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# The concept of development of a startup project for a translation agency in Moscow, the Moscow region

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THE CONCEPT OF DEVELOPMENT OF A STARTUP PROJECT FOR A  
TRANSLATION AGENCY IN MOSCOW, THE MOSCOW REGION

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THE CONCEPT OF DEVELOPMENT OF A STARTUP PROJECT FOR A  
TRANSLATION AGENCY IN MOSCOW, THE MOSCOW REGION

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## **Abstract**

This study focuses on analyzing a possible translation agency startup project for the market of Moscow. Accordingly, the aim required solving such tasks as determining specifics of the project start-up, revealing the essence and principles of preparing a business plan, identify current and future trends in the Moscow translation market and development of strategic, marketing, organizational, commercial/ financial plans of the company and evaluation of investment attractiveness of the project.

During the research are used various methods of strategic and financial planning, namely PEST-analysis, Porter's Five Forces Model, strategic group analysis, KSF-analysis, segmentation, SWOT-analysis, NPV, IRR and DPP. This is allowed to achieve this aim, successfully defining the exit strategy of translation agency startup project on the Moscow market and its investment appeal.

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## **INTRODUCTION**

### **1.1 Background**

Russia is now entering a new stage of market development, as the country has finally made a positive decision about joining the WTO. This means that the barriers to international business will be reduced and the interaction between the representatives of foreign and Russian companies will be strengthened significantly. Along with that, taking into account the level of qualification of the personnel in many Russian companies, wherein only 29% of specialists can speak at least one foreign language fluently and for 61% of the companies language skills are not relevant criteria for employment (SuperJob 2011), it can be concluded that the demand for translation services should increase significantly in short- and mid-term perspective. In this respect, bringing the startup project of a translation agency to the Moscow market is **topical**.

### **1.2 Problem**

The **problem** lies in the fact that despite the prospective increase in the demand for translation services in the coming years, the competition in Moscow and the Moscow region remains at a very high level, as there are several large and many small translation agencies in the metropolitan market. With account of the potential increase in demand for translation services in the future, there can also take place an additional increase in the number of domestic players in this sector. Besides, there exist high risks associated with the entrance of foreign players ready to reduce their prices or develop an upper price segment, along with that offering a much higher level of services compared to the local companies. Therefore the implementation of the startup project can be successful only if an elaborate strategic plan for its development has been worked out. It is also an important aspect that a business plan should be based on understanding the specifics of startup projects, which have a range features distinguishing them from the companies that already operate in the market.

### **1.3 Aim and questions**

In accordance with the problem defined, the aim of this research is to work out a concept of development of the translation agency startup project for the market of Moscow and the Moscow region with the help of a complex business plan.

To meet the aim, the following questions should be answered in the course of this research:

1. What are the specifics of startup projects and how can they influence the structure of the business plan?
2. What is the essence, major characteristics and structure of the business plan on the development of the project?
3. What are the current and future tendencies in the Moscow market of translation services at the level of macro- and microenvironment?
4. What are the goals and general strategy of the development of the startup project in the market of translation services in Moscow and the Moscow region?
5. What is the marketing plan for the startup project to enter the market of translation services in Moscow and the Moscow region?
6. What is the organizational plan for the startup project in the market of translation services in Moscow and the Moscow region?
7. What is the financial plan and investment attractiveness of the translation agency startup project?

## **CHAPTER 1: LITERATURE REVIEW**

### **1.1 Startup Specifics**

For the purposes of this research it is necessary to, first of all, determine the specifics of a startup project as an immature business that is starting to develop in the market. Undoubtedly, at this stage the company will differ significantly from more mature organisations, which will have a direct impact on the aspects of developing a business plan of the company.

The first evident peculiarity of the startup project is a short period of operation in the market, high instability of financial indicators and, consequently, significant risks involved in investing in its development. Therefore a financial plan should play an important role in the business plan of the startup project; it is distinguished by detailed calculations and more attention paid to substantiating the accepted indicators, which, due to the specifics of the immature business, cannot be determined on the basis of the open source stock market data. Therefore, special venture funds usually cooperate with startups and these funds are ready to invest capital on different than standard investment companies terms (Bloomfield 2005).

And this results in the second peculiarity of the startup project. As here the company almost absolutely deprived of the opportunity of self-financing is implied, external investors play a special role in its development. For them, the business plan of the startup project represents an important document that substantiates the reasons why the investments can be justified. Accordingly, developing a successful business plan is a critical factor for the startup project to get financing and, consequently, move to a new stage of business development, which requires that the idea and the plan of its implementation should be presented in a clear manner (Gladstone and Gladstone 2004).

The third peculiarity is that the startup project, as a small company most often privately owned, under the management of one person or a group of individuals attracted by promising commercial perspectives of a certain idea. These people take actions to turn the perspectives into reality by participating in the business on the basis of the undertaken initiative rather than by using their own financial funds. This has a significant influence on the aspect of developing the project's business plan by decreasing the role of the issues of

formalized work organisation at the first stages, as it is initially based on the work of a small team of specialists who know each other well (UNECE 2008).

However this very circumstance determines the fourth peculiarity of the startup project, which lies in the resistance encountered by novelties in small companies when financing is attracted and the company undergoes transformations during its development in the market. This means that within the frames of the organizational plan of the project the issues of change management and company restructuring during company formation in terms of finance and market position (Colis et al 2009).

This results in the fifth peculiarity of the startup project that implies going through a long way of changes in its operations which can be divided into four key stages, namely:

- examining market potential, technical and economical substantiation of the idea;
- development of the product (an item of goods or a service);
- entry into a priority market in order to strengthen the positions;
- expand operations in the market for the purpose of development (UNECE 2008, p. 24).

There are lots of uncertainties at the early stages of company development about technical, economical and market issues and therefore it is difficult to precisely determine the potential of the enterprise. And along with that one has to realise from the very beginning what to expect from an immature business in the long-term period. All this requires forming a general idea of how the business should develop without creating strict limitations, which will allow maintaining flexibility under uncertain environment. And at the same time one should take into account both the issues of the project's entry to and development in the market.

On the whole, on the basis of the five mentioned above peculiarities, there can be singled out those adjustments that should appear in the business plan of the startup project compared to the investment project of the company at the stage of market development of maturity:

- a noticeable emphasis is made on the financial issues in order to increase the confidence of investors in the expedience of capital investments;
- building relationships with third parties that represent external financing plays an important role, and requires a clear and concise representation of the idea or the business plan in order to attract capital;



- within the frames of organizational plan the formalized issues of work organisation are not relevant, instead, the issues of change management in company restructuring play a big role in the business plan of the startup project;
- the business plan of the startup project should encompass the idea of not only how to enter the market but how to develop there afterwards, along with that there should always be left some room for maneuver.

On the whole, on the basis of the listed above conclusions, certain changes should be introduced into the structure of the project's business plan, and their essence and principles of development with account of the specifics of startup companies are given below.

## **1.2 Core of Business Plan**

In this chapter the terminology should be considered and the essence of planning and of a business plan should be defined. This will help to understand why it is necessary to work out a business plan for launching the startup project of a translation agency, as well as will bring the research close to the point of working it out.

On the whole, planning is "a process aimed to create one or several future states of affairs, which are desirable and which will not emerge on their own without taking certain efforts" (Vissema 2003, p. 67). Planning always contains two components: optimistic and pessimistic. Pessimism is based on the belief that the desirable state of affairs will not emerge if no particular actions are taken. Optimism lies in the confidence that a certain thing needs to be done in order to increase the probability for the desirable state of affairs to emerge (Akoff 2002, p. 256).

Planning - an act of taking a great number of preliminary decisions. It is necessary when achieving the desirable state requires taking multiple interconnected decisions (a system of decision). A multitude of decisions represents a system, if the effect of each of them on the outcome depends on, at least, one more decision belonging to the same multitude. The major difficulty of planning results not from the decisions themselves, but from their interconnections (Akoff 2002, p. 420).

In its turn, the system of interconnected decisions can be built on the basis of a successive development of the plan on creation and development of a business, id est business plan. It represents the outcome of the planning process and, consequently, the key goal of this research.

Business plan can be defined differently, by highlighting one or other aspects of this managerial tool. Thus, Ushakov (2005, p. 29) gives a broad enough definition viewing business plan as "a document that describes all major aspects of the future enterprise or a project, analyzes the problems it may encounter and also defines how these problems can be solved." In other words, the business plan becomes an important reference point in management, as it contains the main recommendations on how to neutralise the threats of the environment and how to most efficiently use the opportunities. Along with that, within the frames of the startup project it plays the role of a document that attracts external financing.

Other definition can also be mentioned. Thus, according to Petrov (2007, p. 19) business plan is "a document describing a particular business idea and possible ways of its implementation". This definition emphasizes the idea of business, its concept. And it is the idea, that starts the process of developing the marketing, organisational structure, the systems of production, supply and sale, therefore it is very important to work it out in detail. At the same time, within the frames of a startup project that has not yet performed in the market, a clear idea is an important guidemark for investors.

The definition given by Ford et al (2010, p. 23) also seems interesting. They defined business plan as "a plan that outlines how a business should be conducted in order to "make mistakes on paper", not in the reality." Alternatively, from this point of view, a business plan is a means of preparing the owner and the management for the stage of implementation of the planned actions, as well as for protecting the interests of investors investing their capital in this business. Accordingly, this means that in the course of developing a business plan it is important to focus on analysing the risks of the project.

