RECENT J. (2019), 58:048-055
https://doi.org/10.31926/RECENT.2019.58.048

Management of Business' Development

Nicolae BOIAN
Transilvania University of Brasov, Romania, nicolae.boian@unitbv.ro

Abstract
The present paper is a systematization of business' development management through the scientific modelling of the phenomenon. Strategic modelling in development management aims to evaluate investment plan in order to achieve a scientific justification in favour of the CEO's decision to trigger it or not. The main instrument of evaluation is the economic-financial diagnosis. The method used in diagnosis is the criterion type with the weighting of parameters according to their potential multiplier on the business development. Diagnosis development model contain domains, sub-domains, criteria and technical-economic indicators. The specific business development model has particularities as well the high determination of market, relationship, production and financial resources domains in evaluation. Also, the high significance of the business growth criteria in the internal resources' evaluation and of the financial balance criteria in attracting resources from external sources. The weighting of domains and sub-domains in evaluation is made according to the predominance of development need and available resources in the investment decision. The weighting of each criteria takes into account his contribution in meeting the development plan objectives. A significance score of criteria are calculated by multiplying the criterion status (Pi) with these two coefficients establishing a hierarchy of criteria in the development plan. Finally, the paper provides an interpretation of the criteria contribution to development, based on the calculated score. A case study is presented for how to apply the method.

Keywords
development, business, diagnosis, criterion, coefficient of importance, score

1. Introduction

The development of a business most often means the implementation of an investment plan meant to increase the level of activity of the company and to put it in a higher state of profitability. In the absence of a business development plan, it is estimated, in the short term, its ceiling at the maximum level determined by that of the available resources and in the medium and long term, its decline caused by the wear of the factors of production.

The decision to develop a business is therefore a strategic decision given the long-term effects of the investment process and its uniqueness, "*because the demand situation created by fulfilling the decision, can only be corrected by solving another decision problem, but in conditions other than the initial ones*" [1].

The development decision is influenced by a number of initial conditions, among which the most important are: the position of the products on their life curve, the state of the market (demand, supply, price, competition) and the enterprise's economic investment capacity.

From the point of view of the position of the products on their life curve, the decision to develop a business is optimal to be taken at that moment when, from a financial point of view, the first two symptoms of the ceiling of the products are highlighted: the reduction of the growth rate of sales. (turnover) and increased manufacturing costs, both with consequences in diminishing profit. If the first is due to the depreciation of the positioning of the products in relation to the market (moral wear), the second indicates a depreciation of the assets (physical wear). The situation is shown as in figure 1, curves 1 and 3.

The decision to develop the business has delayed consequences on sales (curve 2) and immediate on profit (curve 4), due to the expenses incurred in the business development project. Thus, as shown in Figure 1, the optimal period for business development is between the T0 and T1 moments, of maximum profit. Any delay of this interval increases the risk of the inability of the financial resources to ensure the financing of the development plan. In addition, the delay affects the size of the development plan, by limiting it to the level of financial resources available at the time of the investment start.

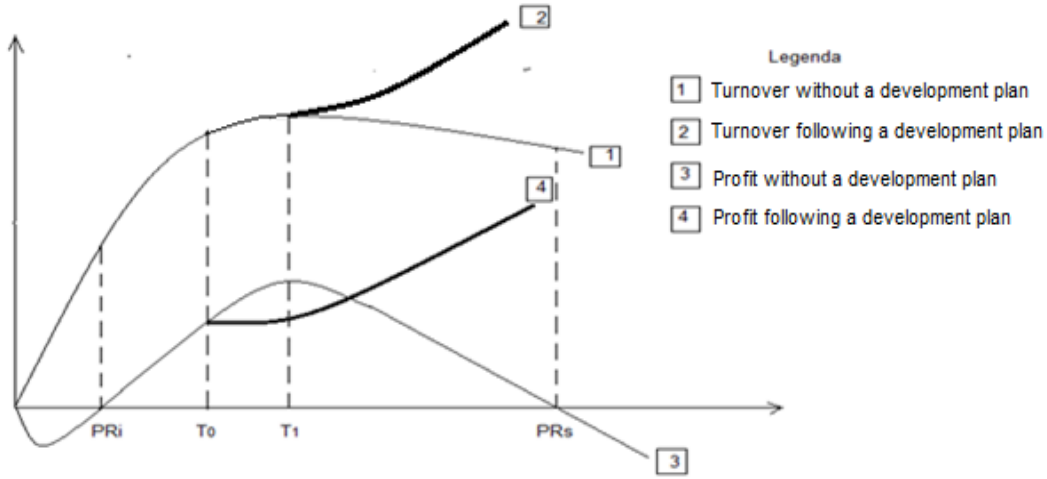

Fig. 1. Development management diagram

According to some experts, the optimal period of the development decision is the Success-Growth substage III-G of the 5 stages model [2], the first attempt at growing before commitment to a growth strategy.

