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FACULTY OF ECONOMICS AND MANAGEMENT

«MASTER IN BUSINESS ADMINISTRATION »

# **MASTER THESIS**

## **BUSINESS PLAN AND ENTREPRENEURSHIP**

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## **Abstract**

*The main purpose of this thesis is to study the multidimensional phenomenon of entrepreneurship and to prove the importance of a business plan for successful entrepreneurial activities.*

*The thesis is mainly divided into a theoretical and practical section. One part of the theoretical section is focused on the definition of entrepreneurship according to literature, drivers of entrepreneurship and what makes an entrepreneur successful. Why entrepreneurship plays a great role to economic development of countries, it is a question that will be answered. The theoretical analysis is extended with the business plan analysis section. Why the composition of a business plan is so important for successful entrepreneurs, which are the critical functions that it offers, which is its process as well as its main components, are the core elements of this section. After the theoretical analysis, the practical section follows. The case study to be examined is the Business Plan of Transport for London. The information as well as the arithmetic data which will be used in this section are based on the published Business Plan of Transport for London(2016 a). Last, the basic results of this case study are presented.*

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# Introduction

The entrepreneurship has been characterized as a multidimensional and a complex phenomenon which has been analyzed a lot in the course of the time(Christofor, 2008). It is clear that an entrepreneur plays a great role to the economic development of the countries by introducing innovation and creativity, implementing efficient production methods, boosting new markets(Gordon, Natarajan, Arora, 2009). A successful entrepreneur is characterized by strong personality traits(Samli, 2009) as well as past experience(Cantner, Goethner, Meder, 2010). Another key to success of the entrepreneurial activity is the organizational skills and the composition of a Business plan as a direction tool for business actions which considers the internal as well as the external environment, the present and the future(Haag, 2013).

This assignment is focused on the study of the complex phenomenon of entrepreneurship, the process of a Business Plan and its basic components on a theoretical basis. After the theoretical analysis, it follows the practical section, which is constituted by a case study, the Business Plan of Transport for London (TfL).

The theoretical analysis starts with the first chapter with core topic the phenomenon of entrepreneurship. A detailed analysis according to literature is provided according to the multidimensional definition of entrepreneurship(Christofor, 2008). After the definition of entrepreneurship, the analysis is extended with the basic motivations for entrepreneurial activity. Which are the push and pull factors that drive entrepreneurship and which is their basic difference(Dawson, Henley, 2012)? The types of entrepreneur are also examined based on different classifications such as Dahnof's, Cole's and other types Classification, according to the literature(Veerabhadrapa, 2009; Gordon, Natarajan, Arora, 2009; Vasant, 2008). Last, it is analyzed the importance of entrepreneurship for economic growth and innovation(Gordon,

Natarajan, Arora, 2009) as well as the important keys for success such as personality traits(Cieślik, 2017) and experience(Cantner, Goethner, Meder, 2010).

Another key for success is the Business Plan (Haag, 2013) which is the theme of the second chapter. What is business plan and which are the critical functions that provides to a company and promotes its success, are questions that are answered(Hisrich, Ramadani, 2017). The analysis goes further by the analysis of factors and parameters of a Business Plan which make it successful and attractive to its audience eyes(Sahlman, 1997). The substantial business planning steps(Haag, 2013) and the components of a business plan are also analyzed(Bangs, 2001).

The third chapter is the practical implementation of the theory of Business Plan. The case study and the Business Plan of Transport For London (TfL) is developed and analyzed. The Business Plan is constituted by all the substantial and relevant to this case components. The analysis starts with the executive summary and goes further with the business section. Afterwards, it follows a financial analysis. The information and the arithmetic data included in this case study are based on published information of Transport for London (2016 a).

The fourth chapter includes results and comments based on the data presented on the case study. It is clearly shown the importance of the composition of a business plan as a guidance tool for the future.

Last, in the Conclusions part, it is mainly presented the basic results and conclusions of this assignment.

# Chapter 1

## 1 Entrepreneurship

### 1.1 Entrepreneurship and Entrepreneur

The entrepreneurship is a multidimensional and a complex phenomenon which does not respond to only a single discipline(Christofor, 2008). The appearance of entrepreneurship's concept has come to the surface around 1700's and since then many definitions and perspectives of this concept have been discussed(Veeraraghavan, 2009; Christofor, 2008). A unified conceptual framework of defining entrepreneurship and entrepreneur does not exist because of different views and approaches on this concept. There are theories which try to approach entrepreneurship based on what the entrepreneur is, others based on what the entrepreneur does and others relevant with the characteristics of an entrepreneur(Christofor, 2008).

The Irish economist Richard Cantillon defines the entrepreneurship as self-employment with non-fixed remuneration(Volkmann, Tokarski, Grünhagen, 2010). The demand of a product determines the level of the earnings(Peverelli, Song, 2012). Jean-Baptiste Say considers the entrepreneur as a manager earnings(Peverelli, Song, 2012). Knight expresses the risk taking and confrontation of uncertainties aspect of entrepreneurship(Yamada, 2004). For her, the entrepreneur may earn profit or even face loss by taking risks(Volkmann, Tokarski, Grünhagen, 2010). An entrepreneur takes decisions based on his assumptions which may be right or wrong. In other words, he faces the uncertainties and does not try to avoid them(Veerabhadrapa, 2009). According to Schumpeter's entrepreneurship's aspect, the entrepreneur is an innovator as well as business leader and the entrepreneurship plays a great role to economic development(Ciešlik, 2017). As a "creative destructor", he interrupts and destroys all the routine activities by creating a new environment and

introducing new products and processes of production, by exploring new markets and implementing new organizational as well as marketing methods(Cieřlik, 2017; Yamada, 2004).

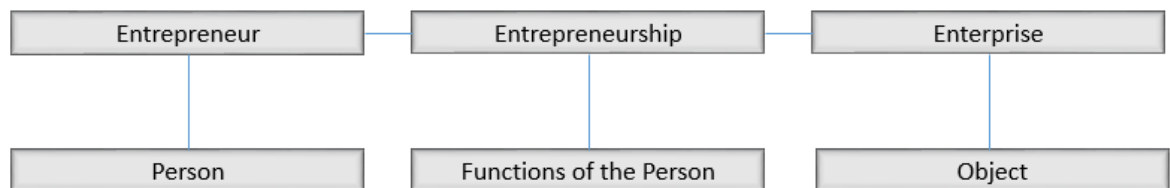
McClelland also identifies the innovation and ability of decision making under uncertain environment as characteristics of entrepreneurship. However, he mainly points out that the entrepreneurial behavior is focused on the need of achievement(Urmila, Vasant 2007). A more detailed definition of Entrepreneurship is provided by Higgins. According to him, the entrepreneurship is a sum of functions such as the ability of the entrepreneur to see opportunities in the production and investment area, his organizational skills and methods implemented while the introduction of new production processes, his effectiveness of finding financial resources and sources of supply, hiring labor and cooperating with top managers for achieving business objectives(Urmila, Vasant 2007).

Peter Drucker the management Guru, associates the entrepreneurship with a practice. Despite the fact that entrepreneurship is often associated with high risk, according to Drucker, entrepreneurship can only be risky when it takes place without purpose, without following well known rules and by violating elementary(Urmila, Vasant 2007).

Ronstadt's definition connects the entrepreneurship with wealth creation. It is a methodical and dynamic process of creating property and personal as well as economic success(Volkman, Tokarski, Grünhagen, 2010). Hisrich brings to the fore the creation of value while the entrepreneurial process. An entrepreneur has to sacrifice time and to try hard in order to succeed. In addition, he has to be able to take risks on financial, personal and social level which in turn will offer him financial and personal success as well as a sense of independence(Volkman, Tokarski, Grünhagen, 2010).



As it is observed, the terms of Entrepreneur and Entrepreneurship cannot be taken into consideration separately, however, they are different from concept point of view(Volkman, Tokarski, Grünhagen, 2010). An entrepreneur is a person, a business leader who performs functions and process of action for the enterprise. These functions and actions express the term entrepreneurship(Gordon, Natarajan, Arora, 2009). The following figure summarizes the concept:



**Figure 1.1** Entrepreneur and Entrepreneurship (Veerabhadrappa, 2009)

## 1.2 Motivations of Entrepreneurship

The motivations are broadly divided into two categories, the push and the pull factors. Push factors are usually associated in a negative manner. They are mainly based on personal or external factors and they are related to the absence of another opportunity (Kirkwood, 2009; Dawson, Henley, 2012). The pull factors are viewed positively. They drive to the realization of an enterprise based on an emerging opportunity, which can in turn improve the quality of individual's life, and to creativity(Dawson, Henley, 2012). In general, pull motivations trigger a higher success and in turn financial status than push motivations(Kirkwood, 2009).

The achievement of independence is a key driver of entrepreneurship. The autonomy of an entrepreneur to drive his own business without obeying anyone's orders, to be able to decide and feeling satisfaction because of being rewarded, are advantages of being an entrepreneur and are related to pull factors(Kirkwood, 2009; Gordon, Natarajan, Arora, 2009).

Another pull factor is earning money. The expectation of making more money as independent is greater than being an employee(Dawson, Henley, 2012). Prospective entrepreneurs become active driven by monetary motivations. Nowadays, many examples in the real life have shown that an appealing to the market idea can lead to a great financial success. A really dedicated entrepreneur seeks for profit but it should not be the only motivation that drives him, especially in situations where it takes time to win(Kirkwood, 2009; Alton, 2015).

However, according to Dawson and Henley (2012), the financial motivation may include both pull or push factors. In case for example, an individual is not satisfied with his current profits from his organizational position, then he may be pushed to follow another road (push factor).

The work related motivations are characterized as push factors(Kirkwood, 2009). This necessity based approach of entrepreneurship takes place when being an entrepreneur is the only choice the individual has to survive. In case, for example, a person is unemployed for a long time, or it has lost its position or it is not satisfied with its career prospects and working environment, then it may get into the game despite the ambiguity of a new venture(Veeraraghavan, 2009).

Other type of push factors are those of family. Motivations based on family tradition can push someone to be an entrepreneur. The family member may join the pre-existing business willingly or obligatorily, if he wishes to be complied with the family expectations. Being pushed, the individual loses the opportunity to follow other career and educational paths(Dawson, Henley, 2012).

### **1.3 Types of Entrepreneurs**

Entrepreneurs appear in different kind of sectors performing different activities. Different ways of Entrepreneurs' classification exists in the literature as it is observed below(Veerabhadrapa, 2009).

### 1.3.1 Danhof's Classification

1. The innovative Entrepreneur(Veerabhadrappe, 2009):

For this type of entrepreneur, the opportunities emerge from the innovation(Gordon, Natarajan, Arora, 2009). Such entrepreneur is seeking for improvement and change and performs action mainly in developed countries(Veerabhadrappe, 2009). His innovative spirit is expressed by introducing new ideas, new products or new improved existing products, new technology and production processes, exploring new markets and new suppliers, organizing the business in a new way aiming to gain or to stop the exclusive control(Gordon, Natarajan, Arora, 2009). Countries recognize the importance of such entrepreneurs according to the radical changes in the way of living(Veerabhadrappe, 2009).

2. The adoptive or imitative Entrepreneur(Veerabhadrappe, 2009):

An adoptive entrepreneur does not seek for innovation but he looks for innovative solutions which have been already implemented by other innovators. In other words, such entrepreneur imitates technologies, techniques or products which have been proved appeal to the audience. In developing countries, because of lack of financial resources or labor skilled with know-how, an innovative entrepreneur may not be able to reach his objectives. This gap is filled by the adoptive entrepreneur. In other words, the adoptive entrepreneurs help the developing countries to be further developed(Gordon, Natarajan, Arora, 2009).

3. The Fabian Entrepreneur(Veerabhadrappe, 2009):

Such entrepreneurs are characterized as skeptic and very cautious to any attempt of change in the business environment. They avoid taking risks implementing unknown to them practices and being innovators. They only imitate if there is a heavy loss for them in case they decline to be adoptive. In general, they are tradition oriented(Gordon, Natarajan, Arora, 2009).

4. The Drone Entrepreneur(Veerabhadrapa, 2009):

Such entrepreneurs decline any change in their enterprise even if they face reduced profits. It is preferable for them to operate in an old fashioned but known to them way regardless of the new tendencies on the market and the financial losses(Gordon, Natarajan, Arora, 2009; Veerabhadrapa, 2009).

### **1.3.2 Cole's Classification**

1. Empirical(Gordon, Natarajan, Arora, 2009):

Such entrepreneurs hardly implement anything new in their business. They simply follow the rules based on their experiences, tradition or practice like the Drone Entrepreneurs do(Gordon, Natarajan, Arora, 2009).

2. Rational(Gordon, Natarajan, Arora, 2009):

Such entrepreneurs are driven by their deep knowledge around the market trends and the economic conditions. Based on these pieces of knowledge, they can make sensible decisions and bring revolutionary changes into their enterprises(Gordon, Natarajan, Arora, 2009).

3. Cognitive(Gordon, Natarajan, Arora, 2009):

The action of a cognitive entrepreneurs and the introduction to change is based on the advice and the services of well qualified with expertise individuals(Gordon, Natarajan, Arora, 2009).

### **1.3.3 Other types of Classification**

There is a broad range of Classification in literature. Below it is briefly mentioned the classification that can take place in relation with type of business and technology (Vasant, 2008).

### **1.3.3.1 Types of business Classification**

1. Business Entrepreneur(Vasant, 2008):  
Such entrepreneur realizes his production or service ideas into a business opportunity(Vasant, 2008).
  
2. Trading Entrepreneur(Vasant, 2008):  
The main action of such entrepreneur is domestic and overseas trade without involvement in the manufacturing area. The sell the finished products to their clients(Vasant, 2008).
  
3. Industrial Entrepreneur(Vasant, 2008):  
He is active in any industrial sector and is characterized by product orientation. His main action is to manufacture products or services based on the market trends(Vasant, 2008).
  
4. Corporate Entrepreneur(Vasant, 2008):  
Such entrepreneur plans, put his ideas into action and manages under a corporate umbrella of a legally registered firm(Vasant, 2008; Veerabhadrapa, 2009).

### **1.3.3.2 Technology Classification**

1. Technical Entrepreneur(Vasant, 2008):  
Such entrepreneurs are mainly focused on new and innovative methods of production rather than in new marketing techniques. They use their craftsmanship and new technology roads for succeeding in this(Vasant, 2008).
  
2. Non-technical Entrepreneur(Vasant, 2008):

These entrepreneurs win competition by implementing new marketing techniques and alternative distribution strategies. Thus, they are not focused on new technical aspects(Vasant, 2008).

## **1.4 Importance of Entrepreneurship in economic development**

In general, entrepreneurship plays a great role to the economic development and national prosperity of the countries. For this reason, governments around the world, find ways such new tax policies or financial subsidies to trigger a higher level of entrepreneurial activity(Tomaa, Grigorea, Marinescua, 2014). But what are the most significant roles of an entrepreneur in relation to economic growth?

According to Tomaa, Grigorea and Marinescua (2014), there are two basic roles of entrepreneur associated with economic growth and development: “New Entry” and “Newness”. The entrepreneur establishes new business and turns new ideas and inventions into actions by creating new and economically viable enterprises. In the literature, Schumpeter linked entrepreneurship with economic growth and innovation(Tomaa, Grigorea, Marinescua, 2014). Both new enterprises and innovation reduce the rate of unemployment. In addition, innovation improves the rates of productivity by introducing more efficient production methods(Gordon, Natarajan, Arora, 2009). However, the realization of more effective process of production cannot be reality if the entrepreneur fails to coordinate right all the steps required for production, from technology till hiring labor. Thus, the entrepreneurs’ coordinating role another factor that is connected to economic growth(Gordon, Natarajan, Arora, 2009).

Entrepreneurs whether in developed or developing countries play a crucial role in development. Entrepreneurs called the agents of change because they explore new opportunities and they make them reality. In developed countries, as it has been already mentioned, they play the roles of innovators changing life styles. In the developing countries, they have an adoptive role as they introduce innovative solutions already implemented in developed countries. In this way,

they help their countries to overcome their entrepreneurial ills and be further economically developed(Gordon, Natarajan, Arora, 2009).

A very important role of an entrepreneur is his risk bearing role. The entrepreneur takes risks under uncertain environment. The greater the risk, the higher the profit. Profit in turn leads to the creation of wealth which afterwards is used as a fuel for other entrepreneurial activities. In other words, the capital formation role of an entrepreneur plays a great impact on the development of the economy by investing money to new markets and export trading(Gordon, Natarajan, Arora, 2009).