The essence of the business plan can also be defined through the key reasons why it is being composed, which were identified by Petrov (2007, pp. 19-20):

- the opportunity to foresee and eliminate the problems before they emerge. In the course of working on the business plan forecast reports are compiled, fact and planned indicators are compared, market tendencies are analysed, which, in aggregate, allows foreseeing some pitfalls, which the company may be facing in the future;
- the opportunity to attract investments required for the implementation of the business idea (the basis for a startup project). No investor or creditor will part

with their money, if they are not given a convincing proof in writing that there is a high probability that their investments will pay off with a high probability;

- business plan is a standard document of the modern business world, "the face" of an enterprise, to which others pay attention in the first turn (especially if we speak about a group of young entrepreneurs, who are attracting capital however have not yet established themselves in the market);
- the opportunity to use business plan as an instrument to control and manage the company's internal operations.

Thus, a business plan is required in order to identify possible risks and corresponding problems in the actualisation of a certain business idea, which allows facilitating control over operational processes but it also required in order to attract external financing and ensure company's transparency for the contractors

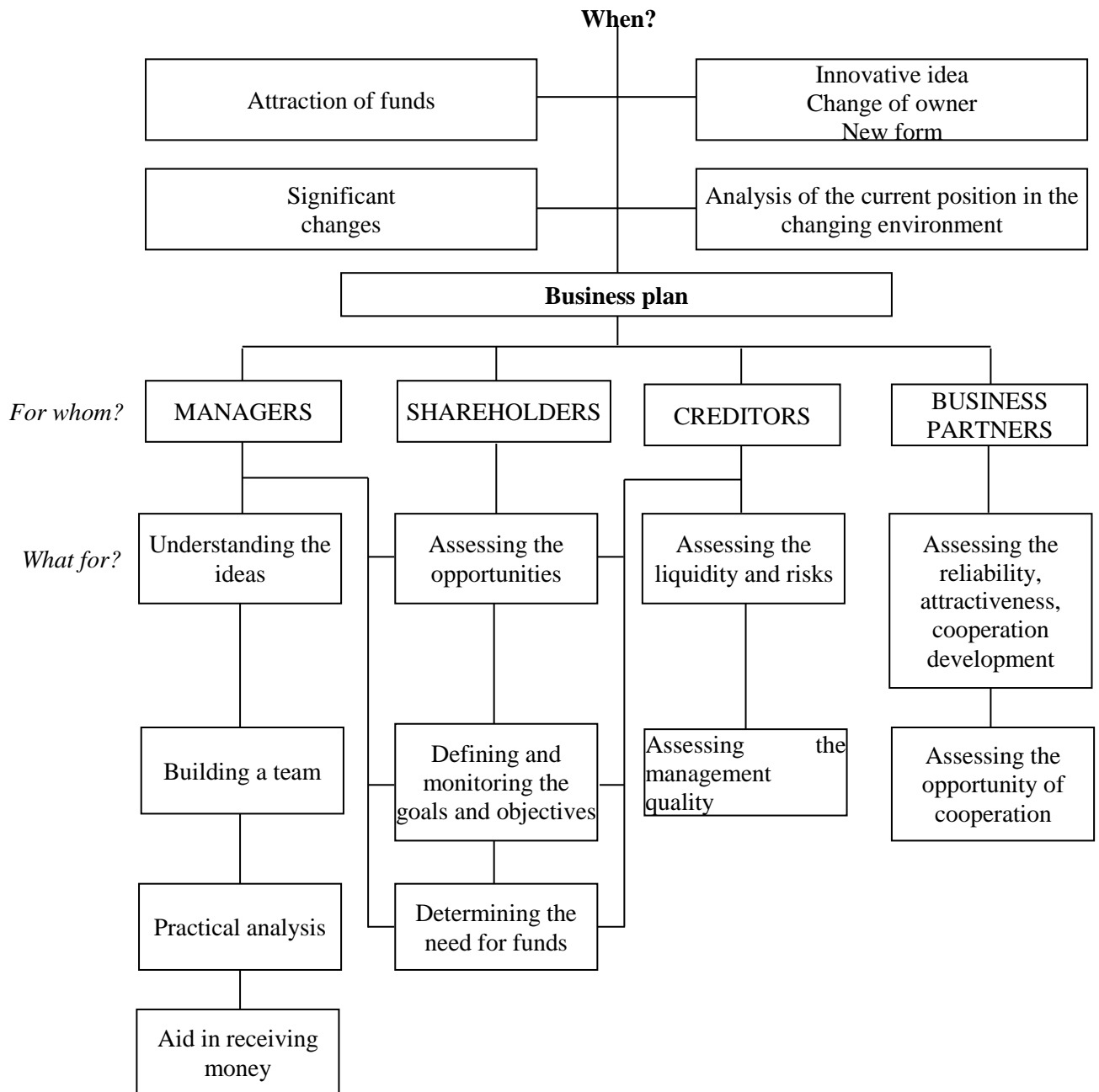
On the whole, on the basis of the definitions one can conclude that a business plan will allow the company to work through the idea of a translation agency, to analyse the issues of its development in the market, to identify the measure that need to be taken in order to eliminate or diminish risks, as well to determine the required investments and anticipated economic effect. Along with that it should be mentioned that the documentary form of the business plan will set the necessary working regulations by defining the goals in managing the startup project and substantiating its attractiveness for external investors.

Among other things, it should be mentioned that the importance of the business plan is supported by that several groups at a time are interested in its existence, such as management, owners of the business (the shareholders), creditors and business partners (see fig. 1).

A business plan is a source of important managerial information for the company's management, which includes strategic objectives of the company's development and the system of project goals, the guidelines for building a team of employees, understanding of the market and major problems that the business encounter. Besides, a business plan facilitates access to borrowed funds, as it substantiates the prospects of the future project.

Shareholders and investors can see in a business plan the opportunities for a successful launch of the project. A business plan defines the goals and objectives that should be achieved in the course of its actualisation, as well as determines the volume of investments required to support the programme of the business.

Creditors use a business plan as a fundamental document for assessing the borrower, who wants to get funds for starting a business. The market situation, actions proposed, goals defined, as well as financial statements allow determining the expected liquidity and credit risk. In addition, this information contributes to the assessment of the general quality of management.



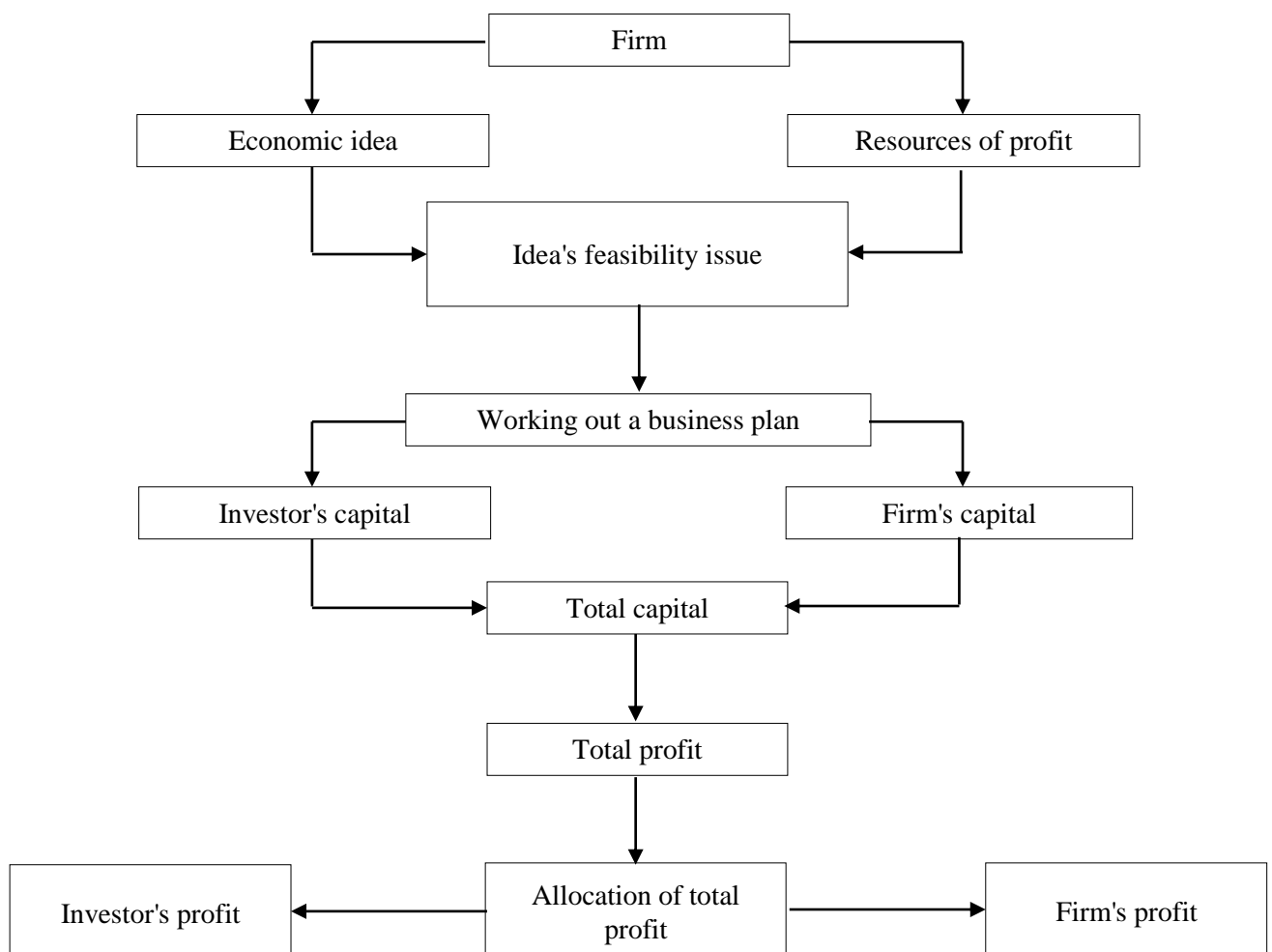
**Figure 1: Process of working out a business plan and its participants (Popov et al 2006, p. 14)**

A business plan is no less important for potential business partners, who need to assess the opportunities of future cooperation, as well as reliability of the established connections, the prospects for their development and tangible and intangible benefits associated with it.