There are two areas of analysis for the decision to develop a business: the market, which determines the need for development and the available resources, which determines the investment capacity of the enterprise.

From the market point of view, the development decision is influenced by the demand for the company's products and by the level of their competitiveness. Thus, the development decision is driven by an increased demand for products manufactured under conditions of declining competitiveness.

The company's investment capacity is the decisive factor of the decision because it conditions the successful completion of the investment plan. The development of a business can be achieved only in favourable economic conditions reflected by economic indicators of financial balance, profitability and financial risk.

In the following chapters we intend to develop a business evaluation model through the optimization of the relationship between the need for development, reflected by the position of the products on their life curve and the available resources of the company under the existing and forecast conditions of the external environment.

2. Business Development Management

Business Development Managers are responsible for developing the business side of an organisation. They must identify arising business opportunities and build long-term relationships with prospects. That is needed in order to increase company revenue and maximize profits [3].

Our research relates to achieve a practical management development tool used by the Chief Executive Officer (CEO), allowing optimum choice of development strategy to ensure the achievement of the expected parameters and return financial capital invested in the shortest time.

Processual, business development management is presented as shown Figure 2.

The process comprises four successive stages, not excluding certain overlaps, especially in its advanced part.

The first stage is the evaluation and aims to consolidate a scientific justification, a set of arguments, in favour of the decision. Scientific justification is important because it offers objective arguments for supporting the investment decision and in addition gives the owners' confidence about the success of the development plan. A scientific justification diminishes the financial risk due to the delayed completion and thus the delay of the income cycle, being known that the development plan consumes financial resources from the moment of its launch (curve 4, Figure 1). In this stage the assessment is made of both the development need and the resources available by specialized personnel both within the company and external collaborators.

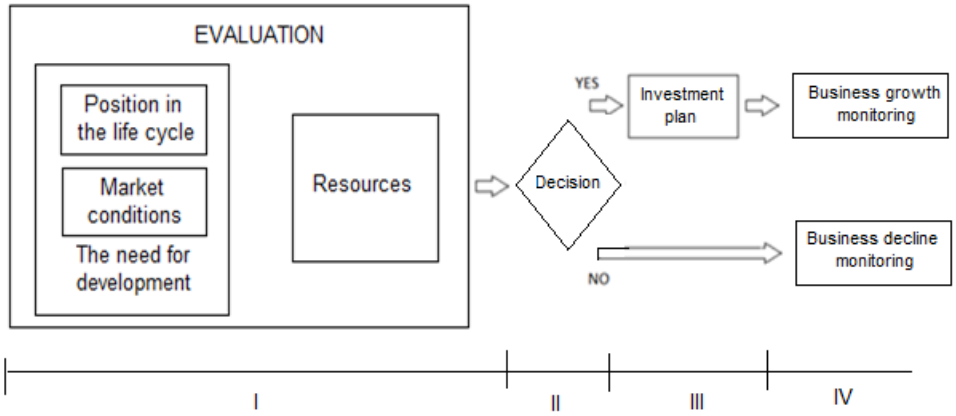

Fig. 2. Stages of business development management

Stage II is that of the decision and it is not recommended to overlap, or even partially, with the first stage to be completed before making the decision. Of note is the fact that the development decision can be negative if it is not considered sufficiently well justified. The decision maker belongs to the CEO who assumes responsibility for triggering, or not, the development plan.

Stage III is carried out only in the situation of a positive decision to trigger the development plan and includes planning and carrying out investment. In this stage the investment objectives are set, the costs are budgeted, the financing lines are opened, the investment works are contracted and the investment works are executed.

Stage IV is that of monitoring the business after the investment is put into operation, in case of a positive decision regarding the investment, but also if the decision is negative. The monitoring stage is a very important component of business development management even under the conditions of a negative decision because it allows forecasts related to its decline.

