy a pair of jeans depends on many things, but the first price that that person decides to buy affects all his/her decisions to buy jeans from then on. Next time when that customer buys another pair of jeans, he/she will compare the price with $20, barely considers the quality of materials of that pair of jeans. The author suggested in the book that human being's impressions and decisions could be imprinted, that we will follow our first decision and impression and be loyal with them, from that start to compare products which have similar characteristics based on their prices. That's why, to price a new product or service, pricing based on competitors'

prices is not essential, instead potential buyers' perception or perceived value is more necessary.

There are two concepts that Ariely introduced in "Predictably Irrational" which are related to this theory: arbitrary coherence and self-herding.

Ariely proved that our minds could be shaped by random anchor but coherently and logically and that is the meaning behind arbitrary coherence concept. In the experiment, the experimenter asked participants to write down the last two digits of their social security numbers then guided them to bid on several different items. Surprisingly, participants who have highest-ending social security digits bid higher than those who have lower-ending social security digits. The social security digits become the anchor because the experimenter asked them to jot down the numbers and since then participants start to subconsciously bid according to that arbitrary anchor. Additionally, the more they bid, the lower the bids get. This is an example for coherence as we unintentionally follow our previous decisions but our decisions are logically coherent with each other.

Supporting this anchor concept, Ariely reminded readers about the concept of behavior herding. We usually assume that the restaurant is good if there are many people accept to waste their time to get a table in there. They must have been to that place many times and the food must be good. We tend to follow the crowd because we make assumptions based on other people's previous behavior.

Additionally, there is another type of herding which is called self-herding. To explain self-herding concept, Ariely gave an example of a person who frequently went to a coffee shop, however, one day he had to go to Starbucks for coffee. He hesitated at first but after he drank coffee there two times, he started to think that the coffee was not that bad and expensive. Eventually, he did not resent the price he paid for Starbucks anymore and started to drink coffee there although the price was more expensive than his frequent coffee shop. He looked back at his previous decisions and thought that the coffee was not that bad, therefore, he continued going to Starbucks. In other words, he had set up new anchor for coffee. At the same time, Starbucks actually did create new anchor along the way to imitate more self-herding

effect. Instead of calling their coffee cups “small”, “medium” and “large traditionally, Starbucks offered “Short”, “Tall”, “Grande” and “Venti” as well as other fancy coffee names. Their strategy was creating new anchor which somehow prevented customers from comparing their coffees with traditional ones. Hence, their customers will be willing to pay higher prices for the fancy coffee names and the moment they decided to pay for the coffee, they have set up new anchor for themselves. (Ariely 2008.)

The Effect of Expectations

In this part, Ariely tried to prove the truth behind “When we believe something will be good, it generally will be good, and when we think it will be bad, it will be bad”. He used experiments to prove that if we were informed about the product that we were going to consume, that could change our perceptions about the product. The preliminary information we have is responsible for our actual experience after using or consuming a product. Furthermore, the author mentioned caterers usually try to create detailed descriptions for their food. One caterer says that she serves “delicious Asian-style ginger chicken” and another one says that she offers “succulent organic breast of chicken roasted to perfection and drizzled with a merlot demi-glace, resting in a bed of herbed Israeli couscous”. We could not judge if one dish is better than another only by their names, but definitely, the second description of the dish raises our expectations for it. We easily shift our attention to the second dish and crave to taste it. This also proves that marketing plays key role in building reputation of a brand or product. However, overmarketing but under delivering is not the goal for true entrepreneurs or marketers. Entrepreneurs should make sure that they market the products or services in details but not overmarket it to raise customers’ expectations and deliver them carefully and professionally to customers (Ariely 2008.)

The Power of Price

Ariely mentioned “The Placebo Effect” in this part. To explain this concept, he used several examples such as a surgeon did an experiment of knee arthroscopy on patients. One group he did real surgery and another one he did simulated surgery which was just a couple of incisions to imitate the real surgery as the other group. The result was stunning, both of the groups reported the same pain relief and improvements in walking. This experiment was also an example how expectations shape our minds and made placebos work. Furthermore, the author pointed out that prices could influence our placebo effect as well not only in medical environment but also in everyday life.

There were two phases of this experiment which Ariely tried to prove how prices influenced our placebo effect. In the first phase, he divided a group of students into two groups. Half of the students bought this energy drink SoBe at full price and the other half bought it with discount. After that, they were instructed to solve puzzles. The following table illustrates the result for the first phase of experiment.

Group	*Right answer*
1 Had not drunk SoBe	9 out of 15
2 Drank SoBe – full price	9 out of 15
3 Drank SoBe – discounted price	6.5 out of 15

Figure 21. SoBe experiment phase one

The result for phase one led the author to the conclusion that “price does make a difference”. However, there seems to be no difference between the group had drunk SoBe with full price and the one had not drunk SoBe. He raised a question whether SoBe did not make people smarter. Eventually, he did the second phase of the experiment to test that theory. In phase two, he printed on the cover of the quiz booklet: “Drinks such as SoBe have been shown to improve mental functioning”, emphasizing, “resulting in improved performance on tasks such as solving

puzzles”. The following table illustrates the result for the second phase of experiment.

Group		Right answer
1	*Had not drunk SoBe*	Worse than the last two groups
2	*Drank SoBe – full price*	
3	*Drank SoBe – discounted price*	
4	*Drank SoBe – full price – read the message*	12.3 out of 15
5	*Drank SoBe – discounted price – read the message*	7.1 out of 15

Figure 22. SoBe experiment phase two

The result proved that the message and the price were arguably more powerful than the drink itself. This experiment was a good example that we usually assume cheap products or services are worse than ones with higher prices. Therefore, “placebos pose dilemmas for marketers”. In real life, placebos are not always bad, managers could use the power of placebo and price to create differences as long as they are aligned with companies’ strategies.