The roles that a business plan plays in the company's operations also reflect its essence. On its basis it can be concluded that the process of business plan development requires involving a large amount of versatile information in order to meet the requirements of stakeholders (where investors can be singled out), as well as carrying out a comprehensive study of a potential situation and the efficient implementation of the formulated business idea. Consequently, a business plan contains a structured set of data, whose development principles are considered below.

### 1.3 Structure of Business Plan

A business plan is based on versatile information, however, depending on the goals of planning, its structure can differ. A business plan can be viewed from minimum two angles, namely, as determining of strategic and tactical principles of its management or extending the list of issues up to the process of capital formation and profit allocation (see fig. 2).

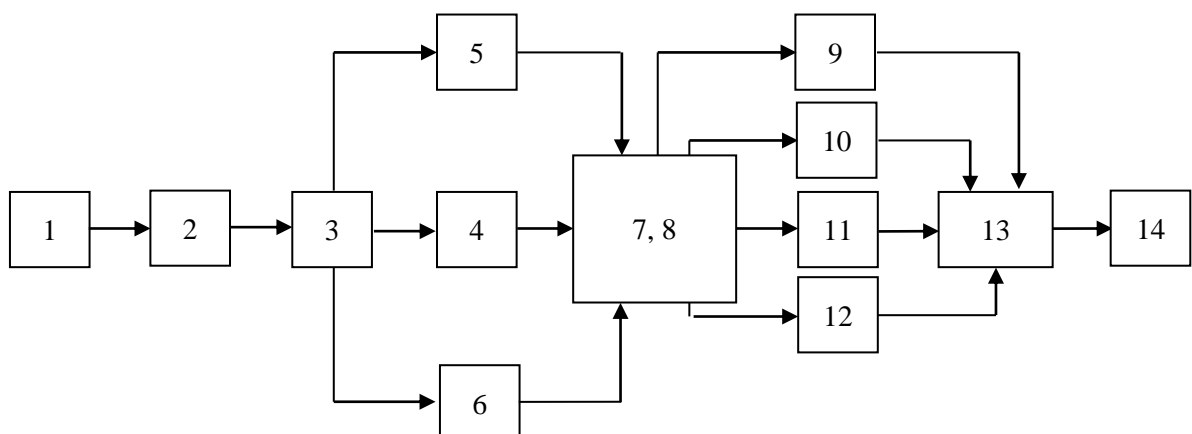


**Figure 2: Process of business planning (Popov et al 2006, p. 13)**

Based on that it should be noted that the research considers only a general plan of the project and assesses it as a business on the whole, without analysing the issues of allocating the capital and profits of stakeholders.

A business plan should contain a bulk of information that would be enough to satisfy the needs of four major groups of stakeholders (managers, shareholders, creditors and partners). For this purpose there should be developed a many-aspect, however, at the same time comprehensible structure that takes into account the goals of the project development, the market data, the company's strategy, marketing, organisational, financial and other aspects of conducting a business, that reflects its general idea. This is all the same relevant for a startup project, with the proviso that given the permanent structure, the filling of several elements of a business plan may and should change.

It is worth considering several variants of business plan development. Thus, Pelikh A.S. proposes the following steps to be taken in the development of a business plan, which reflect its structure, as well (see fig. 3).



**Figure 3: The steps involved in business plan development (Pelikh 2008, p. 5)**

1. Making a decision about starting a new enterprise or implementing measures on improving the existing one (i.e. defining the business idea);
2. Analysing own opportunities and the ability to undertake the project you have conceived (determining the existing resources like labor, monetary funds, competences, etc.);
3. Choosing a product or a service that will represent the goal of the project you have conceived (developing a business idea into the clearly defined concept of proposal);
4. Studying the prospective market (determining the tendencies in its development in order to understand the project's development strategy);
5. Forecasting sales volumes (developing a sales plan);

6. Choosing the location for conducting commercial or production operations;
7. Developing a production plan;
8. Developing a marketing plan;
9. Developing an organisational plan;
10. Developing a legal scheme of the future commercial activity;
11. Dealing with the issues of organising the accounting system;
12. Dealing with insurance issues;
13. Developing a financial plan;
14. Writing a resume to the business plan.

At the same time Petrov (2007, pp. 21-23) proposes a less extended structure for a business plan, although, on the whole, it reflects the same points as the first variant:

- a brief summary of a project (i.e. again, an interpretation of its idea);
- analysing the market situation (in order to understand the strategy, the environmental factors should be considered, namely, opportunities and threats);
- marketing plan (a policy dealing with the product, pricing, promotion and distribution, that shapes the customer perception of a product);
- sales plan (forecasting product sales both for determining the financial attractiveness of the project and setting managerial objectives);
- production plan (premises, involvement of subcontractors, organising a system of product output, supply and delivery system, etc.);
- organisational plan (distribution of work, functions and positions within the company);
- financial plan (determining investment value of the project).

Ushakov (2005, pp. 43-44) gives a broader idea of the structure of a business plan, however on the whole, he singles out the same points, as other authors (see table 1). Nevertheless, his understanding of the structure gives a good idea of what should be actually included in the final document.

It can be concluded that the structure of the business plan remains almost unchanged and in broad sense includes a strategy, a marketing plan, as well as a sales plan, a production plan, the plans for work organisation and financing. All these points are relevant for a startup project, as well. Such similarity exists because a business plan is viewed as a certain model of an enterprise's activity, which uses all the best practices of traditional planning in respect to the categories of market economy: business, competitive struggle, activities of

marketing services, commercial risk, financing strategies, achieving a break-even point and the required profitability level, qualitative customer service.

**Table 1: Business plan structure**

<p><b>1. Resume</b></p> <ul style="list-style-type: none"> <li>• Goal of the business plan.</li> <li>• Need for financing, its purpose.</li> <li>• A brief summary of the business and its target customer.</li> <li>• What differs your business from competitors.</li> <li>• What exactly should persuade people to trust your business.</li> <li>• Major financial indicators.</li> </ul>
<p><b>2. Goals and objectives</b></p> <ul style="list-style-type: none"> <li>• Analysing the idea.</li> <li>• Major directions and goals of business.</li> <li>• Characteristics of the industry.</li> </ul>
<p><b>3. Product (service)</b></p> <ul style="list-style-type: none"> <li>• Description of a product or service and their application.</li> <li>• Distinguishing features of uniqueness.</li> <li>• Technology and qualification/competences required for your business.</li> <li>• Licenses/patent rights.</li> <li>• Future potential.</li> </ul>
<p><b>4. Market analysis</b></p> <ul style="list-style-type: none"> <li>• Customers.</li> <li>• Competitors (their strengths and weaknesses).</li> <li>• Market segments.</li> <li>• Market size and its growth.</li> <li>• Estimated share in the market.</li> <li>• Composition of your customer base.</li> <li>• Impact from competition.</li> </ul>
<p><b>5. Marketing plan</b></p> <ul style="list-style-type: none"> <li>• Marketing alignment - main characteristics of the products, services compared to the competitors.</li> <li>• Pricing.</li> <li>• Product distribution scheme.</li> <li>• Sales promotion methods.</li> </ul>
<p><b>6. Production plan</b></p> <ul style="list-style-type: none"> <li>• Premises layout.</li> <li>• Equipment.</li> <li>• Sources of supply of basic materials and equipment.</li> <li>• Involvement of subcontractors.</li> </ul>
<p><b>7. Managerial staff</b></p> <ul style="list-style-type: none"> <li>• Main executive staff.</li> <li>• Remunerations to the executive staff.</li> <li>• Brief conclusions on planning the number and composition of the personnel.</li> </ul>



<p><b>8. Sources and volumes of required funds</b></p> <ul style="list-style-type: none"> <li>• Amount of required funds.</li> <li>• Where from it is expected to get these money, in what form and when.</li> <li>• Repayment period.</li> </ul>
<p><b>9. Financial plan and risk analysis</b></p> <ul style="list-style-type: none"> <li>• Sales volumes, profit, prime cost, etc.</li> <li>• Risks and how they can be avoided</li> </ul>
<p><b>10. Detailed financial plan</b></p> <ul style="list-style-type: none"> <li>• Sales volume forecast.</li> <li>• Profit and loss assessment.</li> <li>• Cash flows analysis (monthly for the first year, then quarterly).</li> <li>• Year's balance sheet.</li> </ul>

On the whole, on the basis of the given business plan structures, it can be concluded that for the purposes of this research it is expedient to include in this document the following subsections (with some adjustments to the content):

1. Strategic plan (alias the section analysing the market and assessing the opportunities of the project's team).
2. Marketing plan (a plan on promoting the project's services in the market with account of the strategic plan).
3. Organisational plan (a plan on introducing the changes to the company during its development and transformation).
4. Commercial plan (alias, a sales plan required to determine the expected income - should be made in as much detail as possible).
5. Financial plan (calculation of expenses and profit - should be made in as much detail as possible).
6. Investment appraisal of the project (the budget for launching the business and its substantiation with the assessment of possible risks).