In order to be successful, business development management must meet the following requirements:

- to involve people specialized enterprise and external collaborators, with specific attributions, work schedules and monitoring their fulfilment;
- to contain limit thresholds (maximum or minimum) for technical and financial indicators;
- not to be limited to structures in the internal environment and to involve, where necessary, entities from the external environment (suppliers, customers, banks, public authorities);
- to target those parameters with high potential in the development of the business (products, prices, costs) and to avoid the modification of parameters with negative impact on the personnel (working time, retraining, restructuring, salary reductions);
- to use balanced, internal resources (assets, personnel) and external resources (loans, capital contributions, refinancing) in financing the investments;
- to provide for limited time duration for each stage and a maximum term until the first results are visible;
- to establish a portfolio of indicators for post investment monitoring, periods and target values for them as well as corrective measures in case of deviations.

3. Methods of Evaluation in Business Development Management

The proposed method for business evaluation is the diagnostic analysis of the criterion type, with the weighting of parameters according to their potential multiplier on the business development, based on a customized model containing domains, sub-domains, criteria and technical-economic indicators.

The method involves the following steps:

1. Configuring the diagnosis model containing domains, sub-domains, criteria and indicators significant for activity (personalized model);
2. Evaluating of domains in terms of impact on business development decision;
3. Weighing the importance of the criteria in terms of its potential in business development;
4. Calculating the criteria's significance score and interpreting the results.

3.1. Diagnosis model

In practice, to increase efficiency, it starts from specific models of development containing domains, sub-domains and general criteria. The specific business development model has the following particularities:

- high determination of market, relationship, production and financial resources in evaluation;
- predominance of demand in the evaluation of the business market;
- high impact on the relations with the environment;
- the importance of production resources states, in the evaluation of the technical resources and of the internal potential;
- high significance of the business growth criteria (turnover, added value) in the evaluation of internal financial resources;
- high significance of the financial balance criteria (financial balance, working capital) in evaluating the ability to attract financial resources from external sources;
- need to evaluate the risk of profitability by following the investment plan.

The structure of the specific business development model is presented in Figure 3.

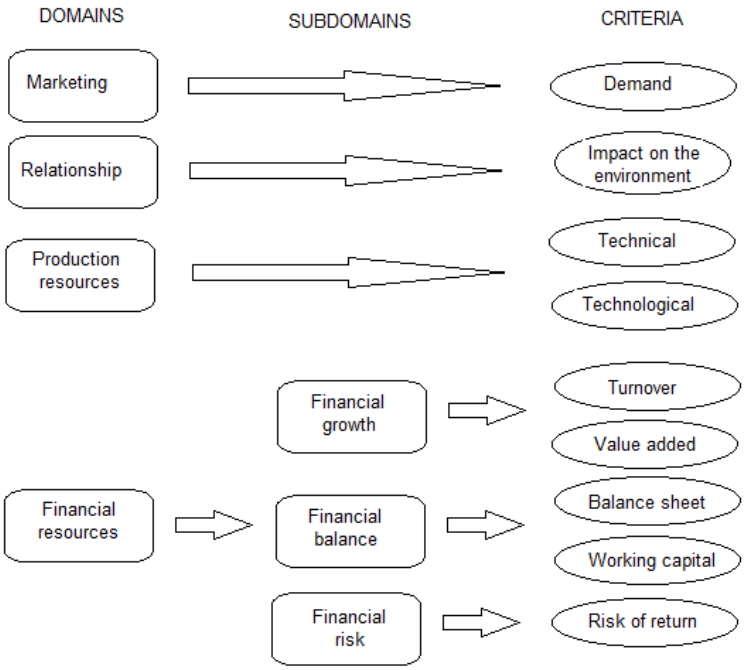

Fig. 3. Specific business development model

3.2. Weighting the importance of domains and sub-domains

The weighting of each domains and sub-domains in evaluation of plan is made according to the predominance of development need and available resources in the investment decision.

The domains that determine the need for development are the marketing and the relationship and those that determine the level of available resources are the production resources and the financial resources for which, the sub-domains of interest in the analysis are: the financial growth (accumulation), the financial balance (imbalance) and the financial risk associated to investment process.

Considering that the development need is continuously manifested on a business, its intensity varying in time, sometimes unpredictable, depending on several difficult quantifiable factors that affect both the market and the business environment, the investment decision should not be linked in a way. Thus, in the proposed evaluation method we will consider the domains of development need as being of secondary importance and we will allocate 20% -30% of the weight in the development decision.

On the other hand, the available resources directly condition the investment plan and thus, in the proposed evaluation method, we will weight their importance with 70% -80% in the investment decision.

The weighting of the sub-domains in the evaluation of the financial resources is made according to the specificity of each business, relevant being the size and structure of the capital, the value and the state of the assets, the technical and technological level, the number of employees and so on.

Within a development plan, recommended coefficients of importance are presented in Table 1.