5. Business Plan for a Barbershop and Hairdressing Salon

5.1. Business Model

As discussed in previous sections, Lappeenranta is a so-called university town, which has a decent number of students every semester. Hence, opening a barbershop and hairdressing salon for male students is a valuable idea. Getting to the main aim of the whole study, concrete business plan for the barbershop is going to be discussed in depth at this point.

The barbershop preliminary name is “Lost World”. The following figure of Business Model Canvas illustrates an overview of Lost World’s business model.

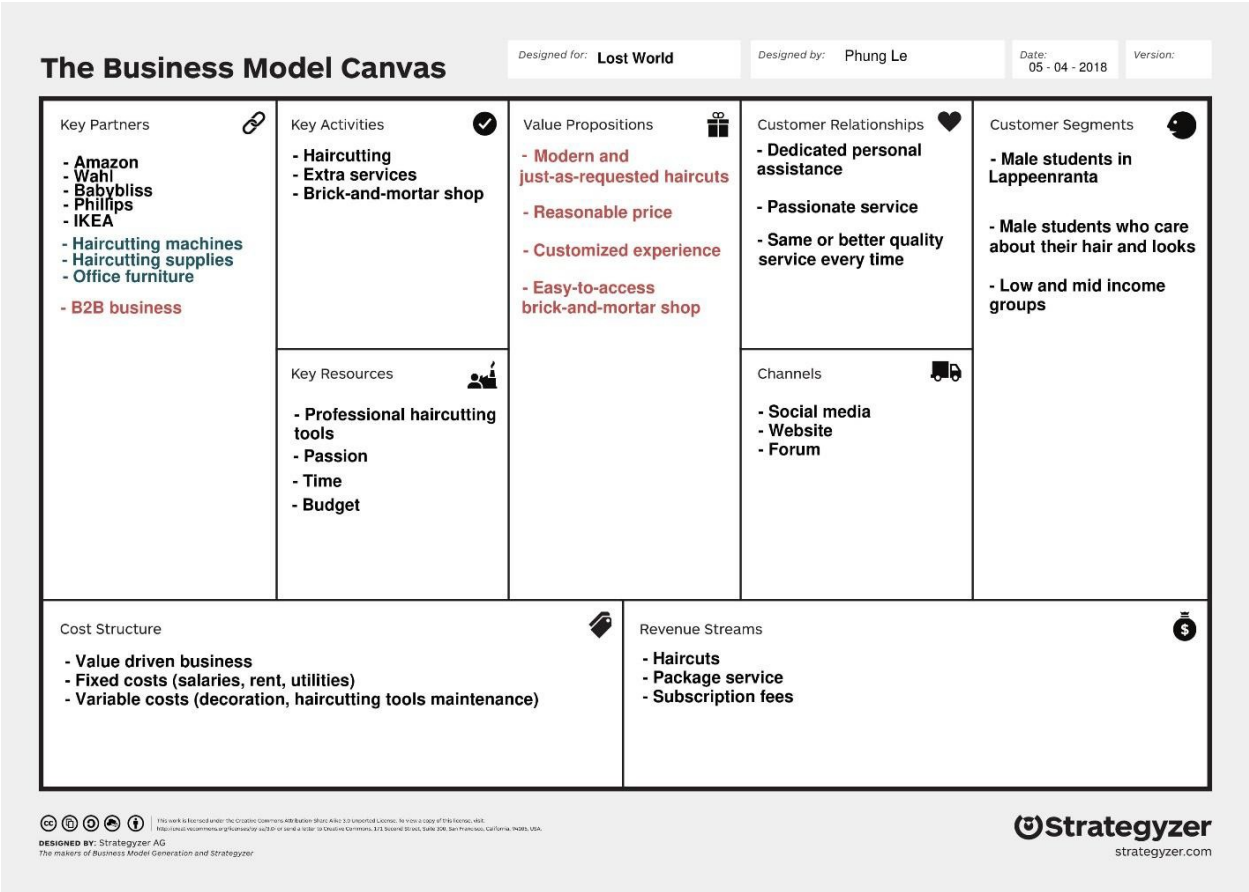


Figure 23. Business Model Canvas of Lost World

1. Basic information

Basic information and business activities are discussed partly based on market research data gathered from online questionnaire. The details of the data will be discussed in Chapter 6.

According to the data of market research, Lost World's ideal location is in the University area. If the business gained much profits, branches would be opened in Sammonlahti and Kourula areas. Among the University area, there is one hair salon called "Pääasia Parturi Kampaamo" and it is located in Laserkatu 8, 53850 Lappeenranta, which is Lost World's future competitor. The author notices that most of the students know Pääasia since it is near the university. This is also a concrete reason for the author to decide Lost World's location. Opposite to Pääasia, there is Lappeenranta Student Housing Foundation (LOAS) and next to LOAS, there is

Technopolis – Work space expert organization. The exact location of Lost World will be Laserkatu 6, 53850 Lappeenranta as the author decides to rent an office from Technopolis for the barbershop (Figure 24). Lost World's visibility will be boosted since its location is near LOAS, where most of the students must visit to find their apartments.