It is noteworthy, that a production plan will not be used, as we are speaking about the company that will operate in the service sector. On the basis of the proposed structure, in this research a business plan of a startup project of a consulting company will be developed.

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## CHAPTER 2: METHODOLOGY

### 2.1 Data Collection Methods

Within the frameworks of the present research we have collected both primary and secondary data. Description of the collection techniques applied and the sources of information are given below:

- **Secondary data collection** to describe the development trends of translation services market in macro environment (influence of politics, economy, society and technology) and micro environment (strengths of existing and new competitors, customers and substitutes). As secondary data sources we have used available marketing surveys, articles from business magazines and newspapers, news items online, open and closed commercial statistical databases. The above helped to get complex insight on the business project environment with understanding key factors and trends of its transformation.
- **Collection of primary data** that assists to determine managerial issues within the present research, in particular, strategy, marketing and organizational plan of the company. To collect primary data that basically appeared to be derivatives from the secondary data base, two experts participating in the business project as partners have been engaged in the research. One of the experts has competencies and experience in running start-up projects, understands the peculiarities of the Russian market development on the whole, and basically acts as an independent analytic within the research. At the same time, the second expert is the project ideologist who clearly understands the new business concept as well as the current situation of the Moscow translation service market. The competencies of the two persons alongside with knowledge and expertise of the author of the present research favored the development of a complex and comprehensive business plan.

### 2.2 Data Analysis Methods

#### 2.2.1 *Methods of general analysis*

In order to improve the quality of secondary data collected, we have used general methods of analysis, in particular:

- diagrams and graphs improving visualization of information and allowing its representation as a single set for the convenience of comparison and searching for trends;
- mathematical calculations allowing to find out additional information based on qualitative data, in particular, absolute and fractional changes, weighting, etc.;
- search for interlinks between certain quantitative and qualitative data to get better insight on the current and projected situation.

At the same time, primary data expressed in terms of numerical scores, opinions and certain recommendations of the business project partners have been analyzed by instruments for strategic planning and business valuation listed below.

### ***2.2.2 Methods of strategic planning***

While conducting strategic planning we have used such instruments as PEST-analysis, M. Porter's Five Forces Model, strategic group analysis, KSF-analysis, segmentation and SWOT-analysis. Below we have analyzed each method in terms of their acceptability.

#### **PEST-analysis**

PEST-analysis is based on a concept of analysis of the company's external environment, in particular macro environment, within the frameworks of four key branches of the country development or its certain region, in particular, politics, economy, society and technologies. These four factors form a complex of trends and factors influencing the condition of certain branches, and thus the companies engaged in them. As a rule, business cannot influence them directly since it is about macro trends that are technically hard to manage. Nevertheless, they should be kept in mind to prepare the company for forthcoming changes.

A *matrix* representation of PEST is shown below (see table 2). In line with the matrix, the process of macro environment factors evaluation encompasses their description, determination of their influence in the branch under investigation (positive or negative), probability of manifestation (normally we speak about projected cases) as well as degree of influence (based on numerical scores) that on the whole presents full insight on influence of the factor in business. This is the most complex method of PEST that is not limited by simple description of factors (Gaydaenko 2008).

It is remarkable that PEST remains a simple to use tool which makes it irreplaceable at first stages of strategic analysis. Unlike such approaches as QUEST and ETOM, it initially sets

the analysis structure showing the branches to search for the most important factors of macro environment development (Baker 2003). It helps to arrange the analysis by certain trends, thus reducing time losses.

**Table 2: PEST Matrix (Gaydaenko 2008, p. 86)**

Groups of factors	Event/Issue	Threat/ opportunity	Probability	Importance	Impact
<b>P</b> (Political)	1 ... 3...				
<b>E</b> (Economic)	1 ... 3...				
<b>S</b> (Social)	1 ... 3...				
<b>T</b> (Technological)	1 ... 3...				

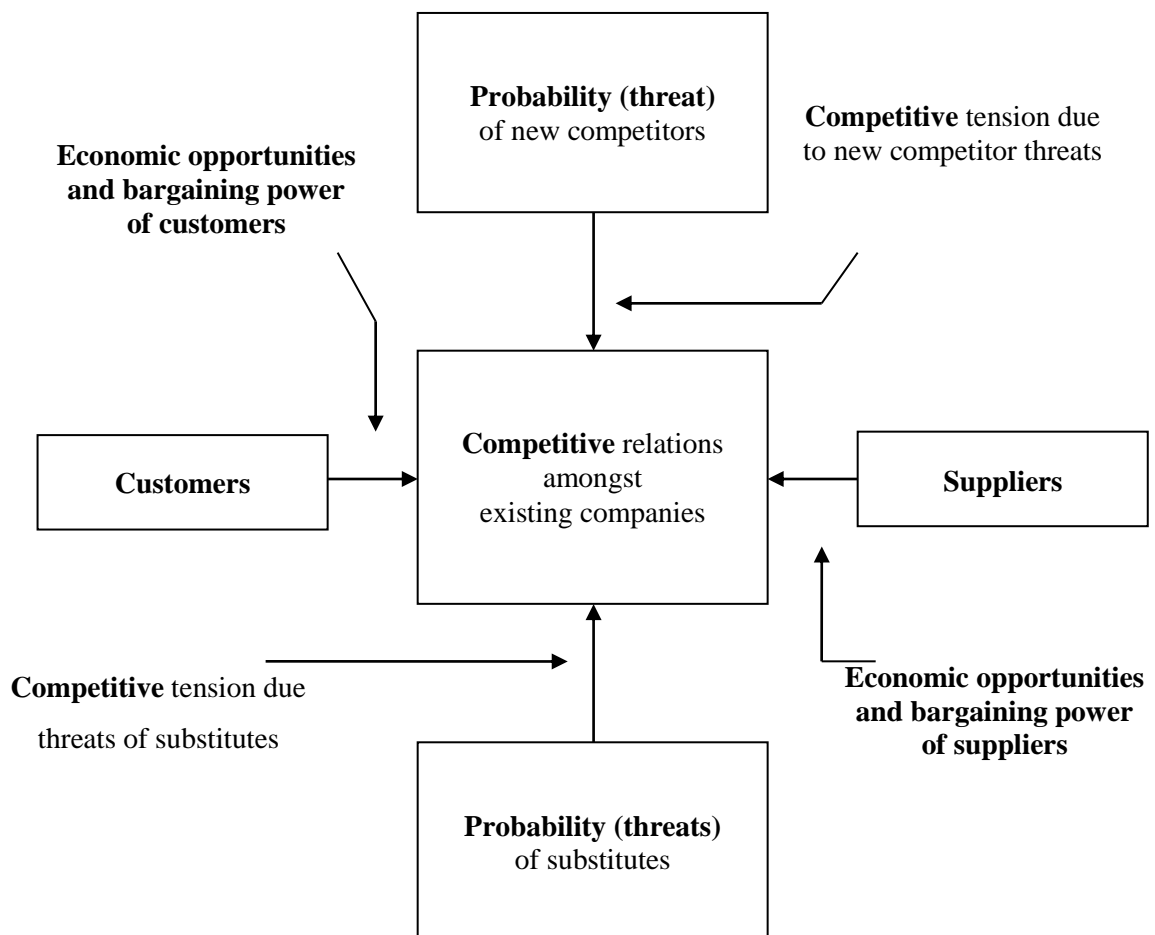
However we should keep in mind the weaknesses of the method which consist in a lack of correlation of interlinks amongst certain factors which is reflected on probability of their manifestation. It means that PEST analysis of factors is conducted independently with no regard to the general situation in macro environment. If we speak about a complex analysis aimed at deepest insight on situation, we can apply QUEST method to correct this weakness (Baker 2003). Nevertheless, in the context of the present research, where we have studied only general trends, there is no need to complicate the external environment analysis instrument.

### **Porter's five forces model**

In order to investigate the micro environment close to the company (its branch environment), the best method appears to be Michael Porter's five forces model. This instrument of strategic planning enables us to analyze impact of key branch participants on the company, in particular:

- buyers/customers purchasing the branch products and having a certain degree of bargaining power;
- current competitors competing with the company for new and existing customers in the field;
- new participants that could probably enter the branch thus appearing in the group of current competitors;
- substitutes, i.e. companies manufacturing goods and providing services replacing the branch products;
- suppliers delivering raw materials and other resources having a certain level of bargaining power (Porter 1980).

Thus, the five forces model describes the general structure of the branch revealing the influence of the most important participants (see fig. 4).



**Figure 4: M. Porter's Five Forces Model (Belyaev 2005, p. 142)**

For this reason, the instrument remains topical in strategic planning. The classic model evaluates the impact of five branch participants (their forces in the branch) on the basis of a number of parameters revealed in the course of preliminary analysis of the situation in micro environment. The methodology allows evaluating these parameters and revealing

major threats on the part of contracting parties, as well as determining general attraction of the branch in terms of aggregate pressure applied to a participant company (Gaydaenko 2008).