## **1.5 Determinants to Entrepreneurial Success**

The entrepreneurs are characterized by a number of personality traits which they may help them to reach their objectives and be successful(Samli, 2009).

Among the most significant personality traits in the literature are the following:

1. Ego: a strong ego characterized by self-confidence enables them to believe in themselves and to their potentials while accomplishing new ventures(Samli, 2009).
2. Recognizing the Details: before any new venture, the entrepreneurs are able to understand all the details needed for accomplishing their mission(Samli, 2009).
3. Hard work: entrepreneurs are willing to invest too much time, energy and effort in order to succeed.
4. Patience: an entrepreneur is able to wait for a long term reward, denying short term satisfaction(Sutton, 2012).

5. Think alternatives: the entrepreneurs have the ability to find similar paths for achieving their goals in case the original plans have failed(Samli, 2009).
6. Locus of control: the entrepreneurs are the core of the business's activities. The tasks are completed based on their specifications(Samli, 2009).
7. Intelligence: the entrepreneurs are intelligent individuals with vision in opportunities which cannot be easily seen by others. They follow the "out of the box" way of thinking(Samli, 2009; Sutton, 2012).
8. Pragmatists: the entrepreneurs are characterized by pragmatism. They are rational and prefer action rather than dreams(Samli, 2009).
9. Emotional stability: The entrepreneurs remain emotionally stable on the way to reaching their objectives. Problems may always be on the road, but they need to learn how to confront them instead of avoiding them(Samli, 2009).
10. Desire to succeed: the desire to succeed and to achieve is maybe the most important motivation for a successful entrepreneur. Without a strong drive to achieve, the entrepreneur may be not able to face and to suppress any anxieties and problems on the road(Gordon, Natarajan, Arora, 2009; Samli, 2009).
11. Strong personality: entrepreneurs are able to find all the external events such as competition or unexpected economic conditions which may influence the course of the project. In addition, as long as they cooperate with many people, they have leading qualifications(Samli, 2009).



According to Dvir, Sadeh, Pines and Shenhar, (2009), although the personality traits of entrepreneurs are important especially while the formation of new ventures, however they fail to predict the success of entrepreneurship. On the other hand, background characteristics such as prior experience and knowledge, found to be more significant around entrepreneurial success. Such backgrounds may be the answer to the question why some individuals are able to find opportunities whereas others fail(Dvir, Sadeh, Pines, Shenhar, 2009; Cantner, Goethner, Meder, 2010).

Especially in technologically focused industries, the prior knowledge in combination with the new information may be a strong entrepreneurial qualification which enable the individuals to explore new scientific insights and catch new opportunities. In addition, it is stated that the innovation success and survival depends also on the pre-entry experience of the Entrepreneur. Organizational and coordination skills such as management, marketing, human resources and financial accounting combined with technological knowledge and experience will bring a balance and will lead to the success and survival(Cantner, Goethner, Meder, 2010).

# Chapter 2

## 2 Business Plan

### 2.1 Business Plan and Entrepreneurship

Each year many enterprises are established, however, only few win competition and succeed in surviving in the course of the time. A similarity among the companies which fail, is their omission of including a business plan. When someone fails to plan, does he finally plan to fail(Haag, 2013)?

A review in literature shows that a business plan combined with hard work is the key to success. A business plan is the intersection of the internal with the external world of the business(Sutton, 2012). It is a basic tool which offers directions to entrepreneurial actions taking into consideration the present and the desired future, the internal as well as the external resources. It is also considered as a road map and a blueprint which depicts the goals, strategy and the mission of the enterprise. A business plan enables the entrepreneur to have a rational picture of the entire company. In addition, it provides him a path of communication with external environment such as bankers, investors, partners and suppliers(Haag, 2013).

### 2.2 Purpose of a Business Plan

A winning business plan helps the entrepreneur to find out the major W's such as who, what, where, when and why. It helps the entrepreneur to realize what it is needed in all dimensions to make a successful business(Sutton, 2012). It provides an overview of everything relevant with the business at once such as value proposition of the firm, marketing strategies, operation, financial and human resources plan(Robbins).

A business plan offers critical functions to an enterprise and broadly the main purposes that fulfills are listed below(Hisrich, Ramadani, 2017):

1. External Financial resources: For a start-up business or a further development of an existing project usually financial support is required. A winning business plan is the key for obtaining the enterprise capital. Without a business plan each of the financial sources cannot evaluate the business idea and decide if it is worth investing(Hisrich, Ramadani, 2017).
2. Determination of Resources needed: During the development process lack of resources may be met in financial, human resources, technological and supply level or even distribution field. A business plan helps to avoid this problem by determining all the needed resources. In this way the entrepreneur is able to know in a previous stage how much money is required. Having this knowledge, the entrepreneur has the time to approach the financial as well as the supplying resources(Hisrich, Ramadani, 2017).
3. Direction for the Enterprise: While starting a new venture there are many directions and opportunities to be followed. An entrepreneur has to avoid going to a direction blindly. A business plan helps the entrepreneur to start on a right basis and keep moving in the right direction by developing strategies and plans after a careful evaluation(Hisrich, Ramadani, 2017; Sutton, 2012).
4. Evaluation of the outcomes: by implementing a business plan, an entrepreneur is able to evaluate if the results are aligned with his expectations in a timely manner. In case there is a large negative deviation then there is need for corrective action and extra focus on the most critical problems which caused these negative results. By providing measurements and deviations, the business plan is basic decision tool which guides the entrepreneurs and help them to avoid conflicts(Hisrich, Ramadani, 2017).

5. Seeking for a Joint Venture Partner: a seasoned entrepreneur or an individual requires a business plan otherwise cannot evaluate the business idea and decide if he is or not on board(Hisrich, Ramadani, 2017).

## **2.3 Important Factors of a Business Plan**

Many business proposals are declined by investors in daily basis. Most of them try to fill in the business plan with numbers and month by month financial projections which may not respond to reality but only to an optimistic consideration. Although the entrepreneurs compose a detailed business plan, however they fail to answer the most important to investors' eyes questions. Of course, including numbers is of a vital meaning in the business plan but mainly under the frames of a business model which examines the possibility of venture's success as well as failure(Sahlman, 1997). According to Sahlman (1997), a business plan that can gain the attention of investors and win competition has to be focused on the following factors: the people, the Opportunity, the context and the risk and the exit options.

1. People: The persons that constitute the inside and outside parties of the venture play a crucial role in the venture. In general, investors trust easier persons with insight and experience. For this reason, the experience of the members and know-how should be mentioned. Have the team members cooperated again in the past or is it a start up? People and their execution skills play a great role to investors' eyes. It does not accidentally happen that the most innovative and successful companies invest in people. Ideas emerge every day but only able individuals can implement them(Sahlman, 1997). As it is shown, it is important for the entrepreneur to hire the right stuff with the required for the business skills. In case there are gabs, the entrepreneurial team must find a solution before the start of the venture(Gleeson).

2. Opportunity: the following questions are important in the field of opportunity: is the market already large enough or growing fast? The investors mainly are looking for new developing markets where and there is possibility to gain a share of the growing market and in turn earn significant payoffs. Another important question is how attractive is a market? A saturated market for example is not attractive because there is less possibility for gaining profits. A business plan must be able to answer the above questions. Even if the market is not too large or attractive, the business plan must be able to give answers about how the new venture will be still profitable(Sahlman, 1997).

Another difficult question to be answered is about the responsiveness of the consumers to the new product or services. Will they pay for acquiring this? Which pricing scheme has to be used? The situation of being able to buy with low prices from the suppliers, sell expensive, collect fast and pay late maybe only an ideal situation, however it is worth estimating the deviations from the best case. In this way, an entrepreneur has in his hands a rational estimation(Sahlman, 1997).

Another important issue is how the opportunity can be developed in the frames of geography, customers' preference, products or services. Are there any traps that may be faced and what about the competition on the fore? In other words, a business plan must consider not only the positive aspects but also the vulnerable aspects of the venture(Sahlman, 1997).

3. Context: the context in the frames of macroeconomic environment, of government rules and tax policies or technological progress play a significant role in the accomplishment of a business. The context may be responsible for the identification of a new opportunity or even for its unattractiveness and vice versa. Taking into consideration the speed of the technology innovations as well as the new rules and policies that

emerge every day, a business operation may be terminated before it starts(Sahlman, 1997).

A business plan must be able to prove that the entrepreneur has knowledge of the context of the venture and how it can support or even hinder him. It is important to be shown, that the entrepreneur knows that the context is dynamic and that he is prepared for that even in unfavorable situations(Sahlman, 1997).

4. Risk and exit options: As long as the context is dynamic and may change unfavorably, it is important to be provided a risk analysis and ways of control it. A right business plan presents the people, the opportunities and the context in a dynamic way in the course of the time. This is a multidimensional approach where both risks and rewards to be expected are discussed. Although risk is unavoidable, however the consideration of a possible risk it enables the entrepreneur and the management team to find ways to confront it when it may arise(Sahlman, 1997).

Although a business plan is focused on a new venture, however it has to include the entrepreneur's exit strategy. The exit strategy is important for the investors because they reveal the long term plans of the entrepreneur and the way that the enterprise operates(Richards, 2018).

## **2.4 The Process of a Business Plan**

As it has been already discussed, a business plan is not only used as a tool of finding financial resources but also as a road map providing future directions. In the course of the time many parameters may change as a result an effective business plan is an organic document, a continuous working progress. The formulated plan is executed, tested and updated based on the most current information on a continuous basis(Haag, 2013). The business planning is constituted by the following steps:

1. Definition of the business concept: it is an important step for winning competition. Here the entrepreneurs have to determine the products or services that will offer and to which type of customers(Haag, 2013). It is a step where the vision of the company is defined. What makes the company's products or services to be unique and win competition and which are the growth opportunities in an industry sector, are questions that need to be answered(Allen, 2018).

An effective business concept must be able to provide with a successful framework of action in case the enterprise aims to provide the following elements or a combination of them(Abrams, 2014):

- a new service or a product(Abrams, 2014)
- offer of an improved already existing product or service(Abrams, 2014)
- exploring unknown markets and find unserved locations(Abrams, 2014)
- offer of services with new delivery methods or distribution channels(Abrams, 2014)

At least one area should be covered by a strong concept otherwise there is high competition risk(Abrams, 2014).

2. Research and gathering of relevant information: the formulation of a business plan requires selection of valuable information. The information that must be gathered has to be current and relevant to the nature of business and the entering industry(Haag, 2013).
3. Improvement of the Concept: At this step, the business owner has already collected valuable information and is now able to evaluate the feasibility

of the concept. The original idea may be partially modified or even changed dramatically(Haag, 2013).

4. Describe the Purpose of the Business: At this point, the business owner has to outline the purpose of the business starting from a mission statement(Haag, 2013). In addition, the owner has to determine the purpose of the business plan. Is the plan used only for internal and organizational purposes or for financing also reasons? The plan must be adaptable, from information point of view, on the potential readers. The information must be attractive and keeps the interest of the audience(Rampton, 2016).
  
5. Selecting an Effective Form for the Plan: A right form of the plan, which succeeds in summarizing the most important to each audience topics, keeps the interest of the reader. Each reader has a different amount of time and interest. Usually a business plan is recommended to be not more than 15 to 35 pages. The projections of the future should cover 3 to 5 years or until the point where the exit strategy will be implemented(Haag, 2013). These are general guidelines, however, according to Abrams (2014), in case a different approach serves better the purpose of the plan, the rules can be broken.

## **2.5 Components of Business Plan**

A business plan is constituted by the following components(Bangs, 2001):

1. Cover Sheet
2. Executive summary
3. Table of contents
4. 1<sup>st</sup> Section: Business
5. 2<sup>nd</sup> Section: The financial Data
6. 3<sup>rd</sup> Section: Additive and supporting documents



The following sections are focused on the description of the above categories.

### **2.5.1 Cover Sheet**

A right cover sheet must include the name of the company and be enriched by the logo of the company in order to gain a more professional character. The title and the date will identify the document and when it is written. Contact and name information must be also included in case a further information is needed. It should be placed on the first page. In case it is considered essential, a confidentiality statement may be also included here(Growthink).

In general, a cover sheet must be kept simple and to the point so that the information can be discerned. There is no need to be mentioned here the business contents which will be developed in further stages. In addition, the cover sheet must be adaptable according to the audience at which it is aimed(Growthink).

### **2.5.2 Executive summary**

The executive summary describes generally the basic parts of the business quickly and aims to trigger the interest of the readers to continue with the entire plan. It is considered one of the most important part of a business plan although it is usually no longer than 2 to 3 pages. Some investors review first the executive summary and financials before they continue with the plan. As long as the summary is crucial must be carefully written based on the target audience's preferences. In addition, as long as it highlights the results of the whole planning, it must be written last after having concluded all the other sections of the plan(Haag, 2013; Abrams, 2014).

Broadly, it is recommended that a summary must contain the following information:

- It has to be identified that the business concept is feasible and the business purpose is clear(Haag, 2013). In addition, the business idea

apart from attractive is also functional by solving common customers' problems(Abrams, 2014; The Staff of Entrepreneur Media, Inc., 2015 a).

- Which is the target market or niche market and how the competition will be addressed? Which is the marketing and sales techniques will be implemented for approaching the markets and winning competition? The development chances and significant competitive advantages will be also identified(Haag, 2013).
- The management team has a strong know how and is capable(Abrams, 2014)
- The financial projections respond to reality(Abrams, 2014).
- In case the summary is targeted to an investor for seeking capital, the executive summary must also include additive information. First of all, it must be stated the reason of financing, how much money is needed and how this amount of money will support the company to increase its profits (The Staff of Entrepreneur Media, Inc., 2015 a). It must be also identified that there is chance for the investors or lenders to earn profits(Abrams, 2014). In addition, some details about the structure and ownership of the corporation must be given. Last, the exit strategy is considered crucial and must be included(The Staff of Entrepreneur Media, Inc., 2015 a).

### **2.5.3 Table of contents**

The table of contents aim to offer guidance and access to the information relevant with the business, financial and supporting documents sections. It mainly provides with a structure and facilitates the reader to find the material needed(Bangs, 2001).

### **2.5.4 1st Section: Business**

This section gives a more analytical description of the business and is focused broadly on the following elements(Bangs, 2001):

- What is the business and why someone is in business(Bangs, 2001)
- The Products/services will be developed(Bangs, 2001)
- What are the target markets, their size and the planned share in those markets(Bangs, 2001)
- Which is the plan to win competition, what differentiate the company from the others(Bangs, 2001)
- What role plays the location of the company(Bangs, 2001)
- Description of the Management team and the skilled personnel(Bangs, 2001)

#### **2.5.4.1 Business Description**

This part includes the most basic details of the business such as name, legal status, ownership, company mission. What is the type of business, which are the customers? The legal name and any brand or trade name of the company must be included. In addition, legal issues such as the legal form of the business (i.e. sole proprietorship, partnership, corporation etc.), licensing, secured patents or copyrights must also be clearly mentioned. Where the company is located or intends to operate and which geographical area will cover? Which are the operations hours? Will it operate on year or seasonal basis(Haag, 2013; Abrams, 2014)?

Another challenging part is the description of the philosophy, objectives as well as principles of the company which are revealed in the mission statement of the

company. What makes the company different and distinguish itself to customers? In addition, any accomplishments or milestones achieved so far must also be part of the description. A positive progress shows commitment and inspires trust. Is the business profitable so far or which is the rate of growth? A description of historical data such as the date of foundation and by whom it was created as well as the development phase must be also mentioned. Is it a start-up company or an existing business with new improved products/services? In case the company has already some financial obligations such as past loans or investments, here they must be stated. In case capital is sought, the sum of money and the reason must be briefly explained(Abrams, 2014).

#### **2.5.4.2 Product/Service**

Here it will be given a clear picture of the services/products are provided. This section may be long or short depending on the type of the business. In case of the company develops a product, this part must be covered by more details. However, complex and highly detailed technical descriptions which are not easily understood, are to be avoided. On the other hand, why the product is differentiated from other competitive is a crucial information(Haden, 2015 a).

If the company tends to offer a new and innovative product to the market, it must be spent more time describing it and offer enough information so it can be evaluated. What is the new product and does it meet the customers' needs? On the other hand, if services or products are offered which are known and do not include sophisticated technical details, maybe the pricing schema and the ability to market it in a cost effective way is the main core of the description here(Haden, 2015 a).

In general, the following question must be addressed:

- Nature of the product, is it new or existed on the market(Haden, 2015 a)?