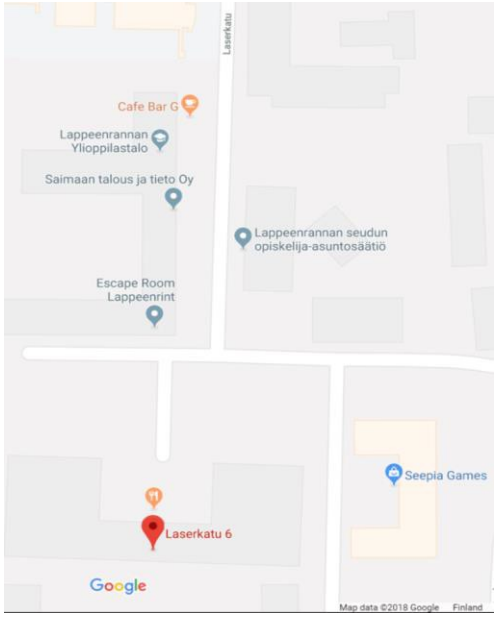


Figure 24. Lost World's Location

After analyzing data from the research, the author decides to design Lost World as gentleman's and typical barbershop in combination. Since Lost World has quite a low budget, building it as solely gentleman's barbershop would not be cost-efficient. Hence, a combination of sophisticated and modest design is suitable for the budget and customers might not feel overwhelmed by fancy decoration. The blueprint for Lost World will be discussed in depth after this section.

2. Business activities

Lost World's primary services are haircutting, beard trimming and hair consultation. Hair dying, head massage and home service will be taken into consideration after Lost World has decent amount of fame and profits. The author's ambition is developing Lost World into a salon which has haircutting home service. When a

customer needs a haircut urgently yet could not come to the shop, one employee immediately departs for customer's apartment to fulfill his demand. Service prices will be illustrated in price list as single service and packages. Price list for Lost World is attached as Appendix 3.

As mentioned before, the primary customer segment of Lost World are male students in Lappeenranta and the barbershop is optimized for male in Lappeenranta in general. Specifically, for the male students who have low and mid-income and care for their look. In the open-ended question section of the questionnaire, there are a couple of respondents who express that it would be perfect if Lost World could offer African haircut. Since the author has been working as freelance barber for students, he has a decent amount of knowledge and experience to give haircut for a good deal of hair types including African hairstyle.

In order to increase Lost World's visibility to potential customers, the author will market the barbershop primarily via social media, website and word-of-mouth. Since word-of-mouth is the most effective way to market in Lappeenranta, which is discussed in research method section, the author will target this as main marketing strategy. The strategy will be mentioned in detail in strategic planning section.

Next, Lost World's potential key partners could be divided into two groups: suppliers and preferred brands. Wahl, Babyliss and Phillips provide mid-range professional haircutting tools which are high quality, reliable and suitable for Lost World's budget. The tools and furniture of Lost World will be mainly supplied by Amazon and IKEA. Amazon is famous for reliable world-wide service, therefore, the haircutting tools will be ordered from them. IKEA is available in Finland and they offer good quality products with reasonable price, hence, ordering furniture from them would be cost- efficient, such as low shipping cost.

3. Barbershop Blueprint

Floor plan for Lost World is designed by the author who is not a professional architecture. Hence, technical annotations are not included in the blueprint and several essential building's features are not mentioned. Nevertheless, the floor plan

is designed by realistic measurements. The expected area of the barbershop is 60 square meters with 10 meters of length and 6 meters of width. There are three main sections in the barbershop. First of all, the waiting hall includes reception, lounge and recreation regions. Lounge and recreation regions are designed to compensate for customers' waiting time. Next, the haircutting region includes must-have haircutting place and customer consultation table. This table is meant for consulting customers about hairstyling, hair care, service offerings etc. Last but not least, toilet region is primarily designed for male as well as disabled customers. Regarding the theme for decoration, the author plans to paint the barbershop in black and white. Colors of the furniture will mostly in green with hints of yellow. The floor plan's colors is only for illustration. The following figure illustrates the floor plan for Lost World.

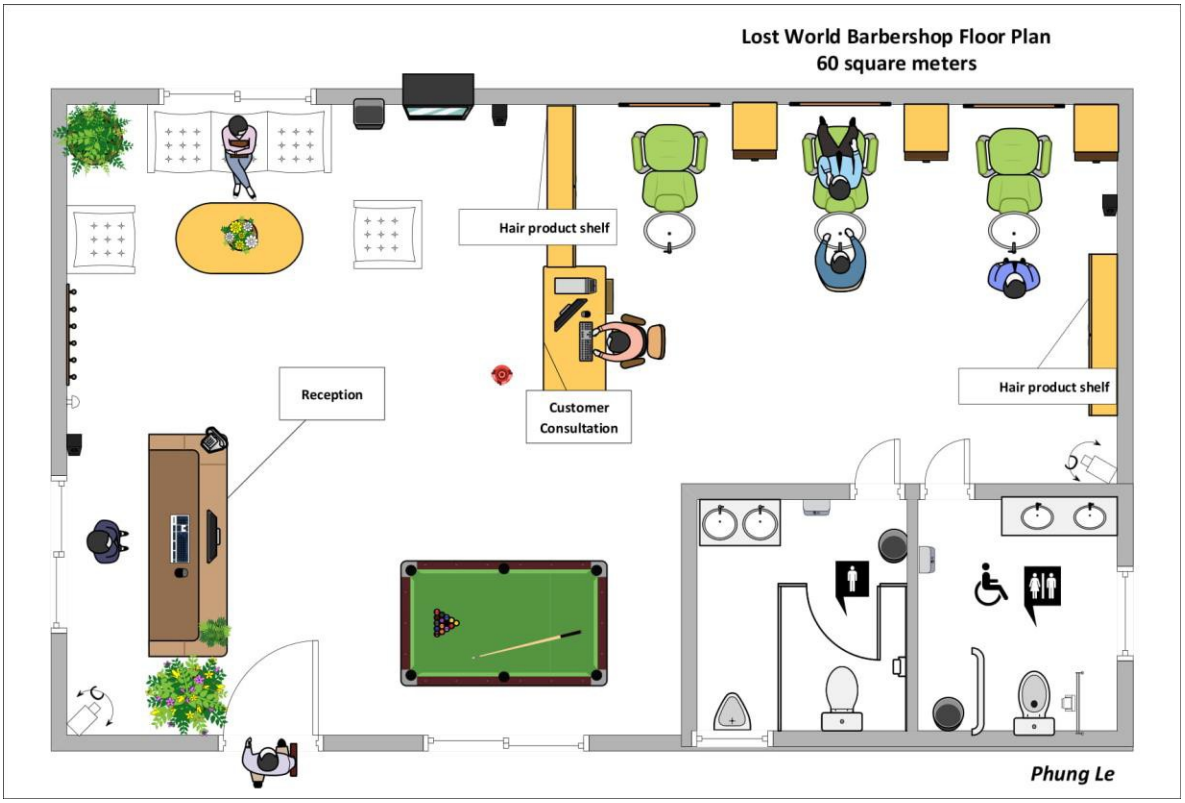


Figure 25. Lost World's Floor Plan

4. Code of conduct

Lost World will be built base on tangible and intangible key resources. Along with tangible assets such as brick-and-mortar shop, professional haircutting tools etc.,