However, by no means we should forget that the Porter's five forces model describes the situation in real time, although we speak about a changing environment. For this reason, to increase the instrument effectiveness it is advisable to evaluate the influence of different branch factors either at the current moment or in a medium term perspective of 2-3 years.

### **Strategic group analysis**

Such a method as strategic group analysis is an approach to build a competitive structure of the branch. It considers strategic groups of companies that:

- pursue similar competitive strategies (for instance, use the same distribution channels, communication strategies or hold similar positions in terms of price/quality);
- have similar characteristics (for example, size, aggressiveness);
- have similar strategic assets or competencies (such as trade mark association, logistics abilities, global presence or research and development) (Aaker 2011).

Therefore, the strategic group analysis shows a general picture of the situation at the level of competitive environment, which allows better understanding of how competitive companies act as being a single branch system. However, we should keep in mind that due to its generalization the method can obscure some individual characteristics of competitors that could help to understand better their market advantages. Nevertheless, when we speak about a new business launch it is enough to have a general picture of competitors' work as a benchmark – specifications should be made as far as the company's structure gets stronger and more complicated.

### **KSF-analysis**

Key success factors of the market reflect those characteristics the company must maintain if it wants to hold its positions there (Altshuler 2006). These can be tolerance quality of material, service level, quantity of certain product on stock, license, etc.

It is remarkable that KSF-analysis requires not only determination of key success factors, but a forecast on their future condition, in particular, identification of emergence of new success factors. Changes of KSF and required competencies very often appeared to be an

unpleasant surprise for many companies forcing them to take critical steps to keep their market positions. A preliminary analysis allows avoiding emergency situation in a business (Aaker 2011).

Therefore, investigation of KSF shows what a business needs to hold its market positions either today or tomorrow which allows speaking about the importance of this instrument while launching a new company that will need a quick adaptation to the market requirements.

### **Segmentation**

Amid the modern conditions of growing competition, the strategy shall be oriented to the market and customer experience. For this reason, studying prospective customers – their behavior, wishes, incomes and other aspects of activities – is an important aspect of strategic planning.

For these purposes such instrument as segmentation is applied. It allows obtaining additional data on customer expectations, offer value, demand and other issues. It is remarkable that according to Lambin and Schuiling (2012), segmentation can be carried out by general socio-demographic factors (age, sex, incomes, etc.), by product benefits for the customer as well as their lifestyles. Each approach plays its own part that is why the present research describes several methods of target audience segmentation at once for more detailed description of their peculiarities.

### **SWOT-analysis**

Analysis of opportunities, threats, weaknesses and strengths (SWOT-analysis) has always been a conclusive stage of strategic planning. Collection of all the information obtained before and, if needed, its update is carried out on its basis, which allows to get full insight on the general situation (see table 3).

**Table 3: SWOT-analysis (Baker 2003, p. 104)**

<b>S</b> (Strengths)	<b>O</b> (Opportunities)
<b>W</b> (Weaknesses)	<b>T</b> (Threats)



As a result, SWOT-analysis helps to understand the management measures that should be taken to establish, strengthen and develop a business on a particular market. This can be achieved by comparing applied forces and weaknesses of the business with existing opportunities and threats. Thus, we can see whether a company is strong enough to implement the existing market opportunities and withstand threats as well we can see the weaknesses that could hinder the company from achieving its goals.

### **2.2.3 Methods of business valuation**

Within business valuation we have applied approaches based on the concept of DCF (Discounted Cash Flow) analysis, in particular NPV, IRR and DPP. Each of the three methods as well as the concept of discounted cash flows is listed below.

#### **DCF- method**

DCF-method is one of the ways to evaluate the cost of a certain company or a project. The essence of the method lies in calculation of a company's cash flows with regard to discount arising due to the time gap between investing funds and gaining profits based on them (the gap is risk-bearing).

Therefore, mathematically DCF-method corrects the value of future flows with regard to the level of risks. The universal formula of discounting that takes into account both forecast and post-forecast period of generating cash flows (it is convenient for evaluation of projects having infinite existence potential) can be represented as follows (Lukasiewicz 2007, p. 475) (see formula 1).

$$PV = \sum_{n=1}^k \frac{CF_n}{(1+r)^n} + \frac{CF_n(1+g)}{(r-g)(1+r)^n}, \quad (1)$$

Where  $PV$  –is the present value of a project or a company;

$CF_n$  –is the company's cash flow during the period  $n$ ;

$r$  – is the discount value;

$n$  – is the term of forecast period;

$g$  – is the annual rate of cash flow increase during the post-forecast period.

#### **NPV valuation**

The method, known as NPV or Net Present Value is one of the most applicable valuation techniques based on the time value of money concept. The principle of NPV calculation is based on the assumption that that investors benefit only from that investment in which a

time series of cash flows exceeds present investment outlays (with the initial investment intended to bring profits carried out “slowly” i.e. is being discounted). The NPV formula is represented as follows (Brealey et al 2006, p. 15) (see formula 2).

$$NPV = C_0 + \sum \frac{C_t}{(1 + r_t)^t} \quad , (2)$$

Where  $C_0$ – is the initial investment;

$C_t$  – is the future cash flows;

$r_t$  – is the discount rate;

$t$  – the forecast time of the cash flow.

It is worth mentioning that the second part of the formula can be replaced by the analogue of the PV calculations with regard to the forecast period which is advisable to do for the project that have no definite completion date.

### **IRR valuation**

The method known as IRR or Internal Rate of Return is based on the same principle as NPV but with the only correction – the investor compares the most acceptable, in their opinion, discount having the rate value at which the project NRV is equal to zero. In case the IRR is bigger than the discount then the project is profitable. As a mathematical calculation the IRR method is represented as follows (Lukasiewicz 2007, p. 478) (see formula 3).

$$NPV = C_0 + \frac{C_1}{1 + IRR} + \frac{C_2}{(1 + IRR)^2} + \dots + \frac{C_T}{(1 + IRR)^T} = 0 \quad , (3)$$

Methods of investment projects appraisal based on NPV and IRR are similar in their techniques but still we find arguments in support of only one of them. Thus, there is an opinion that NPV appears to be more acceptable due to its simplicity of use (IRR has mathematical complications, although solvable with modern technologies) (Brealey et al 2006), and another one that the IRR unlike the NPV gives more interpretable result (Vernimmen et al 2009). Therefore, the above investment attraction parameters are advisable to apply in a single complex of calculations.

### **DPP valuation**

To evaluate the project payback time taking into account the discount, it is advisable to apply the DPP (Discounted Payback Period) method. The principle of the technique is the following: having acquired the data on present cash flows, the investor determines the

period when their amount will become equal to the amount of initial investments. In other words, the DPP technique determines in what period, taking into account risks, the investor will be able to return the funds invested (Lukasiewicz 2007, p. 488) (see formula 4).

$$\sum_{t=1}^{DPP} \frac{C_t}{(1+r)^t} - C_0 = 0 \quad , (4)$$

On the whole, a complex appraisal based on NPV, IRR and DPP will allow considering the project from different points, having defined the expected cost of business, investment assets effectiveness as well as the expected investment payback period.

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## **CHAPTER 3: PRESENTATION OF DATA AND ANALYSIS**

### **3.1 Strategic Goals**

In order to draw up an effective business plan, first of all, it is necessary to determine strategic directions and aims of the project development in the Russian market of translation services. This will provide overall direction in which the organization should develop in order to succeed.

The vision of the translation agency is to take strong competitive positions in the market of Moscow and Moscow Region, with initial placement in the district of Kozhukhovo. In this regard, the agency's mission is provision of rapid high quality translation and other services to individuals and businesses.

In order to guide the company towards realization of the defined strategic landmarks, it is necessary to meet the following medium- and long-term targets:

- by the end of 2013 to form staff sufficient for operational support of 90-95 % of the current demand;
- by the end of 2013 to develop a system of work organization able to reduce the average delay of projects to 10 %;
- by the end of 2014 to establish a system of communication with a client able to reduce the time of request receipt by 2-3 times and ensure effective management of a portfolio of current orders;
- to ensure profitability of the business by the end of 2014 in order to form the source of self-financing;
- by the end of 2015 to achieve stable income, where at least 40 % of the demand will be covered by loyal customers.

The above given strategic objectives are key reference points for the current business plan. Further, based on the information about environment, ways for their timely and investment justified achievement should be defined.