- What is the timeline for introducing a new product or service(Haden, 2015 a)?
- What differentiates the product from other competitors? Which are the strengths and weaknesses compared to the competitors(Haden, 2015 a)?
- Price and operating costs allow to earn profit(Haden, 2015 a)?
- How the products are produced and by whom? Is there dependence on a specific supplier and are there alternatives in case an unexpected event may happen(Haden, 2015 a)?

#### **2.5.4.3 Industry and Trends**

The analysis and trends of industry is a crucial factor of success and planning of the financial budgets. Trying to be different from the competitors, requires deep knowledge of the larger environment in which a business is part. A focus must be given on the analysis of the industry, its trends and the opportunities or limitations that may be present(Abrams, 2014).

First the economic sector is to be discussed. Which is the sector that the company belongs? Is it a service, manufacturing, retail, a distribution sector or a combination of the above? It is important to be provided a clear picture of the past and future expected growth of the sector of the company. The next question to be answered is in which industry the company is part, which is its size and the growth potential? Is the industry new, stable or expanding? If it is expanding then more opportunities may arise. On the other hand, if it has reached the maximum level of maturity may be not worth investing money and time. Another important factor to be considered is the dependency on economic conditions. Is a product/service which responds to good or poor economic environment, or is it immune(Abrams, 2014)?

Another factor to be discussed is the seasonality. Is the company's profit affected positively in a specific part of a year or is independent? And what about the technological progress? The technological context is a crucial parameter as long as it is changed rapidly and it may cause unexpected events which may play a negative role on the progress of a company. In other words, although sometimes it is difficult to predict all the technological developments however a company must be able to present a reaction plan in case an unexpected event arrives. Apart from the technology another sometimes unexpected factor is governmental regulations. Some regulations may open new roads whereas others may cause limitations and force to redesign the working process. Having examined all the industry trends of the country of company's operation, it may be useful for the research to be further expanded globally. This is important if the operations are planned to take place also abroad or if there is professional relation across national borders (Abrams, 2014).

#### **2.5.4.4 Marketing the Business**

Marketing is a major section in a business plan because it is connected to every part of a business and is considered as the profit generating part of a company. It broadly covers topics such as market segmentation, targeting and positioning, recognizing the competition and the customers, the marketing mix of the company and the 4Ps product, price, promotion and place, the pricing strategy to be implemented (Sutton, 2012).

##### ***2.5.4.4.1 Market Analysis: Marketing Research***

A right marketing research will offer insights able to identify marketing opportunities but also problems. The research is based on data which are categorized as secondary if they already exist or primary if they are gathered for a specific purpose at a specific moment. There is a variety of marketing research approaches such as questionnaires, focus group research based on specific for example demographic or psychographic features, surveys. Gaining the right

information can lead to the creation of successful marketing programs and in turn business success(Kotler, Keller, 2016).

#### ***2.5.4.4.2 Market Analysis: Market Segmentation and Targeting***

The success of a company is directly based on the knowledge of its customers' needs, wants and demands(Kotler, Keller, 2016). Usually, investors seek for firms which are market driven(Abrams, 2014). Not everyone likes or afford the same things but there are differences among the consuming behavior. Each market has specific features and demands able to shape companies. A market segmentation aims to help the business to understand better its future customers by dividing them to specific segments with similar set of needs and wants(Kotler, Keller, 2016).

A description based on geographic, demographic, physiographic and behavioral characteristics can take place(Kotler, Keller, 2016). The description must highlight all the features which reveal potential customers. Generally, the target market must have the following features(Abrams, 2014):

- It must definable and differentiable meaning that the similarities of the customers can be clearly recognized(Abrams, 2014)
- It must be meaningful and able to prove that the customers will buy the product(Abrams, 2014)
- It must be sizable enough to offer chances for further development and profits(Abrams, 2014)
- It must be reachable and affordable(Abrams, 2014)

The next step is to be focused on the market size and its trends. Is the market too small and lacks of enough customers or too large as a result too expensive to approach? Is there room for growing the market share in the future which in

turn will lead to profitable investment? Apart from the size another important factor to be considered is the trends of market in the future. Will be the product still needed in the near future? Are there further opportunities in the future taking into consideration all the changes that may take place(Abrams, 2014; Kotler, Keller, 2016)?

#### **2.5.4.4.3 Market Analysis: The competition**

Competition inevitably appears in a company that operates. The competitive analysis is a crucial part in a business plan because it shows that the company has a realistic picture of the market and the potential risks it includes. It offers also insights about what the customers prefer and need(Abrams, 2014).

Firstly, the profile of the competitors must be identified and afterwards described. The main competitors are those that offer their products or services in a common target market. The role of the web must also be considered taking into consideration the information that provides to the customers. In addition, the global competition must also be considered as long as many products or services can be provided online(Abrams, 2014).

The next step is to recognize the strengths and weaknesses that characterize the competitors. Their weaknesses reveal opportunities whereas their strengths show the vulnerabilities of the business(Haden, 2015 b). In which factors do they perform better (i.e. customer perception factors such as product, price, perceived value, internal operational factors such as delivery methods, personnel etc.) (Abrams, 2014)? Understanding their goals and objectives is also important. Which is their market share? If they have a great portion of sales then they must be carefully analyzed because they shape the basic features of a product or service in a target market. In addition, for maintaining their large market share they may react quickly when a new company aims to enter the market. How a new business will gain sufficient market share is a crucial topic. Another important source of information is the marketing and advertising campaign that a competitor follow(Haden, 2015 b).



Competitive analysis must not stop to the existed competitors but it must be extended to the future potential competitors, as well. New competitors are on the surface every day whereas others drop out. Although predicting new competitors may be a difficult process, however there are important factors that offer a great help on this. An important question to be answered is: how difficult is to enter the market and what barriers are to be faced? For example, in case the market

- offers high profits and can be easily approached
- it has a high growth rate
- there is a lack of a product or services but the demand is high
- the competition is still in a low level

then, there is a great potential that new competitors may arise(Haden, 2015 b).

#### ***2.5.4.4.4 Risks and Opportunities***

Risk is involved in everyday business and it must be addressed. Investors want to know how well prepared a business is, in case a problem arises. A risk analysis is an important part because it shows to investors that alternative plans and solutions have been thought in case things go wrong(Robbins, 2004).

Some key risk types are mentioned below:

- Market risk: the market does not respond to the expectations of a company. Maybe the market needs more time to grow as a result the company runs out of resources and capital(Robbins, 2004).
- Product risk: the product cannot be offered as expected or cannot be produced at all(Robbins, 2004).
- People risk: the dependency of a production on the know how of specific employees may create a high production risk in case the employees abandon the company(Robbins, 2004).

- Financial risk: In case bad estimations happen or poor investments scenario are implemented, this may lead to lack of capital and resources(Robbins, 2004).
- Competitive risk: The risk relevant with the ability of competitors to win the market share(Robbins, 2004).

Showing to investors that the risks are considered, it is revealed the ability of dealing with problems and the ways to overcome them(Robbins, 2004). However, dealing with risks, new opportunities may arise. An illustration of the balance between the risks and opportunities is provided by the SWOT analysis(Abrams, 2014). The SWOT analysis analyses the internal and external environment of a company and evaluates the company's strengths, weaknesses, opportunities and threats(Kotler, Keller, 2016).

#### ***2.5.4.4.5 Marketing and Sales***

Having customers is the key for staying active in business. Marketing is an important part of a business plan because it answers in the following questions(Abrams, 2014):

- How the customers are aware of the company's product
- What is the message the company sends through its products or services
- How this message reaches the customers
- How the sales are secured

The 4P's of Marketing tool: Product (design, quality, features, brand name, packaging), Price (discounts, credit terms), Place (locations, coverage, channels) and Promotion(sales, advertising), can offer precious marketing insights and reveal what the customers actually want or need. Nowadays, people buy products which offer them a set of benefits and not only specific features. They tend to acquire products which fulfill their needs. For this reason, the company

must interact with customers in an efficient way and deliver a message that leave strong impressions(Abrams, 2014).

#### **2.5.4.4.5.1 Product**

The product section is focused on the product, its features and the benefits that it offers. The benefits are important to customers' eyes and for this reason, the target audience and the ideal customer must also be described here. Does the product meets his needs and how is it differentiated from other products? If it is possible to quantify the market's size that the product will cover and its lifecycle, it's worth doing this, because it reveals the ability to recognize buying habits. The branding strategy can also be a part in the product section(The Staff of Entrepreneur Media, Inc., 2015 b).

#### **2.5.4.4.5.2 Price**

In this section, the pricing scheme is developed, in other words, under which price a product will be offered. Price is directly connected with the company's profits as well as the sales volume as a result it plays a great role in decisions relevant with marketing spends(The Staff of Entrepreneur Media, Inc., 2015 b). The pricing strategy depends on the nature of the market. If the market is considered as monopolistic, then the optimum price is the one that will create revenues taking into consideration the costs. In case of oligopolistic markets, then the competition plays a great role on the formulation of the price. In the competitive markets, where many competitors with common products exist, the price is determined by the customers(Haag, 2013).

#### **2.5.4.4.5.3 Place**

The place section answers the question how the customer reach the company's products. For example, online, via email, retailing or through sales representatives? Which are the distribution channels that offer this service or product to the customers and who are the people and companies behind this

process(Ward, 2018)? Will you serve worldwide or locally? If the company offers its product internationally, it must examine the demand and the way to fulfill the orders(Abrams, 2014).

#### **2.5.4.4.5.4 Promotion**

Promotion is the part which will be focused on how the customers will be informed about the product, how the product will be advertised, gain the attention and win the customers. The plan should be mainly focused on promotions which are more suitable for the product or service of the company and more aligned to the target customers(The Staff of Entrepreneur Media, Inc., 2015 b).

There are many marketing vehicles which help the company to communicate its message and reach the customers. Some of them are:

- Website of the company where the company directly presents its brand and products(Abrams, 2014).
- Online advertising such as portal sites which are mainly focused on a specific theme, website ads which pop up on a website or sponsorships offer great advertising opportunities(Abrams, 2014).
- Social Media sites which are visited by huge number of users every day or online blogs enriched with online material such as texts, photos and graphics relevant with a product are also marketing opportunities(Abrams, 2014).
- Emails and newsletters is a fast and inexpensive way to send information to the customers. However, here this opportunity must be used only for customers that have signed up for this service(Abrams, 2014).

- Apart from the online advertising mechanism, a company may follow a more traditional marketing tactics such as media advertising (media, newspapers, radio) (Abrams, 2014).

There are many marketing and advertising paths. However, the right entrepreneurs must be able to choose those that are realistic and effective from budget and positioning point of view(Abrams, 2014).

#### **2.5.4.4.6 Sales and Distribution**

Which is the sales mechanism and how the products are distributed to customers? The distribution method must be carefully selected after the marketing research. Which is the preferred purchasing pattern of the target market in the present and how may be in the near future? For example, does the target market prefer to buy in store or online? The choice of the distribution strategy must be aligned with the preferences of the customers. In case of a service business, it must be discussed how the service will be delivered(Sutton, 2012).

Sales generate revenues and for this reason the sales representatives and activities must be also described. Which is the nature of the sales team? Will be direct, telemarketing, email catalogs, retail, etc? In case of online sales, which is the web strategy will be implemented? Will be offered discounts, if yes to whom? A decrease or increase on sales must be also considered. A sales forecast of future sales must also be prepared and in many cases included(Sutton, 2012).

#### **2.5.4.5 Operations**

The operations section is a practical implementation of the theories mentioned in the business plan. It is the section where the day to day functions of the business are presented. The information that is included does not need to be thoroughly detailed. It has to be brief, relevant with the nature of company's business and success, and must offer a competitive edge(Abrams, 2014).

In general, the operations plan answers to the question about how the business will operate and addresses the following issues(Abrams, 2014):

- Facilities: which is the location of the company? Is it close enough to the target market? Are there improvements to be made? What about parking and transportation facilities? Which are the utilities and supplies that are needed and which are their costs(Abrams, 2014)?
- Production: in this section is described the production processes that are followed. Are the processes advantageous for the company or does it include drawbacks? Does the company outsource its products to another company? In addition, the workforce is examined. How many and what kind of employees are needed? Does the company use variable labor as well? What about the productivity of the company in the frames of the profit margin? How is the quality measured and under which standards(Abrams, 2014)?
- Inventory Control: more or less inventory than needed has economic impact for the company. For this reason, the inventory management that it is followed must be aligned and synchronized with the sales, production and purchasing directions(Abrams, 2014).
- Suppliers and Distribution channels: Which are the suppliers and distribution channels that the company uses? Are there alternative solutions in case there are vulnerabilities in the future(Abrams, 2014)?
- Research and Development: As long as the market changes rapidly in daily basis, a great focus on finding new solutions must be given. Research and development helps the company stay synchronized with the current needs of the target market(Abrams, 2014).

- Contingency Planning: What procedures will be implemented in case of unexpected events? Is the company able to continue its operation after an emergency event? Is there business insurance(Abrams, 2014)?
- Other Operational issues: are the environmental or health regulations that need to be considered? Are there safety issues relating to employees(Abrams, 2014)?

#### **2.5.4.6 Management and Organization**

People play a crucial role in the success of a business. Many investors pay a high attention to the management section and to the personnel involved because they know that beyond a successful idea, a successful team can bring prosperity. In general, the management section includes information about the qualifications and expertise of the people of the company and the management style that company follows(Abrams, 2014).

Usually, the key employees must be mentioned. The first person, to be described is the founder of the company. The founder of the business is the person responsible for the selection of the management team and for this reason his vision and qualifications must be included. In addition, his expectations according to the management team must also be briefly described(The Staff of Entrepreneur Media, Inc., 2015 c).

The description must be further extended with the presentation of the top managers of the company who will play a crucial role for the long term success of the company(The Staff of Entrepreneur Media, Inc., 2015 c). In general, it must be defined which types of manager and employees are required (i.e. Top decision makers, Production and technology personnel, Human Resources and Marketing staff, Head of Research and Development) (Haag, 2013). The description can be based on the following attributes:

- Education: Education which is relevant or necessary for the operation of the company must be included. In addition, in case the person has no any other experience but an impressive education, must also be described(Abrams, 2014).
- Employment: Here it must be mentioned any past working experience which is relevant with the current position. It must be explained why the chosen person has the best qualifications for the current position based on his experience(The Staff of Entrepreneur Media, Inc., 2015 c).
- Skills: The skills have been acquired so far by the management team members must also be described(The Staff of Entrepreneur Media, Inc., 2015 c). The skills may be for example relevant with abilities such as motivating employees, industry know how, or even financial potentials(Abrams, 2014).
- Accomplishments: In case there are accomplishments relevant with the team members such as sales or patents, here it must be explained(The Staff of Entrepreneur Media, Inc., 2015 c).
- Personal: some personal information about the team members may bring the investors closer to the company vision. The personal information may include age, activities for the community or the reasons why the person has become a part of the company(The Staff of Entrepreneur Media, Inc., 2015 c).

After the description of the background, an analysis of the responsibilities and duties of the team members must also be mentioned. What the team are expected to do? This is an important question especially in Start Ups Companies(The Staff of Entrepreneur Media, Inc., 2015 c).

The Board of directors should be also a part in the management section. The Board of directors especially in larger companies may include persons which are



not part of the management team, however they bring specific business expertise such as industry of financial insights. Because of their legal responsibility and authority as well as their expertise, they members of the board must be carefully selected(Abrams, 2014).

Outside professionals and resources such as technical, account, marketing and management consultants is also part of the management section. The organization structure can be provided with the use of an organizational flow chart where all the areas of responsibility, lines of authority and relationships among the members will be clearly shown(Haag, 2013; Abrams, 2014).

Why the team members remain in the company? Which are the motives and compensation that the company offers them? These are questions that need to be also considered in this section. Will the members receive an attractive salary, stock options, equity, bonuses? Stock options, for example, gives the opportunity for financial gain in the future, as a result it usually reveals a long term relationship between the company and the employees(Haag, 2013; Abrams, 2014).

### **2.5.5 2<sup>nd</sup> Section: The Financial Data**

Successful implementation of a policy in a company means effective control. A type of control is the establishment of a bookkeeping system which will include financial data represented by documents such as income statement, cash flow, balance sheet, break even analysis and Sources and Use of Funds. The provisions can take place on daily, monthly, quarterly and yearly basis. In general, the accounting system used proves the ability of the company to make profits as well as to pay its bills(Bangs, 2001).