Lost World's intangible assets are tremendously essential since value propositions are created based on them. Passion, enthusiasm, meticulousity, long-term experience and working ethic are the best examples for intangible assets.

Hygiene is the first principle in Lost World's code of conduct. Since haircutting tools will be used on a huge number of customers, they should be cleaned and maintained twice every week. The tools will be sterilized by suitable liquid, especially the sharp tools. The barbershop will always be cleaned to avoid masses of hair coverage on the floor.

The barbershop will be run by passion, enthusiasm and meticulousity, hence, the success of every haircut will be guaranteed. Moreover, the author has long-term experience in cutting a great deal of hair types, although customers could not fully express their wish for the haircuts, he still be able to give them just-as-requested ones. Each customer will have customized experience depending on their demands with reasonable prices. These are the most precious and priceless customer value propositions of Lost World.

Competition is essential for Lost World's development, therefore, fair competition is extremely valued. The purpose of opening a new barbershop near Pääasia is not solely for directly competing with them but promoting a haircare business area near university region. This is a win-win situation for both businesses and customers.

5.2. Market Research

1. Research Methods

Data for this study was collected by questionnaires. "*Questionnaire is a data- collection instrument. It formally sets out the way in which the research questions of interest should be asked*." (Proctor 2005). Conducting a survey by questionnaires, primary data is collected to be analyzed for research purposes. Primary data is the original data obtained directly by researcher through surveys, interviews and questionnaires (Investorwords 2018).

The questionnaire for “Lost World” was created online on Google Forms platform with the name “Demands For New Barbering Service”. The questionnaire includes eight main sections. The cover letter was prepared simply in section one to raise awareness of the survey’s purpose to gather information on male student’s interests to visit a new barbershop in Lappeenranta. The questionnaire was distributed via social media platform, which is Facebook group for international students in Lappeenranta as well as other student groups’ Facebook pages. Primary data is analyzed directly by Google Forms. Totally, there are 24 respondents, 22 males and 2 females. However, since the purpose of the study is gathering male student’s interests, if the respondent is female, the form is submitted right away. In brief, only 22 responses were accepted as the results for the study.

First section consists of questions regarding basic information of the respondents. 81.8% of the respondents are students and currently live in Lappeenranta, who are from Netherlands, Finland, USA, Singapore, Germany, India, Vietnam, Venezuela, Russia, Malaysia, Tanzania, and France. Almost half of the respondents are from Finland and Germany. Furthermore, 86.4% are 17 to 25 years old. Only 13.6% are 26 to 35 years old and nobody is more than 36 years old.

In the next section, respondents are divided into two groups depending on their answers to the question if they have visited a barbershop in Lappeenranta. The purpose of this segmentation is to gather experience and expectations from the respondents who have already had a sense of how barbershops in Lappeenranta are. 36.36% of respondents reply that they have visited barbershops in Lappeenranta and most of them know the shops through friends. This is an interesting point since on the one hand, social media is often overrated by entrepreneurs. On the other hand, social media’s efficiency depends on the environment or the market. This data shows that the word-of-mouth advertising is more advantageous and effective in Lappeenranta. Figure 26 illustrates the frequency of barbershop visit of the respondents.

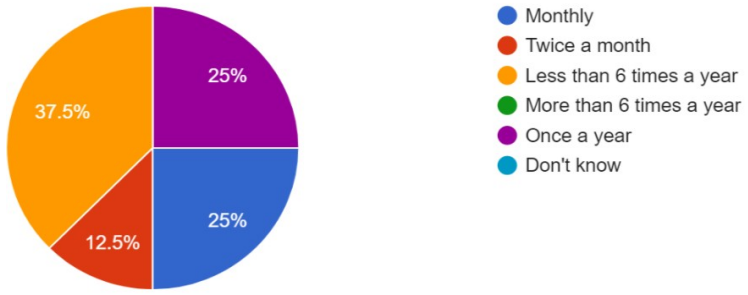


Figure 26. Frequency of barbershop visit.

According to the figure, only one fourth of the respondents visit barbershops once a year and most of them have haircuts frequently. One a scale from one to ten, 62.5% of respondents rate their experience after visiting barbershops seven and eight points. They indicate that they pay from 21 to 30 euros for the service, only 12.5% pay more than 31 euros. 37.5% of respondents imply that they have extra service besides having haircuts, which are beard trimming, massage and hair consultation.

The following section is the most essential one since it is related to the main aim of the survey, which covers the expectations of future potential customers for Lost World. Regarding to the decoration for Lost World, the first question is about the style of barbershop that future customers prefer. To illustrate clearly the idea of decorating style, images will be attached as Appendix 1.

Typical style illustrates the classic decoration, common style is meant for simple and minimalistic decoration and gentleman's barbershop will be furnished in quite the same way as barbershops in England. 37.5% of the experienced respondents express that they would like to visit gentleman's and typical barbershops, 25% prefer common style. On the other hand, 58.3% of the inexperienced potential customers express that they prefer to visit gentleman's barbershop and are willing to pay only 10 to 15 euros for a haircut. This group favors typical style the least.