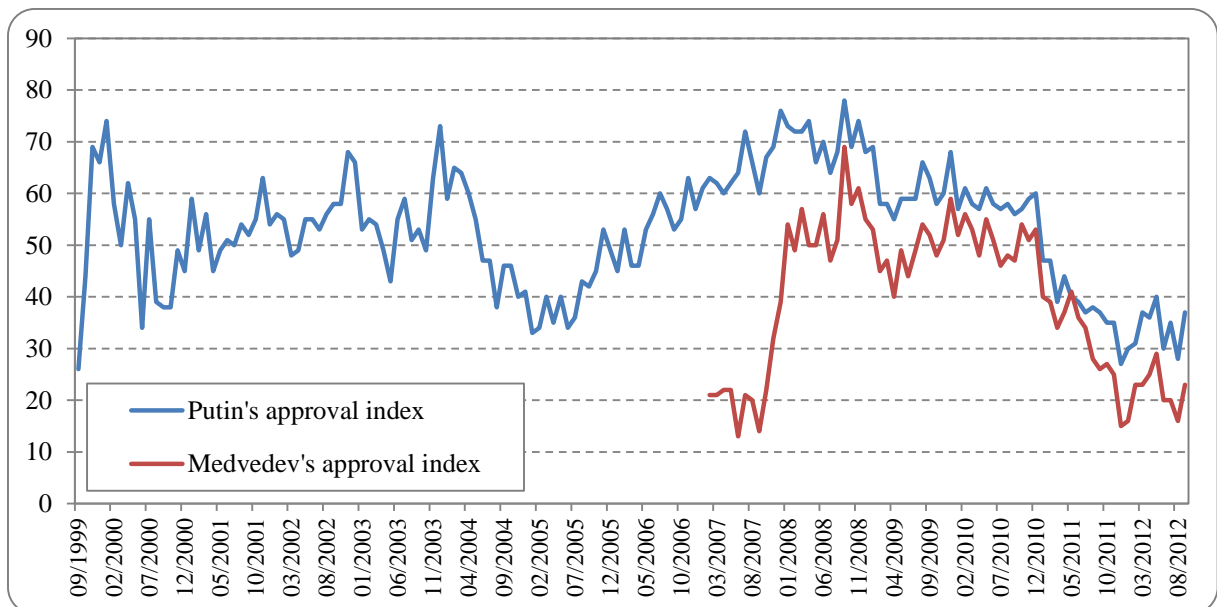
### 3.2 Market Analysis

Market analysis should be carried out at the level of both macro- and microenvironment. This will allow formation of the idea of close and distant factors that directly and indirectly influence industry of translation services in Moscow and in Russia as a whole.

#### 3.2.1 Macroenvironment

Within macro environment it is necessary to consider four key areas of development of Russia as a whole, namely: political situation, economic situation, state of society and technological trends.

Political situation in the country remains ambiguous. Despite the fact that V.V. Putin holds strong political positions in connection with support of the government and the oligarchy, discontent among people continues to grow. If in 2008, when D.A. Medvedev was elected as the President, the Russian society began to feel the wave of change, hoping for a gradual change of the situation in the country, as we had been approaching the elections, as well as because of their results, the mood changed to the opposite. As a result, as of September 2012, approval index of V.V. Putin and D.A. Medvedev declined to historic lows (see Figure 5).

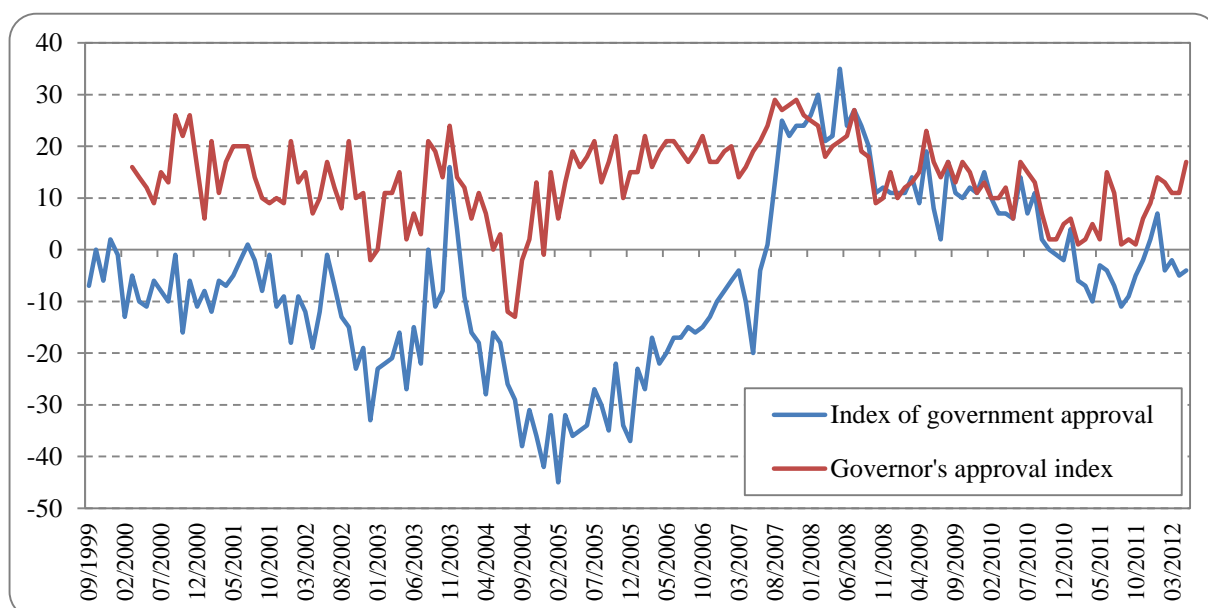


**Figure 5: Approval index of V.V. Putin and D.A. Medvedev (Levada-Center 2012)**

It is notable that the hopes of Russian citizens in 2008-2010 had been reflecting in the growth of the approval index of the government and governors; however, due to the dominance of the party “United Russia” and the re-election of V.V. Putin for the third term, their score dropped substantially. Today the approval index of the government ranges

from 0 to 20, while the one of governors – from -10 to 0 (Levada-Center 2012) (see Fig. 6). Thus, we can see opposition to the existing system of power in Russia.

At the same time, government is taking countermeasures. There are tougher laws in many areas of society. Amendments to the law on rallies, age restrictions on viewing content, a ban on “illegal” sites and other changes indicate that the governmental control of the population continues to grow. At the same time, certain innovations directly affect specific industries or the economy as a whole, making it hard to do business (cancellation of beer sales in non-stationary objects, limiting opportunities for growth of retail chains, increase of social taxes for the Simplified Taxation and Single Tax on Imputed Income, etc.).



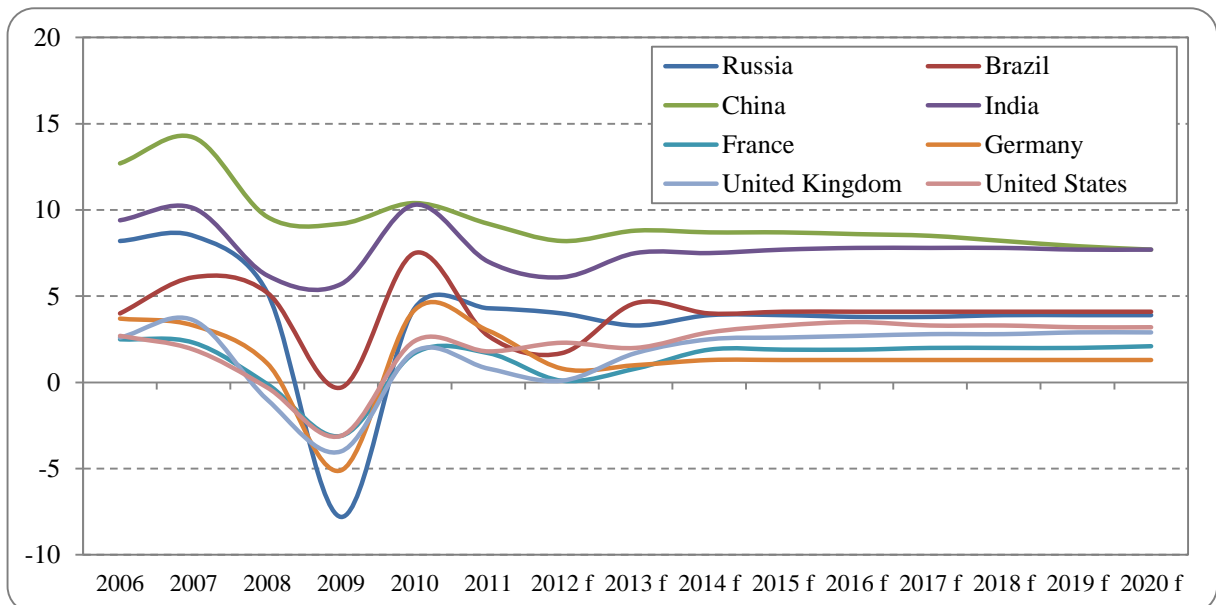
**Figure 6: Approval index of the government and governors (Levada-Center 2012)**

Harder control and stronger role of the state in the life of the country leads to situation when certain officials get the opportunity to lobby for their own interests in important areas of the economy and society. At the end, it becomes a cause for active development of the corruption factor (both among government circles and in business). Indeed, according to the data of year 2011, Russia took 143<sup>rd</sup> position in the line of Corruption Perception Index (2.4 points from 10.0 for the “purity” of the government), which places it on the same level with such countries as Azerbaijan, Belarus, Comoros, Mauritania, Nigeria, Timor-Leste and others (Transparency International 2012b). At the same time, among 28 countries, measured at Bribe Payers Index in 2011, Russia took the last place (6.1 out of 10.0) (Transparency International 2012a).

Post-crisis recovery is observed in the sphere of the Russian economy with real GDP growth rates of 4.3 % in 2010 and 2011. On the one hand, we can conclude that this is a favorable factor, contributing to further development of business, but on the other hand, we

can see the economic slowdown, compared to 2007-2008, when GDP growth was 8.2% and 8.5%, respectively (Euromonitor 2012).