#### **2.5.5.1 Balance Sheet**

The purpose of the balance sheet is to depict the financial situation of a company on a specific date. It includes a view of all business assets and resources as well

as liabilities and owner's equity(Powers, Needles, Crosson, 2011). A balance sheet reveals important information around the property and equipment of a company. In addition, it offers a view of the debts or accumulated depreciation of the inventory of the company. In the business plan, the balance sheet information can be presented in on quarterly of yearly basis, as long as the information included cannot change rapidly(Abrams, 2014).

#### **2.5.5.2 Income Statement**

The income statement is reveals if a company has reached its profitability goals. It includes the company's revenues and expenses over a period of time(Powers, Needles, Crosson, 2011). Although it gives a picture of the money left after accounting expenses, however it cannot give a final picture of the cash position or net worth of the company. According to Abrams (2014), it is proposed a provision which takes place on monthly basis the first year, quarterly basis the second and third year, and annual basis the fourth and fifth year.

#### **2.5.5.3 Cash Flow**

The cash flow statement reveals the liquidity of the company, in other words how much cash a company has available in the bank. The cash inflows and outflows in and out of a business are presented. Cash flows from operating, investing or financing activities are the basic content(Powers, Needles, Crosson, 2011). A cash flow analysis is important because it offers a picture of future cash situation. The cash flow according to Abrams (2014), can take place in monthly basis for the first year, and for the next on quarterly basis.

#### **2.5.5.4 Break Even Analysis**

The break even analysis shows at which point the company can stay in business by making sales and paying its expenses. It shows in other words a point of break even which is nor a profit or loss of money. It is accounted by the following equation(Abrams, 2014):

$$\frac{\text{Fixed Expenses}}{\text{GPM}} = \text{Total Sales}$$

Where GPM is the Gross Profit Margin(Abrams, 2014).

#### **2.5.5.5 Sources and Use of Funds**

The sources and use of funds is an important part for investors or banks because it is the section where it is clearly stated how the funds will be used. Will the money be used for the growth of the company? The sources of fund must depict the funds that the company has already received and the amount that the company is looking for now(Abrams, 2014).

#### **2.5.5.6 Assumptions**

The Assumptions part includes information about financial projections which must be accurate, realistic and able to increase credibility. It may include assumptions according to sales, gross profit margin, and any other assumptions that may create any other financial projections(Abrams, 2014).

#### **2.5.6 Third Section: Additive and supporting documents**

The appendix is the place where additive and supporting documents can be added. Taking into consideration that the business plan must include the most essential information, the appendix aims to offer supplement documents which support and confirm the conclusions that are mentioned In the plan. The appendix must not include essential information for the plan but only additive information. Types of appendix content may be Photos relevant with products or location, market research results, resumes of key employees which are considered impressive, technical information, marketing material, etc.. (Abrams, 2014)

# Chapter 3

## 3 Case Study: Transport for London Business Plan

### 3.1 Executive Summary

TfL is a public transport body led by Mayor of London and is responsible for offering the transport vision of the Mayor to the public. The major vision of Sadiq Khan – Mayor of London, is a more affordable, safer and accessible to all people network, which boosts the economic development and a healthier life in a city(Transport for London, 2016 a).

TfL has under its control the following services: Underground, Overground, Buses, Rail, DLR, Trams, River Services, Dial-a-Ride, Santander Cycles, Emirates Air Line. In addition, TfL is responsible for licensing and regulating Taxis and PHVs (Private Hire Vehicles), as well as Road networks and traffic signals. The Congestion Charging Scheme is also under the control of TfL(Transport for London, 2016 a).

This Business plan delivers one of the greatest capital investment program where affordability, accessibility, reliability, modernization, safety and health measures are the core elements. How the above services will be transformed and improved in order to deliver Mayor’s vision and goal(Transport for London, 2016 a)?

Starting with the Project of Elisabeth Line, the capacity of the network will be increased resulting in greater percentage of passengers. In general, Tube services and stations will be all increased in capacity and will be modernized aiming to satisfy and attract more passengers. Networks will be also safer for all

passengers and they will give a great attention to users such as cyclists or pedestrians empowering in this way the more active way of transport which will result in a healthier London in the course of time. Amplifying the concept of a healthier London, ULEZ (Ultra Low Emission Zone) program will be also implemented on the central London. In addition, new Bus vehicles of zero emission or hybrid technology will be used(Transport for London, 2016 a).

Gaining more passengers on Public transport brings also less traffic and congestion as well as less air pollution. Attracting new passengers means that great focus will be given on the accessibility of our services for all people, by implementing step free access to TfL's stations. In addition, through technology improvements, Route Planners and payments methods such as Oyster contactless payments, will be optimized so that they really help passengers to move. Real time Information will also support in this(Transport for London, 2016 a).

The Transport can play a critical role in the economic development by connecting efficiently the city and offering new housing and jobs opportunities. TfL will use its own assets such as land in order to offer more affordable homes and workspaces(Transport for London, 2016 a).

TfL will keep improving its services by working with and hearing a variety of communities of London and by understanding their needs. The strong commitment to equality as well as diversity will be shown at senior also levels of the organization where the diversity is expected to be increased(Transport for London, 2016 a).

All the income that is generated by the TfL is reinvested in its capital investment and maintenance of network programs. A great target of TfL is to break even on operation by 2021/22. In order to success in this, a cost reduction program will be implemented aiming to control better the supply chain and create a more efficient and commercially driven organization with less management layers,

more diversity, innovation and creativity(Transport for London, 2016 a). Taking into consideration that the operating grants will be phased out in year 2019/2020(FitchRatings, 2017), the projects of this plan must be timely delivered and in the frames of the predefined budget(Transport for London, 2016 a).

TfL has many strengths and among them a great expertise and creativity which are important tools for reaching this Business Plan ambitions(Transport for London, 2016 a).

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## **3.3 The Business Section**

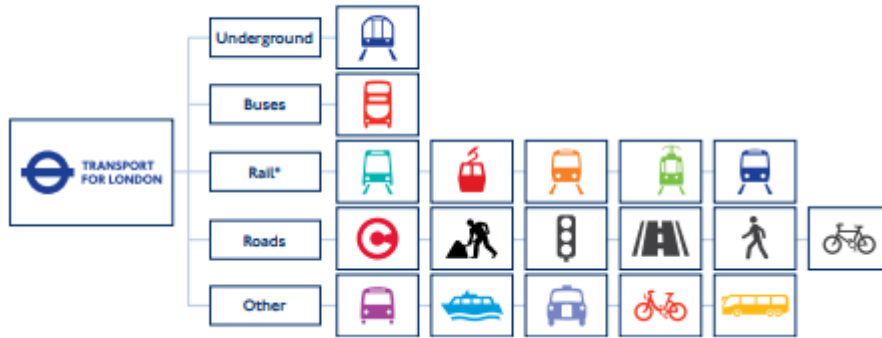
### **3.3.1 Company Description**

Transport for London (TfL) is a public body and an integrated transport authority of London which is focused on the delivery of Mayor's transport vision and strategy (Transport for London, 2016 a).

TfL views its mission and goals as improving the life in the city by keeping London moving, working and growing. Customer is the core of TfL's business, and for this reason its mainly objectives is the improvement of customer transport services because every journey really matters. In addition, the annual income of the business is reinvested to the transport network aiming to be provided more modern and affordable to the public services (Transport for London, 2016 a; Transport for London, 2016 b).

The TfL is responsible for London Underground and Overground, Buses, Docklands Light Railway (DLR), Rail, Trams, River, Coaches such as Victoria's Coach Station, Emirates Air Line and Santander Cycles. In addition, traffic signal, the Congestion Charging Scheme, the roads and taxis are also under the regulation of TfL (Transport for London, 2016 a). The TfL aims to keep pace with the industry tendencies the Public Transport sector faces. Factors such as London's growing population in the frames of travel demand, housing and new jobs, the real customer experience in the frames of fares' affordability, services accessibility, safety on the transport network, as well as a greener London approach and safety on roads, are the core of TfL's focus (Transport for London, 2016 a).





**Figure 3.3.1** TfL Services, Source Transport for London (2016 a, pp. 24)

This business plan states how the TfL will take into consideration all the above factors, and will deliver an ambitious program of modernization and transformation which offers more but with less money (Transport for London, 2016 a; Transport for London, 2016 c).

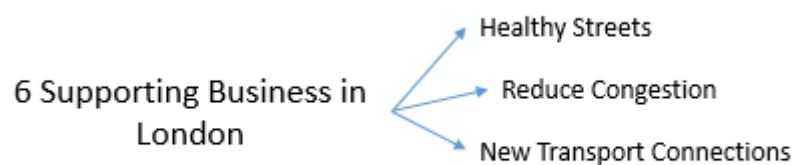
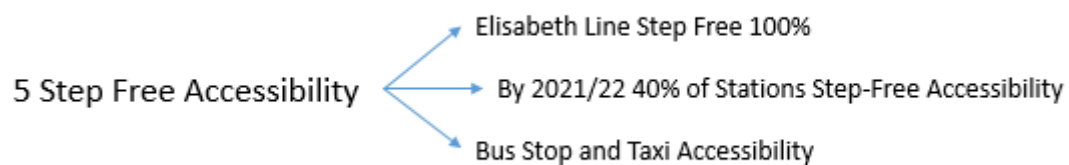
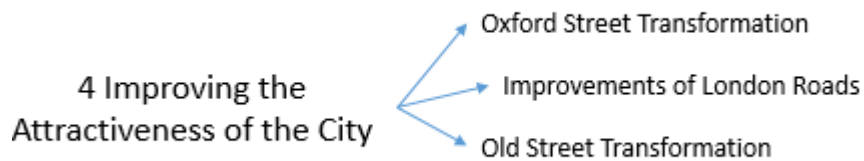
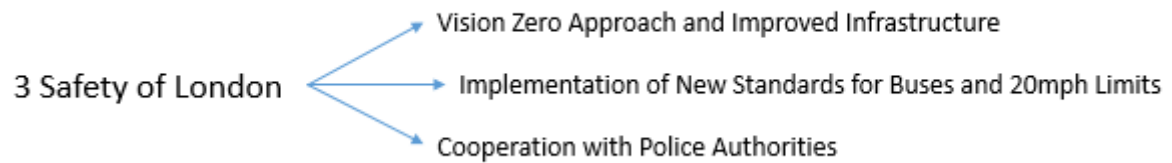
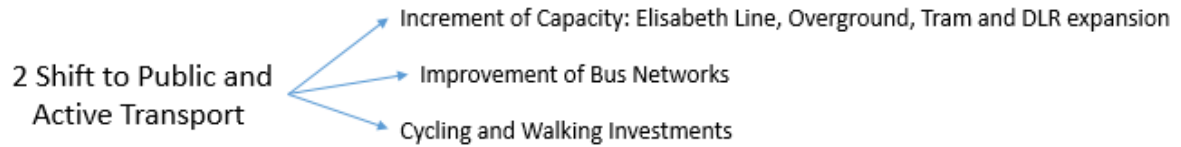
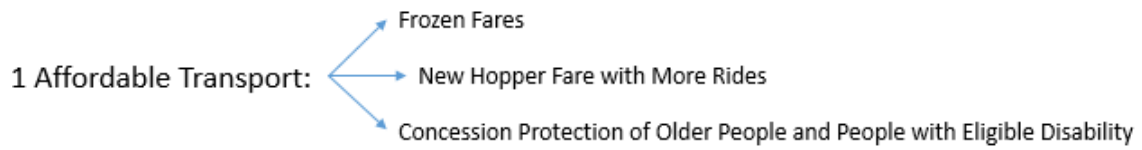
But how the TfL will deliver its value which is “delivering more with less” (Transport for London, 2016 b)? It will be accomplished by generating more income reducing operation costs, exploiting its assets and using its expertise for gaining profits. According to Commissioner Transport for London, the costs of operation have started to fall the last 6 months.

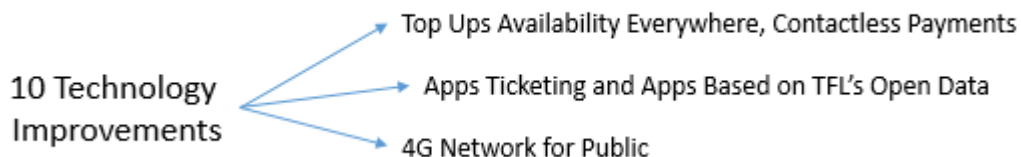
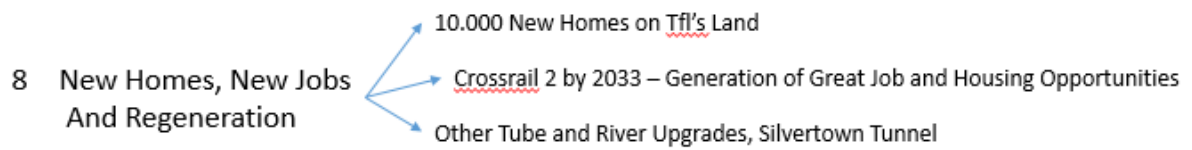
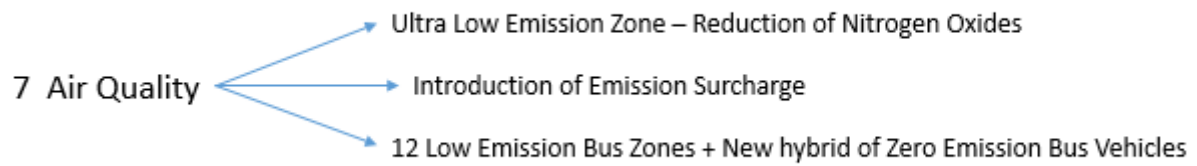
### 3.3.1.1 Legal Status and ownership

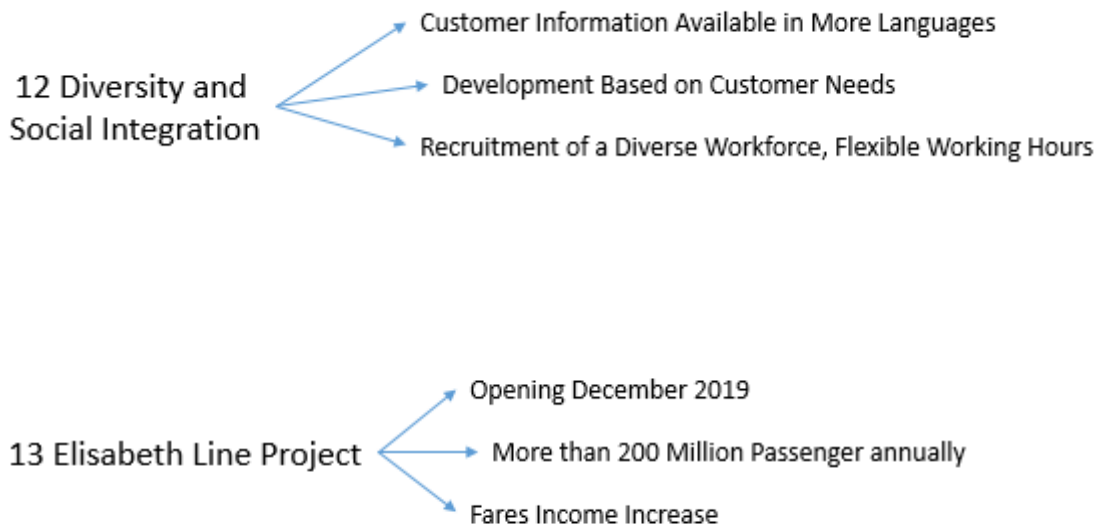
The TfL is a public sector statutory corporation and body of GLA and obeys to the local government financial rules. Tfl cannot go bankrupt or be liquidated thus it must be annually balanced from budget point of view (FitchRatings, 2017).

### 3.3.2 Services and Projects Planned at a Glance

The data presented in the following figure are the main focus of TfL Operations for the next 5 years and are based on data found in Transport for London (2016 a).



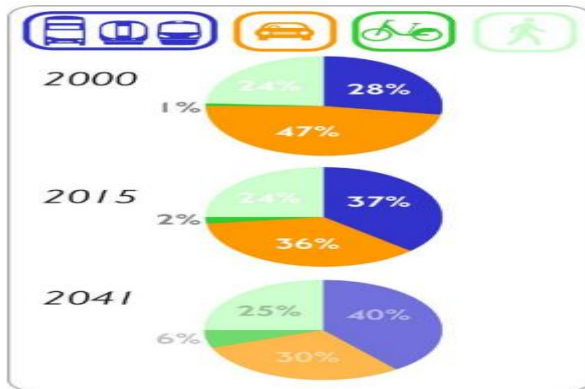




**Figure 3.3.2** Services, Projects and Plans to be Delivered in the Next 5 Years

### 3.3.3 Travel Trends

The last two decades a greater volume of travel takes place in London. One basic reason for this is the growth of the population. It is also observed that people tend to move from private car mode share to public transport and greener options such as walking and cycling. The reason behind this, is the improvements that take place in the public transport sector. It is expected that the above tendencies will continue in the future and taking into consideration the population growth, the transport sector will face many challenges and greater travel demand in the future. The following figure depicts the projected Travel Mode share shift in London considering the past(Transport for London, 2016 c).