As essential as barbershop decoration style, hairstyle is the second issue mentioned in the questionnaire. There are five types suggested such as common, modern,

design, medium long and long. To avoid misunderstanding between common, modern and design haircuts, images will be illustrated in Appendix 2.

Common hairstyle includes any form of short and classic style. Modern style is related to hairstyles with quiff, undercut, tapered side etc. Design hairstyle indicates hairstyles with clear lines, asymmetrical sides etc. 62.5% of the experienced group imply that they prefer to have common haircuts and one fourth favor design hairstyle. Quite the same as experienced group, 66.7% of the inexperienced group favor common hairstyle, half of the rest prefer medium long haircuts and the rest think modern haircut is the best. Design hairstyle is not favored by this group.

Furthermore, preferable price range is also discussed. The following figures illustrate potential customers' price preferences.

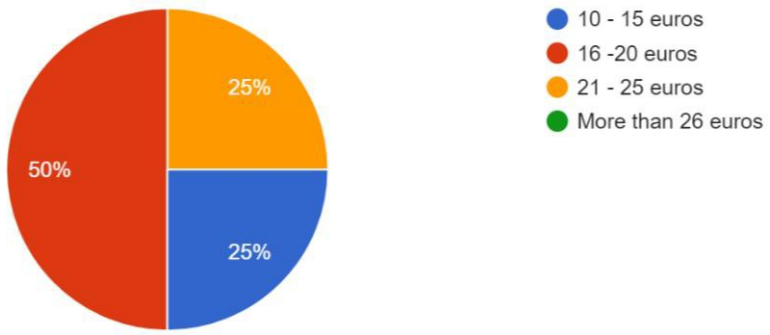


Figure 27. Experienced group price range preference.

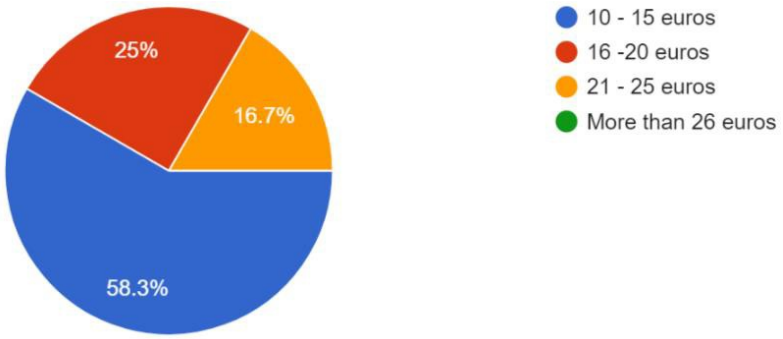


Figure 28. Inexperienced group price range preference.

According to the figures, the experienced group is quite generous compared to inexperienced one. Half of the experienced group is willing to pay 16 to 20 euros for a haircut, nonetheless, more than half of the inexperienced one prefer to pay 10 to 15 euros only. Moreover, most of the respondents from both groups agree to some extent that the barber should cut their hair slow and tender.

Regarding the location of Lost World, responses of the questionnaire show that both groups favor to visit the barbershop if it is located in the University or Sammonlahti Area the most. The inexperienced group even prefers the University to Sammonlahti Area.

Finally, there are two open-ended questions in the questionnaire, of which purpose is gathering respondents' opinions on how they choose a barbershop over another and what should be improved to increase their satisfaction of haircutting service. 55,56% of 18 respondents reply that they would choose a barbershop over another if the price is low and the quality is reasonable. Approximately 11,11% of respondents' decisions rely on good barber who is able to deal with any hair type. The same percentage of respondents indicate that recommendations will influence their decisions. Regarding to customer satisfaction, most of the replies favor good atmosphere while getting haircuts without waiting or appointment booking.

2. Competitor Analysis

The market research on potential customers' opinions raises valuable points for Lost World's development as well as competitor analysis. Since Lappeenranta is not a big town, all competitors in the main area should be considered regardless location. There are quite many competitors, however, there are two main competitors that Lost World should notice which are M Room and Pääasia. M Room is Lost World's direct competitor since they are also barbershop and have quite the same business model. Pääasia is a hairdressing salon which is located quite close to Lost World and they have branches in popular areas such as the university and Sammonlahti areas. Besides, there are several popular hairdressing salons such as Hiustalo, Emotion etc.

M Room

M Room Lappeenranta is a branch of M Room chain barbershops which are located all over the world. Not only a basic barbershop, M Room also produce their private hair products.

M Room Lappeenranta is located in the city center. They have quite a few strengths which are highly competitive. Male segmentation is definitely their first strength since they are one of a few barbershops in Lappeenranta's city center. Professional atmosphere with modern and simple decoration is their next advantage. They create a high-end and reliable environment through cutting style and "home-made" hair products. Moreover, they understand their customers' needs quite well since they know that male customers need haircuts frequently. Therefore, they provide membership packages such as basic, silver, gold and platinum to encourage their customers to visit for haircuts with less hesitation due to high prices.

Nevertheless, M Room's prices are still high for students' budgets since they indicate that the price for student haircut is 25 euros and it is only valid from Monday to Thursday, from 10 am to 2 pm. Moreover, hard-to-access location is also their weakness since the barbershop is located in the city center which is far from student apartments' areas. The author collected feedbacks from students who have visited M Room and realized that cutting international students' hair is not their strength. Their style of cutting hair is rather conventional and formulaic, which is more suitable for European men than international ones. After a couple of visits to buy hair products from M Room, the author realized that M Room does not have good employee management. Since they do not have product consultant, barbers have to stop cutting hair to sell products and the current customer has to wait.

Pääasia

"Parturi-Kampaamo Pääasia" is the full name of Pääasia hair salon. Unlike M Room, Pääasia is a hair salon.