For this reason, Russia, showing the pre-crisis growth rates comparable with India, today is at a par with Brazil, having the GDP growth rate only 1-2.5 % higher than the one of such countries as Germany, France, Great Britain and the United States of America (see Fig. 7). Of course, this change shows stagnation of Russian economy, which significantly limits the potential of local businesses.



**Figure 7: Comparative dynamics of real GDP growth in developed and developing countries, % (Euromonitor 2012)**

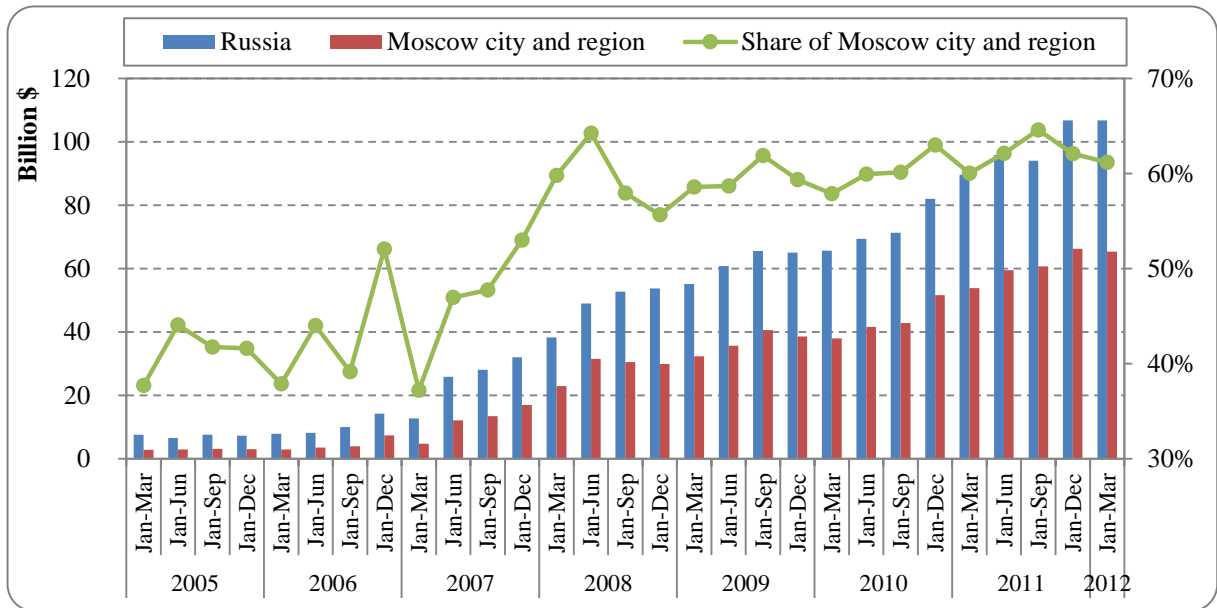
At the same time changes are observed in economic conditions. After Russia's entering to the WTO, reduction of the barriers for foreign investment is expected; it will increase the role of foreign companies in local economy and, therefore, will increase the demand for translation services in connection with the integration of both Russian and foreign business. It is remarkable that similar trends are implemented against the background of recovery of interest towards the country by foreign investors in early 2012 (primarily to Moscow) (see Figure 8).

It should be noted that entering of Russia to the WTO, however, leaves the probability of arrival of strong foreign translation agencies to be still quite low, as the prices for the services of the latter are much higher than the average cost of domestic organizations.

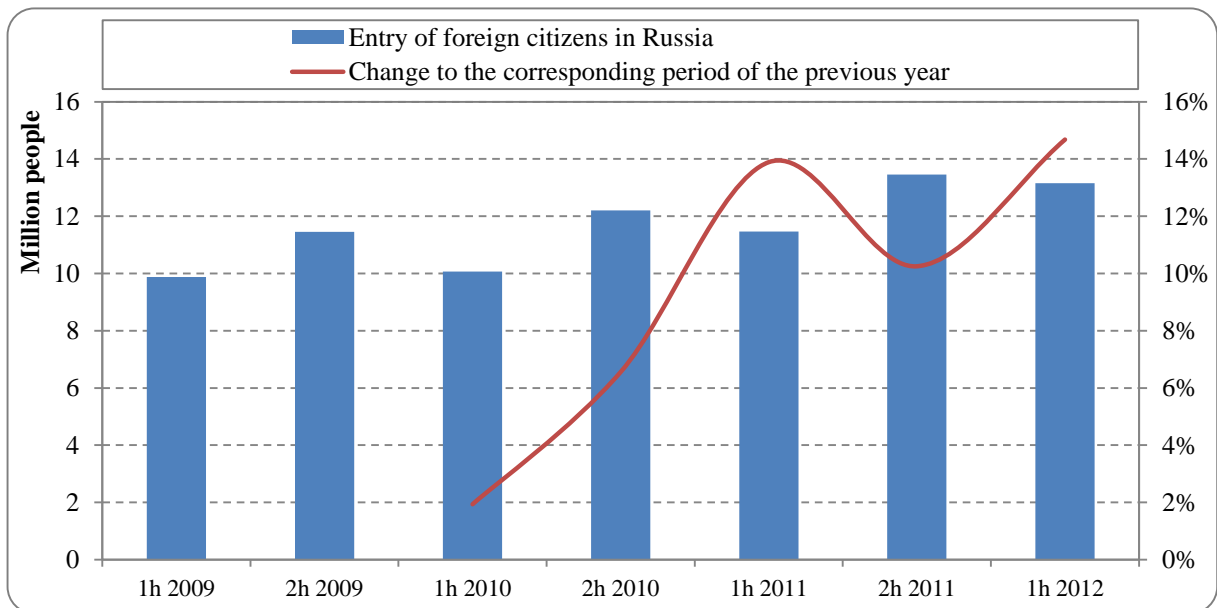
Positive trends can be also observed in social sphere. Since the beginning of 2009, despite the crisis and slow recovery of economy, active integration of the Russian and foreign economies continues through tourism. Thus, 21.34 million people visited Russia in 2009,



and in 2011 this figure reached 24.93 million people, which is higher by 16.8% (see Figure 9).

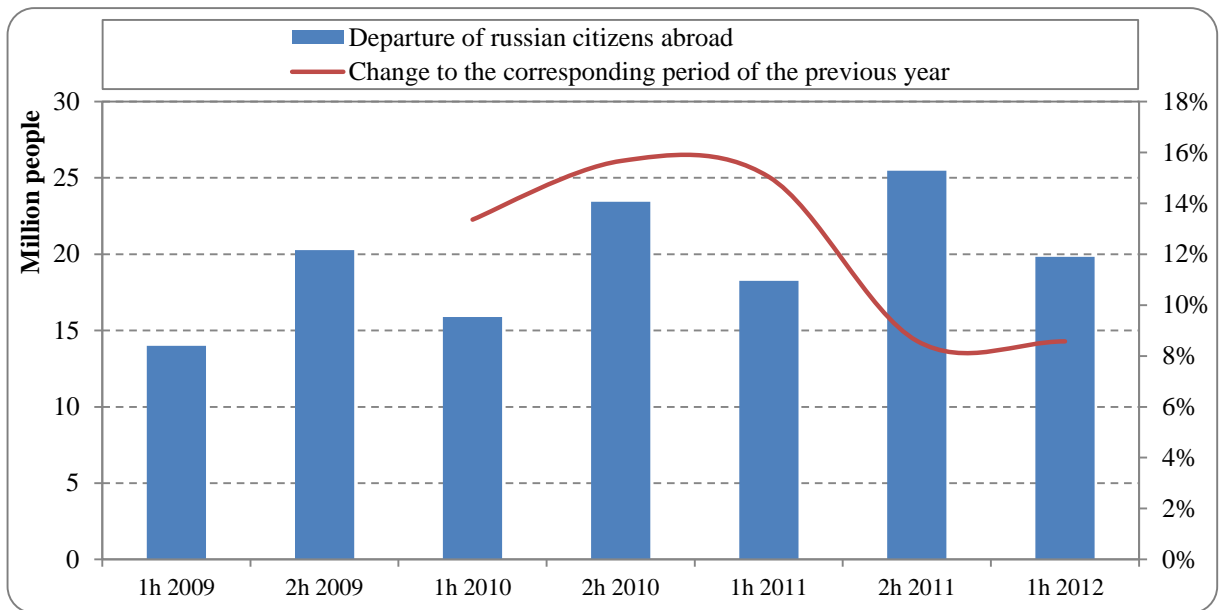


**Figure 8: Dynamics of foreign investments in Russia (FSSS 2012)**



**Figure 9: Entry of foreign citizens to the territory of Russia (FAT 2012)**

At the same time in Russia in the same years the number of tourists increased from 34.28 million people to 43.73 million people or by 27.6 % (see Figure 10) (FAT 2012). It is remarkable that in the first half-year of 2012 further growth in the amount of both arriving and departing travelers was observed. Moreover, among experts of different companies, most of whom have a higher education, only 29 % are fluent in foreign languages (SuperJob 2011). This percentage may be noticeably changed only in the medium- and long-term period, so the role of translation activity in the context of strengthening of Russia relations with the representatives of foreign countries increases.



**Figure 10: Departure of Russian citizens abroad (FAT 2012)**

At the same time technological changes can be noted, which first of all are expressed in emergence of new software allowing to improve significantly the speed and quality of text translations. For a modern Russian translation agency availability of effective software is one of the key success factors, therefore many companies try to diversify the programming base in order to improve the efficiency of certain stages of translation process.