**Figure 3.3.3.1** Travel Mode share shift in London, Source Transport for London (2016 c, pp. 8)

In the inner London as well as in the outer London less private cars are used whereas the public transport faces an increment. In inner London it is also observed an increment in cycling and walking. In Outer London, on the other hand, there is a decrease in walking tendency but an increase in cycle mode share (Transport for London, 2016 c).

The consideration of future growth areas in London such as East London is important and will require increased travel demands in order to serve efficiently these areas (Transport for London, 2016 c). Environmental and air quality factors are of great importance also according to future travel trends. London must comply with EU limits relating to Nitrogen Dioxide (Transport for London, 2016 c).

On divisional level and starting with the Underground, the number of passengers in 2015/2016 was even greater than in 2012, the year of London Olympic Games. The increment tendencies prove the need of improvement and capacity expansion of Underground division (Transport for London, 2016 c). On Bus level, the recent years there is an usage and reliability decrease which is a result of road congestions which caused by road constructions (Transport for London, 2016 c). It is clearly shown that there is need for improvement on Bus area (Transport for London, 2016 a). The Rail services have an increment of passenger and reliability rates despite the increased demands, especially in

central London. On the Road sector, it is observed a traffic fall. One reason of the fall was the introduction of Congestion Charging. In general, the downward tendency reveals the use of other ways of transport, societal changes in the population, safety and infrastructure demands (Transport for London, 2016 c). Great challenges for the traffic management and congestion scheme are the incremented use of Private Hire Vehicles as well as the cycling considering the limited road capacity. In addition, safety on the Roads must be considered for the achievement of growth on active travel. River services faces a great growth the last years. The Emirates air line cable car is observed to have a regular pattern of use with an exception met in Olympic games of 2012 (Transport for London, 2016 c). The following figure represents a projected trend analysis of journeys on divisional level based on data found in Transport for London (2016 a).

	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
Journeys Trends	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Underground	100	103.4	106.3	107.8	108.5	110	113
Buses	100	98	99.4	102.3	105.2	106.9	108.5
DLR	100	105.1	109.4	109.4	104.2	101.7	105.9
Overground	100	106.5	113.5	123.3	138	145.6	153.2
Tfl Rail	100	120	127.5	200	417.5	575	580
Trams	100	107.4	107.4	107.4	118.5	129.6	133.3
Dial-a-Ride	100	100	100	100	100	100	100
Emirates Air Line	100	100	100	100	150	150	150
London River Services	100	110	110	110	120	120	120
Cycle Hire	100	100	100	110	110	110	110
Walking	100	101	102.1	103.2	104.2	105.2	106.2
Cycling	100	129.9	113.3	120.5	128.1	136.4	145.2
Road	100	100	100	100	100	100	100
Taxi	100	101.4	102.1	103.5	104.2	105.7	106.4

Figure 3.3.3.2 Trend Percentages of Journeys

### 3.3.4 Market Analysis: Segmentation and Targeting

Understanding London's people is of a great importance for TfL. Based on several demographic, geographic and behavioral variables, the TfL is able to plan its development on Services and satisfy all Londoners (Transport for London, 2016 c).

According to Transport for London (2016 c), the population of London is expected to have an increment of older people in outer London. Older people are considered as a low income group and have specific travel demands. Some of low income groups see the price of fares as a barrier for using public transport. Another group to be considered is the BAME (Black, Asian and minority ethnic groups) population of London. BAME Londoners for example use less cars but they use more the Bus.

Disabled people travel at 34% less than non-disabled people. A step free infrastructure has already be partially implemented, however the network is not fully step free accessible. A total step free infrastructure will increase the trips of disabled people(Transport for London, 2016 c).

Another group to be considered is younger people and the internet which is widely used by them. Nowadays, especially the young people are able to work at home as a result they have no travel demand. In addition, many people shop also at home which has in turn decreased the shopping travel percentages(Transport for London, 2016 c).

According to Transport for London (2016 c) considering age and gender as criterion, it is observed that the people which are found in working age travel more than the others. In addition, women tend to travel more than men. Men cycle more than women whereas women walk more than men(Transport for London, 2016 c).

Another interesting analysis is the hours of operation and trips rates. A peak is mainly faced in the morning when people travel to work and afternoon when people travel home(Transport for London, 2016 c).

Under the frames of geographic segmentation, neighborhoods such as in inner London, include higher density and it is observed that less people use or own a private car but more follow active travel trips. On the other hand, in areas of less

density such as outer London, there are more car owners and less people follow active travel trips(Transport for London, 2016 c).

### **3.3.4.1 Risks and Competition**

There are several risks that need to be considered and may bring financial and non-financial consequences and changes in the achievement of goals of this business plan(Transport for London, 2016 b).

- Brexit and the uncertainty that has been caused may have impact on income or expenditure which has been projected in this plan(Transport for London, 2016 a).
- Borrow difficulties that may be caused by different economic circumstances(Transport for London, 2016 b).
- Terrorism or other security threats may cause a reduction of the use of public transportation and damage the assets(Transport for London, 2016 b).
- Cyber security failures may influence negatively the business operations(Transport for London, 2016 b).
- Timing deviations according to the investment programs as a result the expected profits may not be timely met(Transport for London, 2016 b).
- Air quality limits compliance is not being achieved(Transport for London, 2016 b).

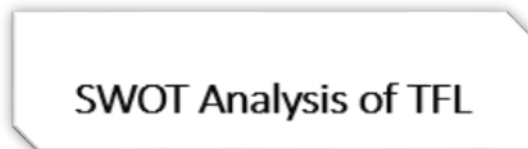
In order to be protected by the above risks, TfL keeps a general fund in order to verify its liquidity in case a risk is faced. In addition, Strategic risk management is developed aiming to play an important role in the decision making process. From employee's point of view, training programs are offered to them in order to help them face and control the risks more efficiently(Transport for London, 2016 b).

Apart from the Risks that may be confronted in the future, TfL must also consider the main Competitors on the foreground. One basic Competitor of TfL is the internet. According to Transport for London (2016 c) more and more people work and shop at home as a result they do not use the public transport. A right



information and the improvement of active and healthier travel mode may increase the travel of these groups (Transport for London, 2016 c). Another Competitor is the PHV and more specifically the Uber. Because of the low prices it may attract customers that use the Tube and Public Transport (Armitage, 2018).

### 3.3.4.2 SWOT Analysis of TfL



#### • Strengths

1. Statutory and part of GLA\*
  2. Collaboration with Boroughs\*
  3. Regulation of Congestion Charging Scheme\*
  4. Regulation and Licensing of Taxis and PHVs – 84.000 PHVs\*
  5. Strong Assets possession such as Land \*
  6. Great Expertise in Transport Sector\*
  7. Valuable Advertising Estate in Outdoor Environment\*
  8. Use of Open Data Strategy for Creation of Apps\*
  9. Global Leaders in Ticketing and Information Areas\*
  10. Contactless Payments\*
  11. Strong Online Journey Plan – Personalized for Everyone\*
  12. On Divisional Level – Strategic Importance\*
- ❖ Underground – 5m Journeys, 540 trains and 270 stations Service on Daily Basis\*
  - ❖ Buses – 2.3b bus trips and 500m kms annually, 9.000 available Buses\*
  - ❖ Rail- 117m passengers in DLR in 2015/16, 585.000 in Overground on a weekday and 104 miles coverage\*
  - ❖ Roads – 600.000 Cycle Journeys in a day in 2015, 6.4m walking on daily basis\*
  - ❖ River Services with 10m passengers in 2015/16, 11.500 Santander Cycles\*

\*Source of Data Transport for London (2016 a)

#### • Opportunities

1. Jobs and Housing\*
2. Economic Development and Regeneration Beyond the Centre of London\*
3. London world's most top destination for tourism and Business\*
4. Promotion of Diversity within the Organization as Source of Creativity and Innovation\*
5. Retail Opportunities at stations\*
6. 4G Network Improvements\*
7. Expertise in Ticketing and Information Areas which is Sought around the World\*
8. Partnerships for improving the Real Traffic Information\*

\*Source of Data Transport for London (2016 a)

#### • Weaknesses

1. Reliability of Bus Network and its Journey times\*
2. Overcrowded Network\*
3. Accessibility of Stations\*
4. Congestion and Reliability of Roads Network\*
5. Neighborhoods and areas around London not Efficiently Served \*

\*Source of Data Transport for London (2016 a)

#### • Threats

1. Brexit\*
2. Borrow Difficulties\*
3. Terrorism and other Security Threats\*
4. Cyber Security Failures\*
5. The Projects are not Released on Time\*
6. No Compliance with Air Quality Limits\*
7. New Competition

\*Source of data Transport for London (2016 b)

### **3.3.4.3 4P's - Products, Price, Place, Promotion – Customers' Needs Fulfilled - Operations**

The vision of the Mayor's which focused on a greener, healthier, safer as well as expanding city of London where people can move more affordable, can become reality with the improvement of TfL's services and operations.

#### **1. Affordable Transport**

Considering the demographic segments of older people, jobseekers, children and disabled people, specific concessions will be provided to them. In addition, low income people without specific concessions will be benefited by the fares price which will be frozen and a new Hopper fare which will provide the chance for 2 rides for the price of one. In 2018, it is planned the unlimited rides in the TfL's network(Transport for London, 2016 a).

#### **2. Shift to Public and Active Transport**

Healthy Streets concept means that more people use public transportation, cycling or walking. This will be achieved by offering more 20% capacity on Underground and TfL's Rail services serving efficiently the increased population of London. Expansion of Overground, DLR and Tram infrastructure as well as the introduction of Elisabeth Line in 2019/20 are important projects. The Bus network also will be improved by giving attention on its reliability and timely journeys. According to cycling and walking active transport, a great investment will be given, almost double than the last Mayoral term. In cooperation with Boroughs, cycling and walking will be boosted resulting in a healthier and safer London(Transport for London, 2016 a).

#### **3. Safety of London**

Safety is of a great importance for TfL. A cooperation with the British Transport Police will offer the security to people travel with public transport on daily basis. According to Roads' safety, the 'Vision Zero' approach will be introduced in 2017 aiming to improve the roads infrastructures and road behavior as well as protect

the vulnerable road users. Buses will be also limited to 20mph. Road Safety will in turn increase the active travel transport(Transport for London, 2016 a).

#### 4. Improving the Attractiveness of the City

London must be one of the most attractive to visit and to make business City in the world. In Oxford Street, Stratford town as well as Old Street will be given great attention to improvement the public spaces benefiting pedestrians and cyclists(Transport for London, 2016 a).

#### 5. Step Free Accessibility

Accessibility to all transport stations will benefit demographic groups such as disabled and older people, as well people carrying heavy subjects or parents with children. In the projected 5 years more than 40% of underground stations will be steep free. In addition, new stations such as the Elisabeth Line, DLR and new Trams stations will be all step free. A great focus will be also given in Taxi and Bus stop accessibility(Transport for London, 2016 a).

#### 6. Supporting Business in London

Safety and healthy streets are decisive factors for locating Business and attracting employees. For this reason air quality and active transport mode are of major focus. In addition, road reliability by offering real time road and network information will help in the reduction of congestion. Projects such as Elisabeth line or Crossrail 2, Silvertown tunnel and Bakerloo line will play a great role to the development of the economy of the city(Transport for London, 2016 a).

#### 7. Air quality

Environmental and air quality factors have brought on the foreground the Project Ultra Low Emission Zone (ULEZ). The program will start in central London in 2019 aiming to reduce the nitrogine oxides rates. It is planned to be expanded in other zones such as North and Circulars on vehicles basis as well as in London area for buses, coaches and heavy vehicles. An extra measure is the extra charge “Emissions Surcharge” to the Congestion Charge which will be

relevant only with vehicles causing higher pollution. Twelve Low Emission Bus zones and new green Buses based on hybrid or zero emission technology is also a part of the plan (Transport for London, 2016 a).

#### 8. New Homes, New Jobs and Regeneration

A sufficient connection with areas beyond central London will generate new opportunities such as new homes and new jobs which in turn will unlock the development on these areas. TfL plans to use its own assets such as land to build new and affordable homes and offices. Crossrail 2 project which is planned to be introduced by 2033 as well as other Tube and River Crossings upgrades will also boost new housing and jobs opportunities (Transport for London, 2016 a).

#### 9. Making Business Revenues

Earned revenues will be used for the further improvement of the network. By the use of TfL's Assets such as land, a revenue of £850m is expected. TfL can also be profited by selling its expertise according to transport services in UK or around the world. Outdoor and digital advertising can also be profitable. Retail spaces in the stations as well as the possibility of offering mobile coverage may be extra changes for income generation (Transport for London, 2016 a).

#### 10. Technology Improvements – Attracting and Keeping Customers with Real Time Information – Sales Strategy

Technology can be also a great source of income. TfL is a global leader in areas such as ticketing system. The Open data strategy gives the chance to developers to create apps that are used by a great percentage of Londoners. A great emphasis will be given to the development of 4G network for public use. Contactless payments will be kept on the foreground and new Oyster app with top ups availability widely in the network will be provided. In addition, programs such as the Surface Intelligent Transport System and partnership with Google will offer real time data aiming to improve the congestion as well as inform about incidents. Online the Journey Planner is offered which enables people to find the most optimum travel options for them (Transport for London, 2016 a). In order

to promote the Services of the Organization emphasis is given on its Official Site and its improvement aiming to offer information in a more personalized manner to its visitors, and on its appearance on digital channels such as Twitter(Moth, 2013).

#### 11. Cooperation with Boroughs and Communities

The cooperation with boroughs will help TfL to succeed in Healthy Streets program and based on local communities' needs to provide solutions. The development of London unlocks residential and employment growths which need to be encouraged and supported(Transport for London, 2016 a).

#### 12. Diversity and Social Integration

Equality and respect to difference is promoted by TfL by offering safe, accessible and affordable transportation for all Londoners. Needs for every community in London will be considered such as people who live in the most air polluted areas or disabled people. Report of unwanted behaviors will be encouraged giving a sense of fairness and action. Language will not be a barrier anymore as long as the customer information is planned to be offered in more languages. From Organization point of view, the commitment to diversity and equality will be shown by incorporating a diverse workforce with the same opportunities. Flexible working hours as well as Steps into Work Program for people with disabilities will be also promoted. Advertising and information will play a great role to this(Transport for London, 2016 a).

#### 13. Elisabeth Line Project

The Elisabeth Line project will be introduced in December 2019. Its introduction will bring a great increase in capacity of transport's network and expected to transport more than 200 million passengers per year. It will also offer a great fare income to TfL which will be used for the modernization and preservation of the existed network.

The above services are focused on the area of London. However, the TfL will keep discussing with Government about the further devolution of suburban rail franchises. TfL has already kept £20m in case the position of Government will change (Transport for London, 2016 a).

### **3.3.5 Operations – A cost Reduction Approach**

A cost reduction program will be implemented in the operations and especially in TfL's daily transport services aiming to further support the new investments programs described so far (Transport for London, 2016 a).

Value will be generated by more efficient supply chain and an improved contract management by succeeding in better negotiations or better control of maintenance contracts resulting in further savings. Expensive Public partnership contracts will be also avoided. Great attention will be given to the formulation of teams of engineers, who were working on different projects across TfL so far. The Consolidation of Head office accommodation is also in the savings plan (Transport for London, 2016 a).

### **3.3.6 Management and Organization**

#### **3.3.6.1 Key Members**

Sadiq Khan: TfL is a statutory organization and body of GLA and on its Chair is found the Mayor of London Sadiq Khan. The Mayor appoints the board members (Transport for London, 2016 a; FitchRatings, 2017).

It is his first Business Plan and through this document he will express his vision for the transport of London. Affordability, Accessibility and Modernization of the transport network are among his basic ambitions for the next 5 years (Transport for London, 2016 a).

Mike Brown: TfL's Commissioner is Mike Brown MVO. The commissioner is appointed by the Board and he is responsible for management and reporting issues to the Board, relevant with the daily operations of the organization (Transport for London, 2016 a; FitchRatings, 2017).

For him, safety of the customers is the first priority. He states that, all the required resources and money for the assurance of a safe network will be available in the next 5 years (Transport for London, 2016 a).