Pääasia has branches in easy-to-access and convenient locations such as university and market areas. The branch in university area has a professional atmosphere and their cutting style is quite versatile.

Nonetheless, Pääasia's prices are relative high. A normal haircut costs from 26 to 29 euros. If only machine is used, it costs 19 euros. Hence, their prices are not suitable for students' budgets as well.

5.3. Strategic Planning – Analysis and Implementation

1. SWOT

SWOT analysis is one of the key factors to build up suitable strategy for a company. Although this analysis is subjective, it helps entrepreneur to gain insight of firm's strengths and weaknesses and from there recognize opportunities as well as prevent threats.

Strengths

The author's experience in cutting many types of hair and dealing with international customers and reasonable price are definitely Lost World's noticeable advantages. In the survey, open-ended questions section, there are quite a few respondents' opinions that they would be impressed if the barber could give them just-as- requested haircuts although they are not able to use professional terms to describe. The author is confident that that demand will be fulfilled since he has been giving haircuts exactly in that sense. With visible and easy-to-access location as well as different decoration style, Lost World could attract quite many busy and curious customers.

Weaknesses

Superficially, Lost World has quite promising future due to its advantages and pricing attractiveness. Nonetheless, weaknesses could surpass strengths if the manager is not fully aware of possible risks and negligent in decision making. Unstable income is the first weakness of Lost World. Since the income of the barbershop mostly relies on international students, in low seasons, Lost World might face unprofitability. Long

waiting time is another weakness that should be taken into consideration. There will be possible busy hours that customers prefer to visit for haircuts. Due to limited budget, Lost World could not employ more than three barbers. Balancing the quality of each haircut and reducing customer waiting time is a tough matter. Inconsistency of skills and experience between barbers is also a considerable issue.

Opportunities

At the moment, Lappeenranta is a land of opportunity for Lost World. There is only one direct competitor which is M Room, however, it is located in the city center, whereas Lost World will be located in the university area. With reasonable prices, code of conduct and a current decent amount of fame of the author, Lost World could attract quite many students in town and possibly have a good number of loyal customers.

Threats

Moreover, considering potential threats and risks could help to prevent possible future loss and foresee difficulties to prepare for the worst scenario. There are many possible threats in the long run, however, these are noticeable risks that could be seen. Firstly, Lost World would inevitably face the threat of newly-opened salon or barbershop in the future. Secondly, competitors could reduce their prices or give customers discounts to compete. Next, if the manager does not develop home service in suitable time, there is a risk that the competitor would adapt the concept in their business model before Lost World. Last but not least, hiring qualified barbers to fill in empty chairs could tighten Lost World's budget and profits if the manager does not have a good financial plan.

2. Porter's Five Forces Analysis

Understanding the business itself is not enough. The manager needs to have a decent amount of knowledge of the industry in the area that he/she plans to open a business. After SWOT analysis for internal insights, Porter's Five Forces Analysis is

the most suitable tool to analyze external environment. The following figure demonstrates Lost World's Porter's Five Forces analysis.

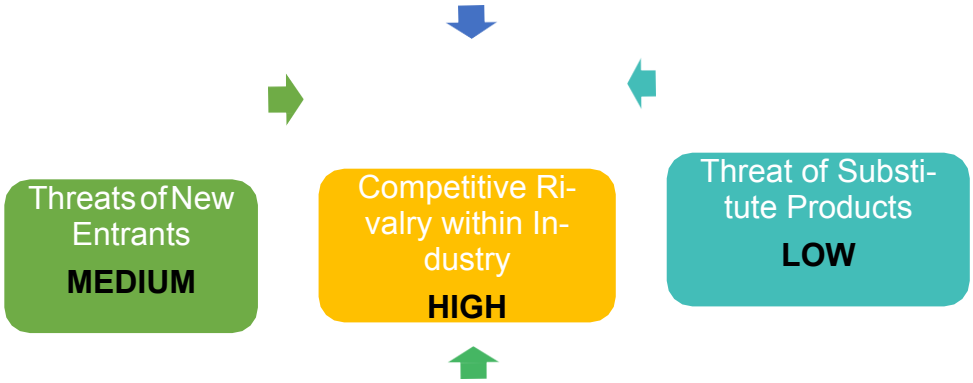


Figure 29. Porter's Five Forces analysis of Lost World

Competitive Rivalry Within Industry

The competitions within hair care industry is always high since customers have much power in their hands. Specifically, barbershops could easily lose a customer if their services do not meet customer's expectation only once. In Lappeenranta, the competitive environment is not that fierce, especially when Lost World has quite different customer segmentation and operating strategies. In spite of that, Lost World still has to face rather intense competition.

Threats of New Entrants

At the moment, new entrants are not big threats for Lost World. Due to the fact that there are fairly enough hair salons in the main areas of Lappeenranta, the rate of opening new salon or barbershop is rather low.

Bargaining Power of Customers

As mentioned before, in this industry customers have much power. Since they could shift their attention and decisions easily if they find out new and good barbers or hairdressers. Nevertheless, barbers or hairdressers could reduce the risk of losing customers by focusing on the quality of their services and listening to customers' demands.

Bargaining Power of Suppliers

Key suppliers for Lost World have been mentioned in previous section. Moreover, there are several suppliers whose products are cost-efficient and good quality such as L'oreal and Schwarzkopf. There are quite many suppliers that the manager could choose from. Therefore, the bargaining power of suppliers is medium.

Threats of Substitute Products

Due to the importance of hair care in daily life, the threats of substitute products in this industry is low. The one and might be only way to substitute is doing haircuts or taking care of hair at home, which are not always working.