Table 1. Coefficients of importance domains and subdomains

Domain	Subdomain	Coefficient of importance r_i	Justification
Marketing		0.1-0.2	The changes, both in the demand and the supply determine the increase or decrease of development need. The higher is the predictability of these changes, even higher is the coefficient of importance.
Relationship		0-0.2	The relationship is usually volatile and unpredictable. Higher values of coefficient can be granted for well-founded legal situations (long-term contracts, won auctions, economic agreements and so on).
Production resources		0.1-0.5	The higher is the production technical and technological level, even higher is the coefficient of importance. It can vary significantly depending on the business.
Financial resources	Financial growth	0.2-0.6	Business's financial growth and accumulation potential is essential in evaluating the importance of the sub-domain. The coefficient will be superior in innovative businesses that use technology and equipment at a high level
	Financial balance	0.1-0.5	The structure of the patrimony from the point of view of assets and capital can significantly influence the investment decision. Important factor is even higher as investment value (assets) and borrowing are greater.
	Financial risk	0.1-0.6	Increment of investments operating risk increases the coefficient of importance

3.3. Weighing the importance of criteria

According to the specific diagnostic analysis model (Figure 2), nine criteria are identified. Weighting the importance of criteria is done through a coefficient that takes into account his contribution in meeting the development plan objectives. The value of coefficients is established by assessing the consequences of his failure to comply with the plan, according to Table 2 [4].

Table 2. Values of coefficients of importance of criteria

Potential for recovery	Consequences of failure criterion on development plan	Coefficient p_i
Very high	The failure of the development plan	5
Medium	Reducing the level of some development indicators or increasing the duration of plan	2
Low	Reduced but not neglected. Meeting the criterion may speed up the success of development plan.	1

3.4. Calculating the criterion's significance score

For each criterion, a value of significance (Ri) is calculated, thus establishing a hierarchy in order to include criterion in the plan. Significance score is calculated by multiplying the criterion status (Pi) with the coefficients of importance domains and criteria (r_i) and (p_i) according to the formula:

$$R_i = P_i \cdot r_i \cdot p_i \quad (1)$$

The status of criteria is assessed by a given score (Pi), according to a 5-steps scale, depending on the current situation and the prospects for evolution. Steps reflect the state of the criterion between total inadequacy to business requirements (5 points) and total satisfaction (1 point).

According to the method, the score is in the range 0-5. The higher is this, the more appropriate is to include the criterion in the development plan and focus objectives around.

The recommendation for interpreting the results is summarized in Table 3.

Table 3. Interpretation of results

R_i	State of criterion	Recommendation
>5	Total inadequacy	The criterion must be included as a main objective in the development plan.
4...5	Critical	The criterion should be included as a main objective in the development plan, if there is no other criterion with higher significance, or as a secondary objective.
3...4	Difficult balance	The criterion should be included in the development plan if the coefficient of importance of the domain is high.
1...3	Good	The criterion can be included in the development plan if the coefficient of importance of the criterion is high.
<1	Total satisfaction	It is not necessary to include the criterion in the development plan.

4. Case Study

The case study open company operates in the field of paper production and cardboard packaging. The investment program has been running for three years, reaching the objectives below the planned level. Through diagnostic analysis, CEO looks for justifications to continue investments or stop them.

4.1. Configuring the diagnostic analysis model

The main development factors, reported at the analysis date, are: financial profit in the third year in a row, increase in the last three years in turnover, number of employees and equity.

Diagnostic analysis model is built considering that the demand for biodegradable packaging is an increasingly strong market trend, the main factor of production is the raw materials, their cost accounting for over 55% of operating costs, increasing trend of raw material prices (15% last year), company is already in year 3 of investments and the impact on the financial balance and the risk of profitability is not known following increased of fixed costs (25% in 2018).

In these conditions criteria included in the model are: demand, technical and technological resources, turnover, value added, balance sheet, working capital and the risk of return.

4.2. Weighting the importance of domains

Considering the importance in the investment decision, the coefficients of importance of domains and subdomains are established as in the Table 4.