### **3.3.6.2 Organization and Culture**

New model of organization is planned resulting in savings up to £2bn. Reduction of management layers and operation only of efficient functions are parts of this new model. In addition, the culture of the organization will be more commercial mind-set driven, where collaboration and diversity will be encouraged aiming to bring creativity and innovation to the organization (Transport for London, 2016 a).

## **3.4 Financial Analysis**

The financial analysis in this section will take place in the frames of TfL's Group data which is constituted by the following parts: London Streets, Taxi and Private Hire and the corporate center and its subsidiaries companies. The analysis will be also extended to TfL's segments such as underground, Buses, rails, Roads (Transport for London, 2016 a; Transport for London, 2016 b).

### **3.4.1 Assumptions**

#### **3.4.1.1 Financia Surplus/Deficit in Operations of the Group**

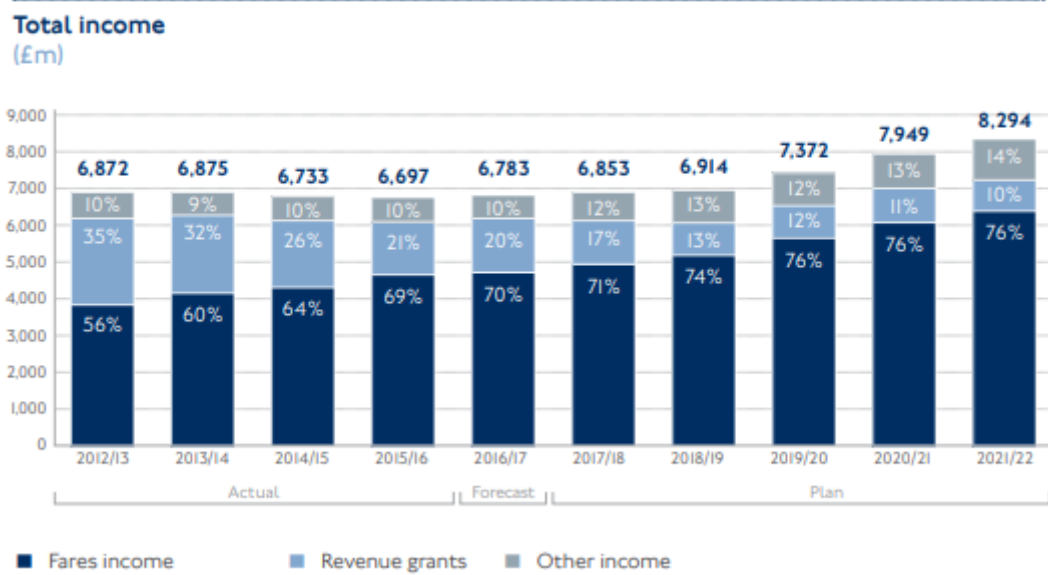
In appendix A.1, it can be found the projected Operating account of the group. The first main goal of TfL is to achieve a financial surplus in year 2020/2021 having considered also the capital renewals which are mainly the costs for supporting the needs of the network. The second goal is to break even meaning that all the costs including financing costs are covered by the group's income.

This is projected in 2021/2022, the 2nd year of the operation of the Elisabeth line(Transport for London, 2016 a).

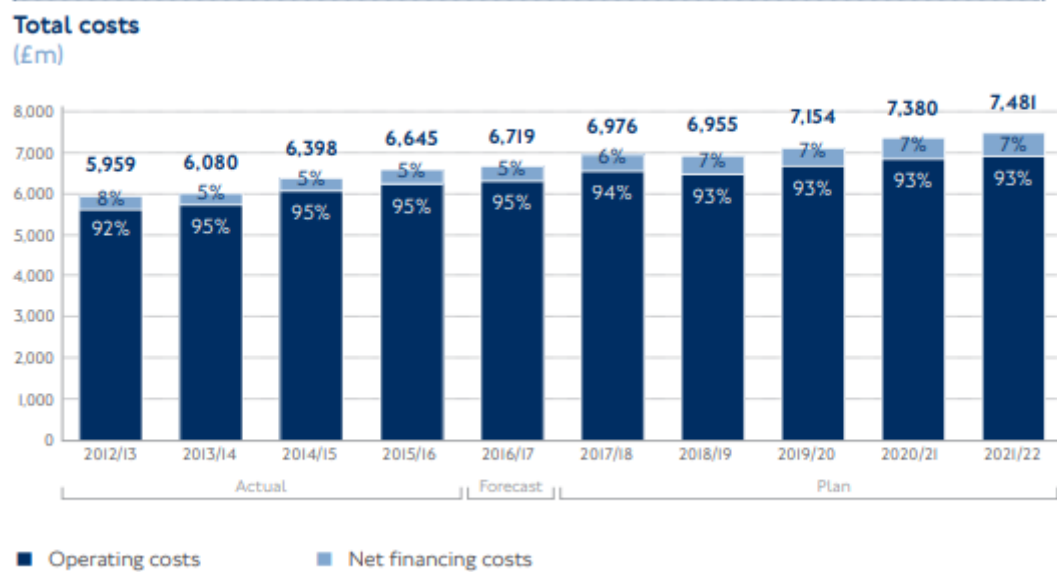
For achieving this projected goal, the following factors must be considered and also realized:

1. The fares income must be increased by an increased number of use of public transport. Bus service which the last years faces and a reduced performance must be improved and attract more passengers. This is an important factor taking into consideration the fares freeze, thus the fares revenues are projected to be increased based on the customers increment in volume and not in price(Transport for London, 2016 a).
2. The project of Elisabeth line must open on time in year 2019/2020 because a large part of fares income growth is based on the introduction of this line which is planned to serve 232 million passengers per year and in turn will cause fare revenue increment(Transport for London, 2016 a).
3. The operating grants of the government will be decreased till 2017/2018, and in year 2019/2020 will be phased out(FitchRatings, 2017; Transport for London, 2016 a).
4. The operating costs will be kept down with the implementation of cost reduction program which is planned to be saved £2bn by negotiating better with the suppliers, £2bn with the implementation of a new operating model with less management layers and other savings by scrutinizing the potential to decrease costs in all capital projects. The increment of the operating cost in the operating account is based on the needs of Elisabeth's line operation. However the costs are balanced with the increment on fares revenue(Transport for London, 2016 a).





**Figure 3.4.1.1.1** Trend Percentages of Total Income of the Group, Source Transport for London (2016 a, pp. 34)



**Figure 3.4.1.1.2** Trend Percentages of Total Costs of the Group, Source Transport for London (2016 a, pp. 35)

### 3.4.1.2 Divisional Level

#### 1. Underground

The financial Summary of the Underground Division is found in the Appendix A.3. The underground is planned to reach a financial surplus of £1.181bn in 2021/2022. Although the direct operating costs will be increased after 2020/2021 because of the opening of Elisabeth line, however, this will be an offset with the large increment of fares income, which is based on the Elisabeth line and the 11% increment on the capacity of rail's network(Transport for London, 2016 a).

## 2. Buses

The financial summary of Buses is found on the Appendix A.4. The bus is projected that will not manage to break even. Although the fares income is planned to be increased by improving the bus services (reduction of delays, safety and modernization of vehicles), however, the operating costs are also planned to be increased in 2020/2021 because of the introduction of Greener vehicles. The net operating deficit is projected to be £631m in 2021/2022(Transport for London, 2016 a).

## 3. Rail

The financial summary of Rail is found on the Appendix A.5. The Rail services are planned to succeed in breaking even. The decrease of fares income and operating costs after year 2019/2020 is based on the transfer of Elisabeth's Line financials to Underground sector. Because of the improvements in Overground, DLR and Tram, it is expected a 30% increase in fare income and a 22% increment in operating costs. The Net operating Surplus is projected to be £7m in 2021/2022(Transport for London, 2016 a).

## 4. Roads

The financial summary of Rail is found on the Appendix A.6. The Roads sector will not manage to break even. Although the operating income will be increased because of the increased entrance of chargeable vehicles in the Congestion Charge Zone. Although the operating costs are decreased

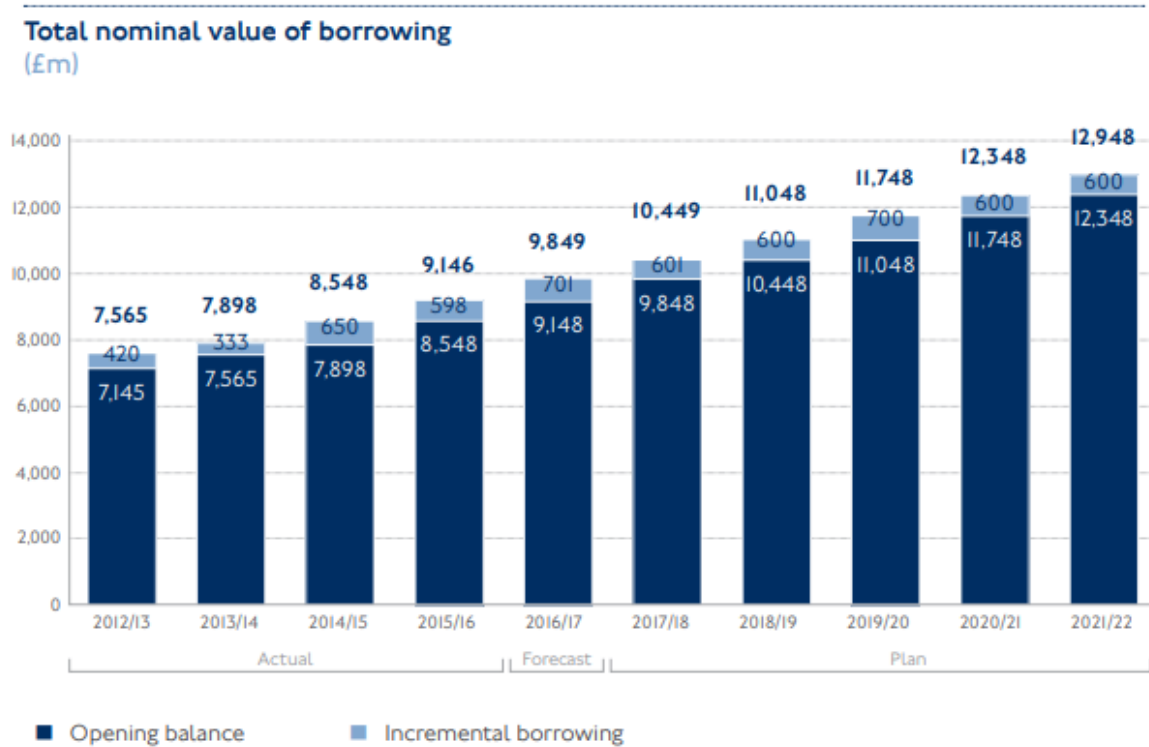
at average 1.5% annually, the operating income cannot cover all the costs. However, the operating deficit will be reduced in projected years reaching the £289m in 2021/2022(Transport for London, 2016 a).

#### 5. Other Operations

The financial summary of Other Operations is found on the Appendix A.7. The ULEZ program, the Emissions surcharge and charge schemes, as well as the increment of cycle hire and LSR, and the increment on licensing of taxi and private hire vehicles will cause a net operating surplus of £241m in 2021/2022. The surplus will support capital costs(Transport for London, 2016 a).

### 3.4.2 Funding Sources

One crucial part of TfL's revenue is its own resources such as fares and other operating income comes from its divisions. Another part of TfL's revenue is the governmental grants such as operating grants which are planned to stop at 2018/2019(Moody's Public Sector Europe, 2017). The Business rates retention received by GLA, is another funding source(Transport for London, 2016 b). The borrowing is planned to be increased by £600m to £700m every year. The incremental borrowing scheme has been agreed with HM Treasury(Transport for London, 2016 a). Despite the fact that the plan assumes an increment on debt for the following years, however, according to a recent funding settlement, TfL is able to borrow only when needs cash as a result the avoidance of not necessary interest costs(Moody's Public Sector Europe, 2017). The capital plan is covered by the following financial sources: Investment grants, funding sources relevant with the Elisabeth Line, borrowing sources and income based on property(FitchRatings, 2017).

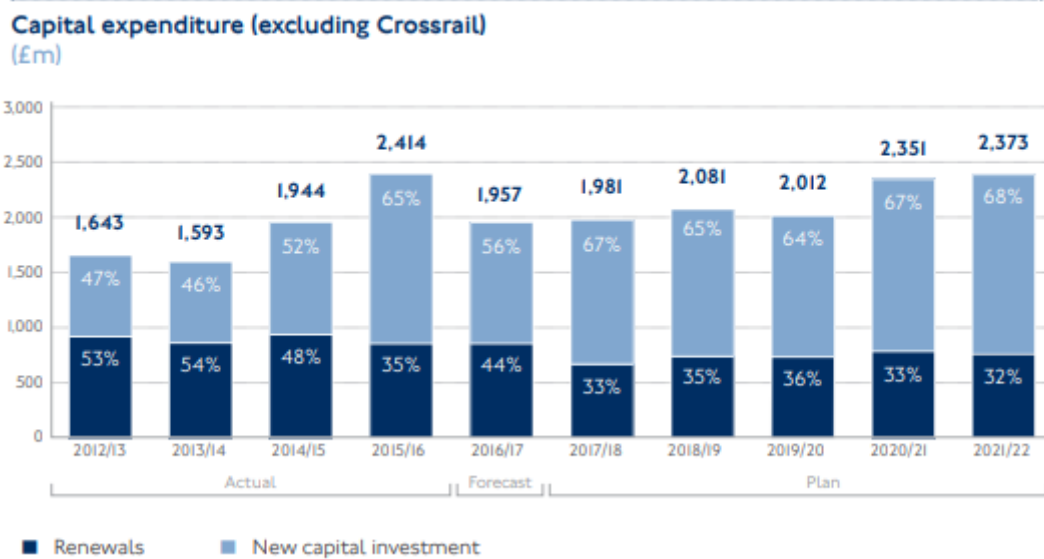


**Figure 3.4.2** Borrowing and Cash of the Group, Source Transport for London (2016 a, pp.38)

### 3.4.3 Capital Expenditures

#### 3.4.3.1 Group Level

In the Appendix A.2, it can be found the Group's Capital Account. The capital expenditures assumption will take place on group's as well as divisions' level. On the group's level, it is planned that the capital renewals will be kept on an average sum of £730m per year (projection 5 years) and the new capital investments, which are thought for the realization of this Business Plan's visions and projects, will be kept on average sum of £1.4bn annually. The bigger projects such as the Crossline 2 and the Elisabeth Line, Bakerloo line extension and the Silvertown tunnel require additional funds and thus their capital expenditures are not considered in this Business Plan(Transport for London, 2016 a).



**Figure 3.4.3.1** Trend Percentages of Capital Expenditure of the Group, Source Transport for London (2016 a, pp. 37)

### 3.4.3.2 Divisional Level

#### 1. Underground

The financial Summary of the Underground Division is found in the Appendix A.3. The Capital expenditure which is planned to be spent on average is £1.2bn annually. However, there is an increment to £1.5bn in 2021/2022 because of the improvement on the Tube services which mainly include(Transport for London, 2016 a):

- Infrastructure and network improvements(Transport for London, 2016 a)
- Expansion of the capacity, 9% increase by the end of 2021/2022, aiming to face the crowding problems and meet the needs of the growing population(Transport for London, 2016 a)
- More frequent train services and 530m train kms by the end of 2021/2022(Transport for London, 2016 a)

- Better air conditioned trains which can serve more people(Transport for London, 2016 a)
- Improved trains which offer wheelchair spaces and step free underground stations(Transport for London, 2016 a)
- Upgrade on energy storage technology and TfL’s power station at Greenwich aiming the reduction of energy use(Transport for London, 2016 a)

The trend on Total Capital Expenditure taking year 2016/2017 as basis year is the following(Transport for London, 2016 a):

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Total Capital Expenditure London Underground</b>	(1.141)	(1.059)	(1.064)	(0.998)	(1.289)	(1.521)
<b>Trend Percentage %</b>	100	92.81332	93.25153	87.46713	112.9711	133.3041

## 2. Buses

The financial summary of Buses is found on the Appendix A.4. The new capital investments are reduced after 2016/2017 when the purchases of New Routemaster buses will stop. The investments, however, will continue and will be focused on an air pollution reduction program by introducing 3.000 new vehicles (fully electric or hydrogen) which comply with low emission standards. Other key projects are improvements on Bus stations and increase on their accessibility at a rate of 95% by the end of 2017. In addition, it will be given great focus on the improvement of the infrastructure of the bus service aiming to offer a high quality and reliable service(Transport for London, 2016 a).