3. Strategic Implementation

Lost World's operating strategy must always be aligned with its code of conduct. The first concern is definitely opening hours. Typically, hairdressing salons in Lappeenranta is opened from 9AM to 8PM in the center such as Hiustalo and from 9AM to 5-6PM in other regions such as M Room and Pääasia. Some of the salons still operate on Saturdays but they are all closed on Sundays. According to the result of the survey, potential customers wish to visit Lost World from 1.30PM to 9PM the most. The author suggests opening the barbershop from 12PM to 8PM all week days except Sunday.

Entrepreneurs usually overestimate branding strategy since branding is one of the most important factors for the success of a business. Nonetheless, branding is rather simple if managers understand the key to create deep connection between customers and brand. Customers are people not enemies, hence, managers should stop bombarding and analyzing them with overhyped messages or promises.

Alternatively, approaching customers with positive manner, delivering not only products or services but experience to fulfil their desires and prove that the brand is trustworthy among numerous other brands are the cornerstones to influence customers' choices. By applying code of conduct, caring for customers' experience and providing services with passion, the manager could already build magnificent venture identity for Lost World. The author decides the slogan for Lost World is "The Forgotten Passion" since passion is the motor of the barbershop.

Regarding human resources management, since inconsistency of experience and skills among barbers is a possible weakness, the author suggests that managers should arrange testing and training phase for employees to make sure that their skills aligned with Lost World's requirement.

Waiting time management is significant for Lost World. From the blueprint, in lounge region, the author suggests manager to place a billiard table for recreation. Reservation on the website is another excellent option. Besides, although Lost World will be closed on Sunday, the author suggests to consider opening on Sunday according to the number of customers' reservations, not only to maximizing profits but also managing the schedule for busy customers.

Pricing strategy and explanation will be discussed in the next section.

5.4. Financial Planning

1. Start-up expenses

Expenditure estimation is one of the most important steps in financial planning for a start-up company. Through the estimation, an entrepreneur could recognize the amount of budget that he / she should prepare. The following table illustrates the first four months expense estimation plan for Lost World. There are essential costs in the first month which are one-time costs to open a business. This table only illustrates the estimated costs since there are so many costs to take into account, the author could not predict all the costs.

EXPENSES (€)	Estimated
One-time Costs	
Cost to Establish a Business	1,000
Advertising for Opening	500
Basic Website	150
Brand Development	1,000
Business Cards	200
Business Licenses/Permits	500
Decorating	700
Office Furniture	4,000
Tools & Supplies	2,000
Setup, installation and consulting fees	350
Employee Uniforms	300
Machines & Equipment	500
Legal/Professional Fees	200
Monthly Fixed Costs	
Rent	480
Premise Maintenance	50
Tools Maintenance	50
Computer Hardware/Software	100
Internet	50
Telephone	50
Operating Cash (Working Capital)	2,000
Business Insurance	42
Salaries for Employee Trainers/Trainees	6,800
Owner Salary	2,000
Total Fixed Costs	**11,622**
Monthly Variable Costs	
Marketing	500
Haircutting Utilities	2,000
Total Variable Costs	**2,500**
x Number of Months	4
Total Monthly Costs	**56,488**
TOTAL QUARTERLY COSTS	**79,510**

Figure 30. Estimated quarter expenses

For the first four months, the cost to run the business is approximately 80,000 euros. The author plans to apply for funding in order to cover the costs. The following table illustrates the author's plan for funding.

FUNDING		Estimated
Capital		
	Personal Investment	20,000
	Total Investment	**20,000**
Loans		
	Bank Loan	15,000
	Finnvera Loan	50,000
	Total Loans	**65,000**
Total FUNDING		**85,000**

Figure 31. Funding plan

2. Profitability Plan

The first step of determining the goal for profitability is CVP analysis. Break-even point analysis is the crucial part. This analysis is created for the second month since the first month includes one-time costs. The figure below demonstrates break-even analysis for Lost World. Assuming that all the customers coming to the barbershop are students and they only use the basic service which costs 20 euros (VAT 24%), minus 10% equals 18 euros. 18 - 20 euros per haircut is considered as an ideal price from the author's view. Since the average price of 25 euros per hair-cut of other barbershops has numerous limitations for customers such as machine cutting only, specific time for specific price etc., cheaper price with no limitation would definitely be favored by customers.

According to the table, the number of haircuts per month that Lost World should reach is approximately 830, around 28 haircuts per day to be profitable and roughly 780 haircuts a month is the breakeven point. Approximately a barber needs 30 minutes to fulfill all demands of a customer. Hence, in eight hours of operating a barber could give 16 haircuts. Based on that number, ideally Lost World could reach the number of 48 haircuts per day. That's why 28 haircuts per day is a reachable goal.

During operating, if the costs to maintain the business increase by 30%, 1020 haircuts per month and 34 haircuts per day are the numbers that Lost World needs to reach to breaks even.

The manager should try his/her best not allow the costs increase by 50% since the business will be easily on the edge of unprofitable. Nonetheless, these figures are estimation, the author emphasizes that this study could not cover all the costs. Therefore, applying these costs with caution is highly recommended.

LOST WORLD

AMOUNTS SHOWN IN EUROS

SALES PER MONTH		
Sales Price per Haircut	€	18,00
Number of Haircuts		830
Number of Haircut per day		28
TOTAL SALES	€	14 940,00
VARIABLE COSTS		
Marketing	€	0,60
Haircutting Untilities	€	2,41
VARIABLE COSTS PER UNIT	€	3,01
TOTAL VARIABLE COSTS	€	3 250,00
UNIT CONTRIBUTION MARGIN	€	14,99
GROSS MARGIN	€	11 690,00
FIXED COSTS PER MONTH		
Rent + Maintenance	€	530
Tools maintenance	€	50
Computer Hardware/Software	€	100
Business Insurance	€	42
Salaries	€	8 800
Utilities	€	100
Operating Cash (Working Capital)	€	2 000
TOTAL FIXED COSTS PER PERIOD	€	11 622
NET PROFIT (LOSS)	€	68
RESULTS		
BREAKEVEN POINT (UNITS):		775,42

Figure 32. Break-even Analysis

6. Conclusions

The objective of this study is to construct a solid business plan for a barbershop or hairdressing salon mainly for male students in Lappeenranta. The business plan was divided into two main sections, theoretical and empirical part, in order to build up a solid framework for the whole thesis. The author believes the most important factor of a successful start-up company is a business plan since the plan must include essential theories and support researches for future business.