Table 4. Coefficients of importance of domains and subdomains (r_i)

Domain	r_i	Justification
Market	0.2	High predictability of the cartons packaging market, due to the European legislation limiting the environmental pollution
Production resources	0.15	The technical and technological level of the production of paper and cartons packaging is medium and accessible
Financial growth	0.20	The financial growth and accumulation business' potential is appreciated as low due to the high resistance to change of consumers
Financial balance	0.30	The structure of the patrimony, from the point of view of assets and capital is decisive in the investment decision. However, the level of investment is low the company being in its 3rd year of development
Financial risk	0.15	The operating risk is considered to be low due to the long depreciation times of the equipment which limits the operational leverage of the fixed costs

4.3. Weighting the importance of criteria (Table 5)

Table 5. Coefficients of importance of criteria (p_i)

Criterion	p_i	Justification
Demand	5	Increased demand for cartons packaging is the main engine of business' development. If demand does not increase, the plan is not justified
Technical resources	1	The high level of wear and the low degree of use of equipment are possible reasons for development need. Although difficult to assimilate new technologies and their state could influence the investment decision.
Technological resources	2	Improving existing manufacturing technology is one of the most needed short-term solutions. In its absence, the objectives of the development plan will be difficult to achieve.
Turnover	2	Increasing turnover is an important objective to achieve through the development. Its failure may lead to diminished financial expected results
Value added	1	Value added increased can favourably influence the performance of the company even in the conditions of limitation of sales against the background of price increases. Failure to achieve this goal would have a negative effect on reaching plan goals.
Balance sheet	2	An unbalance patrimony may have a negative impact on external financing plan, leading to slowdown in progress and increase duration of plan.
Working capital	5	The working capital is essential in order for further business development plan. A low or negative FR prevents continuation plan by the impossibility of financing from domestic sources.
Risk of return	1	The investments carried out, risk of return is expected to increase mainly due to increased fixed costs and financial ones. Good management of risk can increase the performance of plan.

4.4. Calculating the criterion's significance score

For each of the criteria included in the model, the evolution over the last 3 years of specific indicators is analysed, the results being summarized in Table 6.

Table 6. Calculated values of the criteria

Criterion	P_i	r_i	p_i	R_i
Demand	2	0.20	5	2
Technical resources	3	0.15	1	0.45
Technological resources	4	0.15	2	1.2
Turnover	2	0.20	2	0.8
Value added	2	0.20	1	0.4
Balance sheet	2	0.30	2	1.2
Working capital	3	0.30	5	4.5
Risk of return	3	0.15	1	0.45

4.5. Interpretation of the results

As shown in Table 4, the working capital criterion must be included in the development plan as main objective. Also, the demand criterion must be included in the plan because the coefficients of importance of the criteria is high. All the other criterion is not necessary to be included in the development plan.

Under these conditions, the development plan, phased in two stages over the next two years, comprises:

Stage I over one-year period, with the main objective, the accumulation of long-term capital, includes the following measures:

1. Increasing equity by 12% by the net result, as follows:
   a. Increase of operating income by 10% and operating cost by 8%, trough:

- increasing the prices up to 5%;
- improving the quality of production
- raising personnel's salaries by 5%

b. Increase of share capital by issuing bonds on the capital market.

2. Reduction of tangible assets at the utility level:
   a. Sale of low utility assets;
   b. Revaluation of assets with high wear and tear in the sense of diminishing their value.

Stage II, over the first years, with the overall goal to attract long-term foreign capital and promotion:

3. Early repayment of loans with maturity below one year and release of mortgaged assets;
4. Promote the biodegradable image of their new products.

5. Conclusions

Business development is a process with high impact on activity and financial balance of the enterprise. Under these circumstances, the business development plan aims to improve activity without significantly affecting the financial balance of enterprise.

Present paper is a synthesis of my research in the field of business development and sets the basis for a management method, based on a customized model containing domains, sub-domains criteria and indicators. The novelty of research consists in the use of the criterial type assessments that allow, for each parameter susceptible to be changed, the calculation of a score considering its degree of necessity and potential to carry out successfully the business development plan.

Using this method allows the management to carry out a development plan including those objectives and measures that lead to maximum performance effects and reduces investments risk.

References

1. Binţinţan P. (2005): *Strategii şi politici de investiţii* (*Strategies and investment politics*). Casa Cărţii de Ştiinţă, ISBN 978-973-686-798-9, Cluj-Napoca, Romania (in Romanian)
2. Churchil N.C., Lewis V.L. (1983): *The Five Stages of Small Business Growth*. Harvard Business Review, https://hbr.org/1983/05/the-five-stages-of-small-business-growth
3. Yazan Abu Al Rous (2017): *7 Skills You Need to be an Excellent Business Development Manager*. https://bizdevonline.com/7-skills-need-excellent-business-development-manager/
4. Boian N., Mărăscu-Klein Vl. (2011): *Analiza diagnostic a întreprinderilor mici şi mijlocii* (*Diagnosis of Small and Middle size Enterprises*). Editura Universităţii Transilvania, ISBN 978-973-598-885-2, Brasov, Romania (in Romanian)