The trend of the capital expenditure of Buses taking as base year 2016/2017 is(Transport for London, 2016 a):

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Total Capital Expenditure Bus</b>	(0.082)	(0.043)	(0.056)	(0.058)	(0.054)	(0.040)
<b>Trend Percentage %</b>	100	52.43902	68.29268	70.73170	65.85365	48.78048

### 3. Rail

The financial summary of Rail is found on the Appendix A.5. The capital expenditure is planned to consider improvements in infrastructure projects. Overground extensions, better electrification and replacement of diesel with electric trains, new tramways connecting different parts of the city, are among the projects will be invested(Transport for London, 2016 a).

The trend of the capital expenditure of Rail taking as base year 2016/2017 is(Transport for London, 2016 a):

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Total Capital Expenditure Rail</b>	(0.275)	(0.43)	(0.449)	(0.240)	(0.176)	(0.069)
<b>Trend Percentage %</b>	100	156.36363	163.27272	87.27272	64	25.0909

### 4. Roads

The financial summary of Roads is found on Appendix A.6. The capital expenditure in this division will be spent for improvements on the road network introducing pedestrianisation, new road spaces, Healthy streets and more Cycling possibilities. The contribution of boroughs will be meaningful. The average sum of £190m investment is accounted per year(Transport for London, 2016 a).

The trend of the capital expenditure of Roads taking as base year 2016/2017 is(Transport for London, 2016 a):

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Total Capital Expenditure Roads</b>	0.279	0.230	0.255	0.379	0.459	0.393
<b>Trend Percentage %</b>	100	82.43727	91.39784	135.84229	164.51612	140.86021

## 5. Other Operations

The financial summary of other operations is found on Appendix A.7. The capital investments are increased, fast tripled, in the following 5 years. A large part of this increments is caused by the introduction of the ULEZ in 2017 project aiming to reduce the emissions. An investment of £80m will be provided to Taxi sector for the replacement of the vehicles with ZEC vehicles, complied with ULEZ, and to a new charging infrastructure. In addition, the Dial-a-Ride vehicles will be also ULEZ compliant. An investment will take place in the sector of cycle hire, meaning the Santander Cycles, by upgrading the infrastructure and replacing older models. New vessels will be purchased and new spaces will created improving the pier capacity of the river(Transport for London, 2016 a).

The trend of the capital expenditure of Other Operations taking as base year 2016/2017 is(Transport for London, 2016 a):

<b>£m</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Total Capital Expenditure Other Operations</b>	0.181	0.219	0.256	0.337	0.371	0.349
<b>Trend Percentage %</b>	100	120.99447	141.43646	186.18784	204.97237	192.81767

### 3.4.4 Financial Ratios

#### 3.4.4.1 Liquidity

The projected Balance Sheet of the Group is found in Appendix A.8. For the calculation of Liquidity ratios, are used values found on the projected Balance Sheet. The formulas of the ratios used have been found in the book Accounting Principles 11<sup>th</sup> edition of (Powers, Needles, Crosson, 2011).



Tfl Group (£m)	Actual 2015/2016	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Current Assets	4.652	3.392	2.426	2.018	1.923		2.132
Current Liabilities	3.356	2.985	3.245	3.419	3.316		3.238
Cash and Short-term Investments	3.314	1.8	1.806	1.43	1.439		1.648
Total Assets	40.867	41.608	42.695	43.696	44.745		46.22
Total Liabilities	15.631	15.887	16.668	17.356	17.863		18.323
Working Capital	1.296	0.407	-0.819	-1.401	-1.393		-1.106
Current Ratio	1.386174	1.13634841	0.74761171	0.59023106	0.57991556		0.65843113
Quick Ratio	0.9874851	0.60301508	0.55654854	0.41825095	0.43395657		0.508956146

It is observed that the working capital, Current Ratio and Quick Ratio face the highest decrease till year 2019/2020. After the year 2019/2020, the rates are increased because of the introduction of the Elisabeth Line.

### 3.4.4.2 Debt Ratio

The Debt ratio formula was found in Investopedia.

Tfl Group (£m)	Actual 2015/2016	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Total Assets	40.867	41.608	42.695	43.696	44.745	46.22	48.123
Total Liabilities	15.631	15.887	16.668	17.356	17.863	18.323	19.232
Debt Ratio	0.382484645	0.3818256	0.390397	0.3971988	0.3992178	0.3964301	0.3996426

The borrowing will be increased for the realization of the projects such as Underground optimization and capacity increase, Elisabeth Line and cycling infrastructure(Transport for London, 2016 a).

### 3.4.4.3 Reliance on Governmental Grants

The formula used is:

$$\frac{\text{Total Government Grants}}{\text{Total Income}} \text{ (Propel Nonprofits)}$$

Where the total income includes grants. The values can be found in the Operating Account of the Group in Appendix A.1.

Tfl Group (£m)	Actual 2015/2016	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Total grants	1.437	1.358	1.155	0.909	0.891	0.86	0.86
Total Income	6.697	6.783	6.853	6.914	7.372	7.949	8.294
Total grants/Total Income	0.21457369	0.2002064	0.1685393	0.1314724	0.1208627	0.1081897	0.1036894

The ratio is decreased which proves a greater autonomy for the Tfl.

#### 3.4.4.4 Earned Income Ratio

The formula used is:

$$\frac{\text{Earned Income}}{\text{Total Income}} \text{ (Propel Nonprofits)}$$

Where the Earned income is from Tfl's own resources such as Fares Income and other Operating Income.

Tfl Group (£m)	Actual 2015/2016	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Earned Income	5.26	5.425	5.698	6.005	6.481	7.089	7.434
Total Income	6.697	6.783	6.853	6.914	7.372	7.949	8.294
Earned Income/Total Income	0.78542631	0.7997936	0.8314607	0.8685276	0.8791373	0.8918103	0.8963106

The ratio is increased because of the increment on Earned Income which shows a greater autonomy and flexibility for Tfl(Propel Nonprofits).

#### 3.4.4.5 Self Sufficiency Ratio and Farebox Recovery Ratio

The formula used for Self Sufficiency Ratio is:

$$\frac{\text{Earned Income}}{\text{Operating Expenses}} \text{ (Propel Nonprofits)}$$

The formula used for Farebox Recovery Ratio is:

$$\frac{\text{Fare Revenues}}{\text{Operating Expenditures}} \text{ (Moody's Public Sector Europe, 2017)}$$

The analysis here will take place on divisional level

Tfl Group (£m)	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Earned Income Underground	2.843	2.96	3.057	3.137	4.002	4.202
Fares Income Underground	2.667	2.766	2.853	2.932	3.761	3.947
Earned Income Buses	1.55	1.581	1.642	1.707	1.765	1.845
Fare Income Buses	1.503	1.535	1.596	1.661	1.717	1.797
Earned Income Rail	0.548	0.584	0.695	0.993	0.555	0.586
Fare Income Rail	0.52	0.552	0.65	0.949	0.534	0.565
Earned Income Roads	0.315	0.391	0.403	0.393	0.383	0.387
Fare Income Roads	0	0	0	0	0	0
Earned Income Other Operations	0.168	0.182	0.207	0.249	0.385	0.414
Fare Income Other Operations	0.033	0.024	0.02	0.02	0.018	0.018
Operating Expenses Underground	-2.637	-2.726	-2.531	-2.582	-3.035	-3.021
Operating Expenses Buses	-2.153	-2.187	-2.246	-2.307	-2.445	-2.476
Operating Expenses Rail	-0.587	-0.625	-0.821	-0.961	-0.564	-0.579
Operating Expenses Roads	-0.733	-0.754	-0.729	-0.724	-0.683	-0.676
Operating Expenses Other Operations	-0.245	-0.271	-0.174	-0.1	-0.135	-0.173
Self Sufficiency Ratio Underground	1.0781191	1.0858401	1.207823	1.2149497	1.3186161	1.3909302
Farebox Recovery Ratio Underground	1.0113766	1.0146735	1.1272224	1.1355538	1.2392092	1.306521
Self Sufficiency Ratio Buses	0.7199257	0.7229081	0.7310775	0.739922	0.7218814	0.7451535
Farebox Recovery Ratio Buses	0.6980957	0.7018747	0.7105966	0.7199827	0.7022495	0.7257674
Self Sufficiency Ratio Rail	0.9335605	0.9344	0.8465286	1.0332986	0.9840426	1.0120898
Farebox Recovery Ratio Rail	0.8858603	0.8832	0.7917174	0.987513	0.9468085	0.9758204
Self Sufficiency Ratio Roads	0.4297408	0.5185676	0.5528121	0.5428177	0.5607613	0.5724852
Farebox Recovery Ratio Roads	0	0	0	0	0	0
Self Sufficiency Ratio Other Operations	0.6857143	0.6715867	1.1896552	2.49	2.8518519	2.3930636
Farebox Recovery Ratio Other Operations	0.1346939	0.0885609	0.1149425	0.2	0.1333333	0.1040462

In general, the increment of the ratios is based on the assumption that the fares income will be increased as well as other operating incomes. The costs will incremented but there will be an offset with the incremented earned income(Transport for London, 2016 a).

### 3.4.4.6 Operating Profits and Operating Expenses

The following rate formula will be used:

$$\frac{\text{Net Operational Surplus/Deficit}}{\text{Operating Revenues}} \quad (\text{Moody's Public Sector Europe, 2017})$$

Where the Operating Surplus is the Operating Revenues – Operating Costs (Moody's Public Sector Europe, 2017).

The analysis will take place on divisional level:

Tfl Group (£m)	Forecast 2016/2017	Plan 2017/2018	Plan 2018/2019	Plan 2019/2020	Plan 2020/2021	Plan 2021/2022
Earned Income Underground	2.843	2.96	3.057	3.137	4.002	4.202
Operating Expenses Underground	-2.637	-2.726	-2.531	-2.582	-3.035	-3.021
Earned Income Buses	1.55	1.581	1.642	1.707	1.765	1.845
Operating Expenses Buses	-2.153	-2.187	-2.246	-2.307	-2.445	-2.476
Earned Income Rail	0.548	0.584	0.695	0.993	0.555	0.586
Operating Expenses Rail	-0.587	-0.625	-0.821	-0.961	-0.564	-0.579
Earned Income Roads	0.315	0.391	0.403	0.393	0.383	0.387
Operating Expenses Roads	-0.733	-0.754	-0.729	-0.724	-0.683	-0.676
Earned Income Other Operations	0.168	0.182	0.207	0.249	0.385	0.414
Operating Expenses Other Operations	-0.245	-0.271	-0.174	-0.1	-0.135	-0.173
Net Operating Surplus/Deficit Underground	0.206	0.234	0.526	0.555	0.967	1.181
Net Operating Surplus/Deficit Buses	-0.603	-0.606	-0.604	-0.6	-0.68	-0.631
Net Operating Surplus/Deficit Rail	-0.039	-0.041	-0.126	0.032	-0.009	0.007
Net Operating Surplus/Deficit Roads	-0.418	-0.363	-0.326	-0.331	-0.3	-0.289
Net Operating Surplus/Deficit Other Operations	-0.077	-0.089	0.033	0.149	0.25	0.241
Net Operating Surplus or Deficit/Operating Revenues Underground	0.0724587	0.0790541	0.1720641	0.1769206	0.2416292	0.2810566
Net Operating Surplus or Deficit/Operating Revenues Buses	-0.3890323	-0.383302	-0.3678441	-0.351494	-0.385269	-0.342005
Net Operating Surplus or Deficit/Operating Revenues Rail	-0.0711679	-0.070205	-0.181295	0.0322256	-0.016216	0.0119454
Net Operating Surplus or Deficit/Operating Revenues Roads	-1.3269841	-0.928389	-0.808933	-0.842239	-0.78329	-0.74677
Net Operating Surplus or Deficit/Operating Revenues Other Operations	-0.4583333	-0.489011	0.1594203	0.5983936	0.6493506	0.5821256

The positive ratios indicate that the operating revenues can cover the operating expenses. The ratios such as in Buses and Roads Divisions although negative, however they are decreased annually(Transport for London, 2016 a).

# Chapter 4

## 4 Results Based on the Case Study

### 4.1 Results Based on TfL's Business Plan

The Business Plan of TfL which was published on December 2016 can be characterized ambitious. It is mainly focused on how TfL will succeed a break even in the operating account without affecting its daily services. In short term, the increase of passengers in Bus network and in medium term the Elisabeth Line, are expected to increase the fares income. In addition, the cost reduction program of the organization will cause extra savings(Rail Technology Magazine, 2016). However, taking into consideration the fact that the government's operating grants are reduced and are planned to be phased out in 2019/2020, the fares will be kept frozen and the economic uncertainty result of the Brexit, it is clear that many challenges will be faced while the implementation of the plan(FitchRatings, 2017; Transport for London, 2016 a).

The ratios calculated in the financial section of the Business plan, can provide a picture of the current and projected financial situation of TfL. Starting with liquidity ratios, there will be a decline till year 2019/2020 and an increase afterwards mainly because of the introduction of Elisabeth Line and the increased network capacity. According to the evaluation of Moody's Public Sector Europe (2017), the liquidity position of TfL is protected by its ability to borrow from the Public Works Loan Board as statutory organization or other investor bases such as European investment Bank. The debt ratio is increased because of the large program of investments, expansion of services and in turn more debts. Although the debt is considered high, however the TfL has specific borrowing limits which offers a predictability to its debts(Moody's Public Sector Europe, 2017).

The Reliance on Governmental Grants ratio is decreased revealing greater autonomy and flexibility for TfL in the next 5 years. However, this is based on the assumption that the total income is increased while the grants are decreased. A credit challenge is the hypothesis that the income is not increased as projected, because of different risks, considering that the operating grants are phased out in 2019/2020(Moody's Public Sector Europe, 2017). Autonomy also shows the increased earned income ratio because of the growing income based on fares and other operations of TfL. However, as long as the earned income mainly represents the fare income or income from other Operations of TfL, in case the projections of income fail, the autonomy and flexibility of TfL will be affected.

The Self Sufficiency Ratio and Farebox Recovery Ratio will be increased basically because of the projected increased income. The increase in Farebox Recovery Ratio is based on the projected increased Fare revenues and the costs. However, taking into consideration the frozen fares and the hypothesis that the projected increase in fare income does not take place as expected, then the TfL must show its flexibility and its ability to cut costs(S&P Global Ratings, 2017).

According to operating profits and expenses it is expected a break even generally in the group. On Divisional level, the roads and the busses it is expected to fail to break even(Transport for London, 2016 a). However, the projected results are directly influenced by the fares income and the costs which can change in case of a variation.

It is clearly shown that for the accomplishment of the projected financial goals, it is of a great importance that the fare income will be increased, the projects such as capacity expansion and Elisabeth Line will be delivered on time and the organizational costs will be reduced. Any variation of these parameters can affect the flexibility as well as the implementation of the investment projects. Particularly, in case the fares are not increased, then the TfL can cut or delay capital expenditures and services, change the fares or other concession terms, in

other words the TfL will not be able to achieve the goals of this Business Plan(FitchRatings, 2017).

A factor which may cause variations in the projections in the future is the possible risks such as Brexit. Although risks are mentioned in the Business plan however the possible impacts are not clearly defined. The consequences of the risks and especially Brexit to either income or expenditures of TfL should be analyzed further in the future(Transport for London, 2016 a).

# Chapter 5

## 5 Conclusions

The first Chapter was focused on the study of entrepreneurship. Entrepreneurship was found that it is expressed by different views and approaches on the literature(Christofor, 2008). There are theories that see Entrepreneurship as a self-employment with non-fixed earnings(Volkman, Tokarski, Grünhagen, 2010), others that connect entrepreneurship with risk taking and confrontation of uncertainties(Yamada, 2004). Entrepreneur is often faced as innovator, a business leader who promotes economic development(Cieślik, 2017). Economic success, wealth creation and independence is another connection with entrepreneurship(Volkman, Tokarski, Grünhagen, 2010). An entrepreneur has to sacrifice time and take risks in all levels in order to be succeed(Volkman, Tokarski, Grünhagen, 2010). It was clearly shown that entrepreneurship is a complex phenomenon with a no unified definition(Christofor, 2008).

But what is the basic motivation factors of entrepreneurship according to literature? It was found that there are two basic categories, the push and the pull factors. The pull factors are viewed positively and mainly express the creativity, innovation and independence as key drivers of entrepreneurship. Other necessity factors such as work related motivation in the absence of other opportunities or obligatory family tradition are the push factors(Kirkwood, 2009; Dawson, Henley, 2012).