The theory section consisted of business planning, services strategies, financial planning and pricing strategies. The theories were accumulated and selected from mainly reliable books and references.

The empirical section was constructed based on theoretical part but more in depth. This section included business information, activities, blueprint, market research, SWOT analysis, Porter's Five Forces Analysis and financial planning. In order to prove the information in the study was reliable and accurate, survey was conducted to gather potential customers' opinions.

Business plan has always been a broad and complicated topic since it contains a large amount of information. The journey of writing this thesis was quite tough for the author. Due to lack of experience in academic writing and doing researches, this study is a challenge for him. However, he managed to finish the thesis with a fair number of benefits. He has gained a large amount of knowledge and experience that he lacks from the start. The thesis was created by passion and meticulousity, hence, the author believes it is a reliable source for entrepreneurs who have the same mindsets and ideas. Nevertheless, due to several limitations that were mentioned, the author suggests entrepreneurs conduct further researches to achieve desired objectives.

Appendices

Appendix 1 BARBERSHOP DECORATION STYLES

Typical barbershop style (Google Images)

Common barbershop style (Google Images)

Gentleman's barbershop style (Google Images)

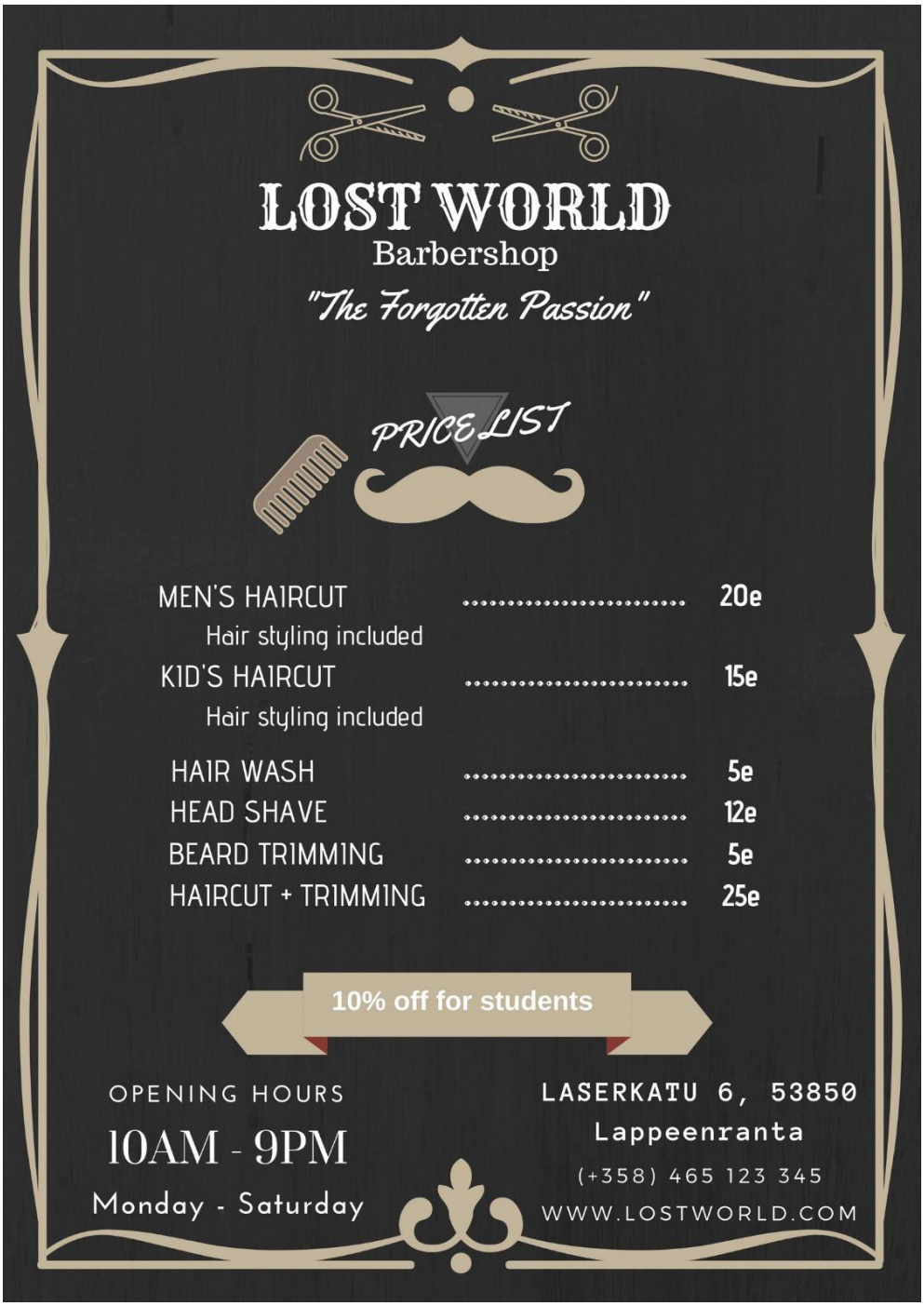
Appendix 2 DIFFERENT HAIRSTYLES

Common hairstyle (Google images)

Modern hairstyle (Google images)

Design hairstyle (Google images)

Appendix 3 PRICE LIST



Lost World's Price List (Canva)