The first chapter was also concentrated on the different types of entrepreneurs based on different ways of classification. According to Danhof's classification, the entrepreneur may be Innovative by seeking new ideas and products, Adoptive by imitating implemented technologies, Fabian by being skeptic cautious to any



change and Drone by being negative to any change(Veerabhadrapa, 2009; Gordon, Natarajan, Arora, 2009). According to Cole's Classification, the entrepreneur may be Empirical such as Drone entrepreneurs, Rational by being guided by their field knowledge and Cognitive by trusting the opinion of qualified expertise individuals(Gordon, Natarajan, Arora, 2009). There are other types of classification mainly based on the activities of Entrepreneurs and the type of business or technology they are focused(Vasant, 2008).

The analysis was further extended to the role of entrepreneurship in economic development which was proven to be very important. In the frames of entrepreneur as innovator, risk taker and coordinator, new enterprises, new production methods as well as positions are generated which in turn reduce the rate of unemployment and lead to economic growth(Tomaa, Grigorea, Marinescua, 2014; Gordon, Natarajan, Arora, 2009). But which are these personality traits that characterize the successful entrepreneurs, it was another area of focus. I was found that not only the personality traits are crucial for the success but also the background characteristics such as prior experience and knowledge are of great importance(Dvir, Sadeh, Pines, Shenhar, 2009; Cantner, Goethner, Meder, 2010).

Another key to entrepreneurial success was found to be the process of a Business Plan, which was the focus of the second chapter. A business plan was found to be an important business tool which offers directions and a rational picture of the company, taking into consideration the internal as well as the external environment of the business(Sutton, 2012; Haag, 2013). It was also shown that it offers critical functions such as: support for obtaining external financial resources, determination of every possible resources that may be needed, right directions based on evaluations of the outcomes, finding partners to join the board(Hisrich, Ramadani, 2017).

However, it was found that not all the Business Plans are considered successful either because there are more optimistic than needed or not realistic. It was also

found that a successful business plan is mainly focused on the following factors: people (persons that constitute the organization and their insights and experience), opportunity (market attractiveness), context (such as macroeconomic environment or technology) and risk and exit options(Sahlman, 1997).

The second chapter was also concentrated on the process as well as the main elements of a business plan. It was found that a business plan is an organic document which must be updated with the most current information. It must be also adapted based on the audience interests and preferences(Haag, 2013). The main components of a Business plan was found to be the following: Cover Sheet, Executive Summary, Table of Contents, 1<sup>st</sup> Section: Business, 2<sup>nd</sup> Section: Financial Data, 3<sup>rd</sup> Section: Supportive Documents(Bangs, 2001). The executive summary offers the basic parts of a business plan and was found to be important because it can trigger the interest of the audience as long as it is usually reviewed first(Haag, 2013). The business section was found to be relevant with the business the company is involved, the products and the services are developed, marketing strategies, its operations, competition, risk and opportunities analysis as well as management and organizational issues(Bangs, 2001). The financial section was found that it is mainly focused on financial data of the company such as balance sheet, income statement, cash flow, break even analysis. The projections may take place on daily, monthly, quarterly or yearly basis and must be kept realistic. It was found, that the aim of this section is to prove that the company is able to make profits as well as pay its bills(Bangs, 2001).

The third chapter was the practical implementation of the theory. The case study that was examined was the Business plan of Transport for London. The mainly purpose of TfL's business plan was to describe the vision of Mayor's of London, Sadiq Khan, which is a more affordable, accessible, healthier and safer for all people London. For the realization of Mayor's vision, a great investment program is going to be implemented. The TfL is a public body for this reason all the

earning profits are reinvested for the extra development and operation of the organization(Transport for London, 2016 a).

For the development of the business plan the data mentioned were based on the information and data provided on Transport for London (2016 a). In addition, the format and the development of the business plan was also based on the theoretical data provided in the second chapter.

It was found that the main goal of this Business plan was to break even in the operation account of TfL. The growing population of London, requires a greater public transportation capacity which in turn causes greater fare income. Projects such as the Elisabeth Line aim to serve the growing population of London. In addition, improvements in the infrastructure of the network such as step free accessibility in all stations, improvements in technological areas and ticketing systems, Bus network improvements aim to cause an increased fare income. Extra savings are planned to offer the cost reduction program of the organization. Taking all the above factors into consideration and the economic analysis that was provided such as ratios analysis, the TfL plans to break even in year 2021/2022 without affecting its daily services(Transport for London, 2016 a).

It was also shown that for the accomplishment of this business plan's goals, the following factors are of great importance: the fare income will be increased as expected, the projects will be delivered timely and the organizational costs will be kept reduced. In case there are deviations, then there is possibility that TfL fails to accomplish all its goals(FitchRatings, 2017). Brexit or other risks can be source of deviations which although mentioned however they are not clearly defined. This should be analyzed and researched further in the future(Transport for London, 2016 a).

# Appendix A

## A.1 Group's Operating Account

TfL Group	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	4.587	4.723	4.877	5.12	5.563	6.03	6.327
Other Operating Income	673	702	821	885	918	1.059	1.107
<b>Total Operating Income</b>	<b>5.26</b>	<b>5.425</b>	<b>5.698</b>	<b>6.005</b>	<b>6.481</b>	<b>7.089</b>	<b>7.434</b>
General Grant	591	447	228	-	-	-	-
Business Rates Retention	773	854	854	854	854	854	854
Other Revenue Grants	73	57	73	55	37	6	6
<b>Total Income</b>	<b>6.697</b>	<b>6.783</b>	<b>6.853</b>	<b>6.914</b>	<b>7.372</b>	<b>7.949</b>	<b>8.294</b>
Operating Costs	-6.299	-6.356	-6.563	-6.502	-6.671	-6.863	-6.925
<b>Net Operating Surplus</b>	<b>398</b>	<b>427</b>	<b>290</b>	<b>412</b>	<b>701</b>	<b>1.086</b>	<b>1.369</b>
Capital Renewals	-853	-857	-659	-737	-728	-767	-753
<b>Net Cost of Operations before Financing</b>	<b>-455</b>	<b>-430</b>	<b>-369</b>	<b>-325</b>	<b>-27</b>	<b>319</b>	<b>616</b>
Net Financing Costs	-346	-363	-413	-453	-483	-517	-556
<b>Net Cost of Operations</b>	<b>-801</b>	<b>-793</b>	<b>-782</b>	<b>-778</b>	<b>-510</b>	<b>-198</b>	<b>60</b>

**Figure A.1** The Operating Account of the Group, Source Transport for London (2016 a, pp. 26)

## A.2 Group's Capital Account

TfL Group	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
New Capital Investment	-1.561	-1.1	-1.322	-1.344	-1.284	-1.584	-1.62
Crossrail	-1.506	-1.597	-987	-360	-101	-17	-12
<b>Total Capital Expenditure</b>	<b>-3.067</b>	<b>-2.697</b>	<b>-2.309</b>	<b>-1.704</b>	<b>-1.385</b>	<b>-1.601</b>	<b>-1.632</b>
<b>Financed by:</b>							
Investment Grant	925	944	960	976	993	1.01	1.042
Property Income	407	25	77	100	80	180	389
Borrowing	598	701	601	600	700	601	601
Crossrail Funding Sources	963	138	300	166	46	156	108
Other Capital Grants	132	141	214	199	109	82	69
<b>Total</b>	<b>3.025</b>	<b>1.949</b>	<b>2.152</b>	<b>2.041</b>	<b>1.928</b>	<b>2.029</b>	<b>2.209</b>
<b>Net Capital Account</b>	<b>-42</b>	<b>-748</b>	<b>-157</b>	<b>337</b>	<b>543</b>	<b>428</b>	<b>577</b>

**Figure A.2** The Capital Account of the Group, Source Transport for London (2016 a, pp. 27)

## A.3 Financial Summary of London's Underground

TfL Underground	Forecast	Plan	Plan	Plan	Plan*	Plan*
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	2.667	2.766	2.853	2.932	3.761	3.947
Other Operating Income	177	194	204	205	241	255
<b>Total Operating Income</b>	<b>2.843</b>	<b>2.96</b>	<b>3.057</b>	<b>3.137</b>	<b>4.002</b>	<b>4.202</b>
Direct Operating Cost	-2.207	-2.292	-2.154	-2.204	-2.645	-2.638
Indirect Operating Cost	-430	-434	-377	-378	-390	-383
<b>Net Operating Surplus</b>	<b>206</b>	<b>234</b>	<b>526</b>	<b>555</b>	<b>967</b>	<b>1.181</b>
Capital Renewals	-491	-318	-319	-379	-400	-456
New Capital Investment	-650	-741	-745	-619	-889	-1.065
<b>Total Capital Expenditure</b>	<b>-1.141</b>	<b>-1.059</b>	<b>-1.064</b>	<b>-998</b>	<b>-1.289</b>	<b>-1.521</b>
*Elisabeth Line will be considered from April 2020						

**Figure A.3** The Financial Summary of the London Underground, Source Transport for London (2016 a, pp. 45)

## A.4 Financial Summary of Buses

TfL Buses	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	1.503	1.535	1.596	1.661	1.717	1.797
Other Operating Income	46	46	46	46	48	48
<b>Total Operating Income</b>	<b>1.55</b>	<b>1.581</b>	<b>1.642</b>	<b>1.707</b>	<b>1.765</b>	<b>1.845</b>
Direct Operating Cost	-2.082	-2.12	-2.187	-2.245	-2.382	-2.412
Indirect Operating Cost	-71	-67	-59	-62	-63	-64
<b>Net Operating Deficit</b>	<b>-604</b>	<b>-606</b>	<b>-604</b>	<b>-600</b>	<b>-680</b>	<b>-631</b>
Capital Renewals	-13	-14	-30	-23	-42	-39
New Capital Investment	-69	-29	-26	-35	-12	-1
<b>Total Capital Expenditure</b>	<b>-82</b>	<b>-43</b>	<b>-56</b>	<b>-58</b>	<b>-54</b>	<b>-40</b>

**Figure A.4** The Financial Summary of Buses, Source Transport for London (2016 a, pp.53)

## A.5 Financial Summary of Rail

TfL Rail	Forecast*	Plan*	Plan*	Plan*	Plan	Plan
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	520	552	650	949	534	565
Other Operating Income	28	32	45	44	21	21
<b>Total Operating Income</b>	<b>548</b>	<b>584</b>	<b>695</b>	<b>993</b>	<b>555</b>	<b>586</b>
Direct Operating Cost	-553	-592	-792	-931	-533	-548
Indirect Operating Cost	-34	-33	-29	-30	-31	-31
<b>Net Operating (Deficit)/Surplus</b>	<b>-39</b>	<b>-41</b>	<b>-126</b>	<b>32</b>	<b>-9</b>	<b>7</b>
Capital Renewals	-139	-149	-153	-108	-81	-44
New Capital Investment	-137	-281	-296	-132	-95	-25
<b>Total Capital Expenditure</b>	<b>-275</b>	<b>-430</b>	<b>-449</b>	<b>-240</b>	<b>-176</b>	<b>-69</b>
*The net operating result considers TfL Rail/Crossrail tiil 31.03.2020. Afterwards it is considered on Underground						

**Figure A.5** The Financial Summary of the Rail, Source Transport for London (2016 a, pp. 59)

## A.6 Financial Summary of Roads

TfL Roads	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	-	-	-	-	-	-
Other Operating Income	315	391	403	393	383	387
<b>Total Operating Income</b>	<b>315</b>	<b>391</b>	<b>403</b>	<b>393</b>	<b>383</b>	<b>387</b>
Direct Operating Cost	-650	-666	-654	-648	-604	-598
Indirect Operating Cost	-83	-88	-75	-76	-79	-78
<b>Net Operating Deficit</b>	<b>-418</b>	<b>-363</b>	<b>-326</b>	<b>-331</b>	<b>-300</b>	<b>-289</b>
Capital Renewals	-131	-107	-133	-151	-178	-167
New Capital Investment	-148	-123	-122	-228	-281	-226
<b>Total Capital Expenditure</b>	<b>-279</b>	<b>-230</b>	<b>-255</b>	<b>-379</b>	<b>-459</b>	<b>-393</b>

**Figure A.6** The Financial Summary of Roads, Source Transport for London (2016 a, pp. 65)

## A.7 Financial Summary of Other Operations

TfL Other Operations	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Fares Income	33	24	20	20	18	18
Other Operating Income	135	158	187	229	367	396
<b>Total Operating Income</b>	<b>168</b>	<b>182</b>	<b>207</b>	<b>249</b>	<b>385</b>	<b>414</b>
Direct Operating Cost	-230	-255	-160	-86	-121	-159
Indirect Operating Cost	-15	-16	-14	-14	-14	-14
<b>Net Operating (Deficit)/Surplus</b>	<b>-77</b>	<b>-89</b>	<b>33</b>	<b>149</b>	<b>250</b>	<b>241</b>
Capital Renewals	-84	-71	-101	-67	-65	-46
New Capital Investment	-97	-148	-155	-270	-306	-303
<b>Total Capital Expenditure</b>	<b>-181</b>	<b>-219</b>	<b>-256</b>	<b>-337</b>	<b>-371</b>	<b>-349</b>

**Figure A.7** The Financial Summary of Other Transport Operations, Source Transport for London (2016 a, pp. 71)

## A.8 Balance Sheet of the Group

TfL Group Balance Sheet	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
£m	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Intangible Assets	123	95	50	42	39	39	38
Property, Plant & Equipment	34.402	37.066	39.145	<b>40.539</b>	41.682	42.948	44.299
Investment Properties	518	515	515	513	513	513	513
Investment in Associate Entities	473	495	510	525	525	525	525
Long-term Derivatives	7	11	11	11	11	11	11
Long-term Debtors	692	34	38	48	52	52	52
<b>Non-Current Assets</b>	<b>36.215</b>	<b>38.216</b>	<b>40.269</b>	<b>41.678</b>	<b>42.822</b>	<b>44.088</b>	<b>45.438</b>
Stocks	71	74	74	76	79	81	83
Short-term Debtors	1.262	1.506	534	500	393	391	383
Short-term Derivatives	5	12	12	12	12	12	12
Cash & Short-term Investments	3.314	1.8	1.806	1.43	1.439	1.648	2.207
<b>Current Assets</b>	<b>4.652</b>	<b>3.392</b>	<b>2.426</b>	<b>2.018</b>	<b>1.923</b>	<b>2.132</b>	<b>2.685</b>
Short-term Creditors	-2.188	-1.972	-2.33	-2.525	-2.423	-2.347	-2.701
Short-term Derivatives	-21	-9	-4	-4	-4	-4	-4
Short-term Borrowings	-832	-832	-832	-832	-832	-832	-832
Short-term lease Liabilities	-94	-75	-43	-41	-40	-38	-38
Short-term Provisions	-221	-97	-36	-17	-17	-17	-17
<b>Current Liabilities</b>	<b>-3.356</b>	<b>-2.985</b>	<b>-3.245</b>	<b>-3.419</b>	<b>-3.316</b>	<b>-3.238</b>	<b>-3.592</b>
Long-term Creditors	-80	-91	-90	-90	-89	-89	-89
Long-term Borrowings	-8.281	-8.983	-9.584	-10.186	-10.887	-11.488	-12.09
Long-term lease Liabilities	-565	-500	-452	-384	-318	-258	-224
Long-term Derivatives	-95	-97	-95	-89	-75	-72	-59
Other Provisions	-46	-31	-15	-14	-14	-14	-14
Pension Provision	-3.208	-3.2	-3.187	-3.174	-3.164	-3.164	-3.164
<b>Long-term Liabilities</b>	<b>-12.275</b>	<b>-12.902</b>	<b>-13.423</b>	<b>-13.937</b>	<b>-14.547</b>	<b>-15.085</b>	<b>-15.64</b>
<b>Total Net Assets</b>	<b>25.236</b>	<b>25.721</b>	<b>26.027</b>	<b>26.34</b>	<b>26.882</b>	<b>27.897</b>	<b>28.891</b>
<b>Capital &amp; Reserves</b>							
Usable Reserves	3.233	2.061	1.698	1.221	1.148	1.396	1.544
Unusable Reserves	22.003	23.66	24.329	25.119	25.734	26.501	27.347
<b>Total Capital Employed</b>	<b>25.236</b>	<b>25.721</b>	<b>26.027</b>	<b>26.34</b>	<b>26.882</b>	<b>27.897</b>	<b>28.891</b>

**Figure A.8** The Projected Balance Sheet of the Group, Source Transport for London (2016 a, pp. 74)



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