In addition, it is necessary to note a significant increase of the Internet importance for the citizens of the Russian Federation in recent years. So, as of the end of 2011, Russia had 61.5 million users, which gives the country the second place in Europe after Germany. Potential for further growth is still high, as the level of the Internet penetration in Russia is only 44.3% (IWS 2012). Thus, even today the Runet is a channel having a wide range of potential customers, which continues to grow. Taking into account the fact that promotion on the Internet is relatively cheap, the conclusion can be made that it is a highly effective marketing channel. It is important to note that its further development improves not only coverage of target audience, but also growing interest of the Russian user in foreign sites, and this, in turn, raises relevance of translation services.

This is a general description of macro environment in the context of political, economic, social and technological factors. Based on the data collected, PEST-analysis can be formed (see Table 4). The results lead to the following conclusion: the current state of the macro environment in Russia is negatively influenced mostly by the political situation. While the government of V.V. Putin assumes implementation of the policy of sustainable development of the country, negative mood among population caused by the growth of the state control and tyranny of bureaucrats, increases the risk of adverse scenarios for future

events. Moreover, negative trends are apparent in economic sphere, first of all, because of the post-crisis slowdown of GDP growth, which limits the potential of business.

**Table 4: PEST results**

<b>Groups of factors</b>	<b>Event / Issue</b>	<b>Threat / opportunity</b>	<b>Probability</b>	<b>Importance (1 to 10)</b>	<b>Impact</b>
<b>P (Political)</b>	Political tension growth	Threat	70 %	7,00	-4,90
	State control hardening	Threat	80 %	8,00	-6,40
	Corruption and bribery growth	Threat	75 %	6,00	-4,50
	<b>Total</b>	<b>-15,80</b>			
<b>E (Economic)</b>	Post-crisis recovery of the economy	Opportunity	90 %	9,00	8,10
	Economic stagnation	Threat	70 %	7,00	-4,90
	Growth of the demand for translation services (accession to the WTO)	Opportunity	75 %	10,00	7,50
	Competition growth in the translation market (accession to the WTO)	Threat	45 %	6,00	-2,70
	<b>Total</b>	<b>8,00</b>			
<b>S (Social)</b>	Growth of number of foreign tourists in Russia	Opportunity	75 %	4,00	3,00
	Growth of number of Russian tourists abroad	Opportunity	85 %	5,00	4,25
	Low growth of the number of people fluent in foreign languages	Opportunity	80 %	3,00	2,40
	<b>Total</b>	<b>9,65</b>			
<b>T (Technological)</b>	Development of modern translation software	Opportunity	95 %	6,00	5,70
	Active expansion of Runet	Opportunity	95 %	5,00	4,75
	<b>Total</b>	<b>10,45</b>			
	<b>TOTAL</b>	<b>12,30</b>			

However, overall situation remains positive. Negative trends in politics are overlapped by favorable social factors (international integration of the population), development of

technology (translation software and Rунet) and, the most important factor, high probability of growth of the demand for translation services in connection with Russia's entering to the WTO.

### **3.2.2 *Microenvironment***

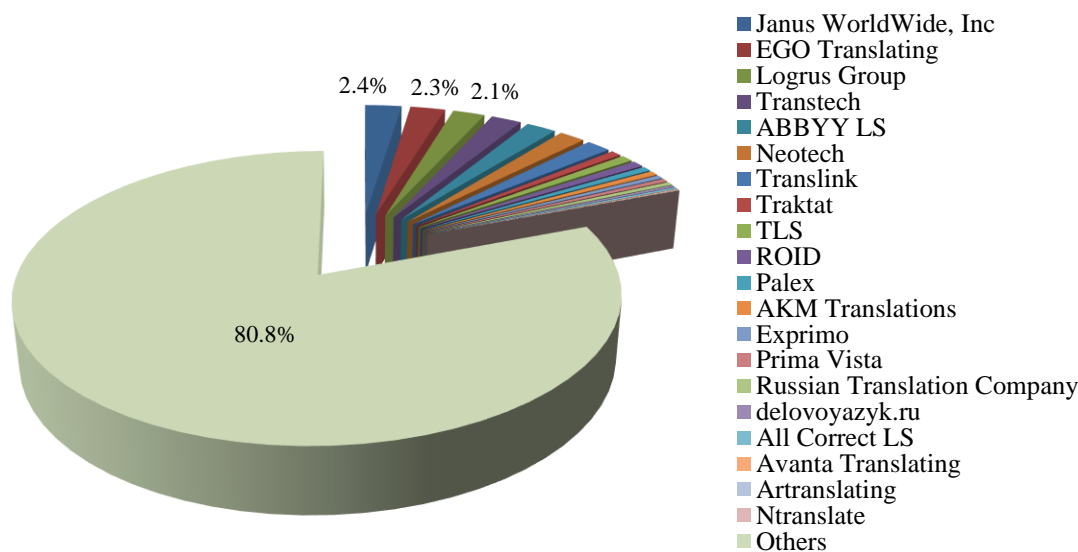
Today translation activity in Russia becomes a full business with a set of industry standards. Before, it was possible to distinguish three main stages of development of the local market of translation services. The first stage is conditionally named by the beginning of the 1990s, when at the decline of the USSR people obtained a real right to market commercialization of the economic activity, following the policy of Perestroika. During this period, those first translation agencies, which now justly occupy a leading position, appeared in the country.

It was followed by a period of market maturation, when "selection" of players took place, and then the stage of mature market with all the attributes formed. Describing current Russian market, it is possible to note the following features:

- emergence of large Russian translation companies in the existing overall fragmentation of the market;
- emergence of professional associations of translators;
- a high level of competition among companies;
- stratification of players into large, medium and small, depending on availability of adequate human, financial, technological and other resources;
- lack of large international players in the market;
- lack of specialization of translation services;
- absolute financial and market opacity.

One of the most important characteristics of the modern translation services market is high competitiveness which has appeared due to low barriers to entry (minimal financial resources, absence of licensing, availability of specialists and distribution channels, etc.). In 2011 in Russia the number of translation companies was about 850, 40% of them were concentrated in Moscow and 14% in Sankt-Petersburg. This breakdown was conditioned by high business activities in the two major Russian cities. For example, 50-60% of all the investment projects and international trade in the country falls on Moscow (Fridelhaus 2011). For this reason many regional translation agencies get subcontracts from metropolitan firms.

It is remarkable that despite the high territorial concentration of the market, on the whole it remains unconsolidated. Thus, assuming that the total turnover of translation services on the Russian market is assessed to be approximately 400-500 million dollars, in 2011 the largest company Janus WorldWide earned around 12 million dollar or 2-3% of the whole market. At the same time the top-twenty of the major translation companies reached the mark of 96 million dollars, which makes around 19-24% of the aggregate market (see fig. 11).



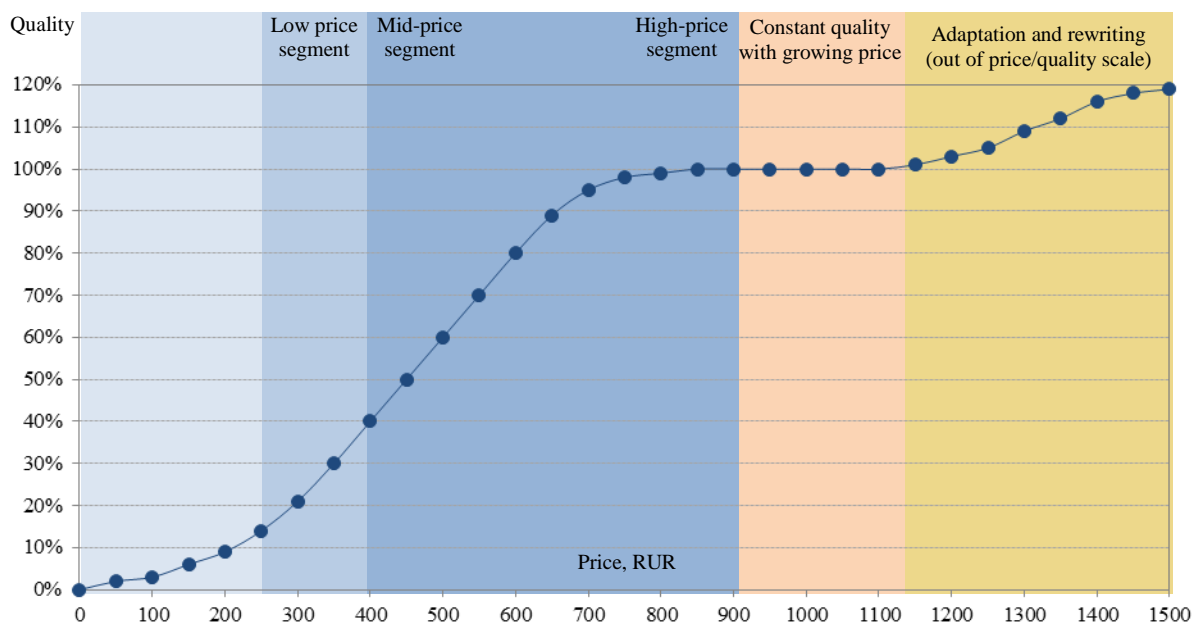
**Figure 11: Market shares of Top twenty participants of the translation services market in 2011. (Mozgorilla 2012)**

The main reason why the branch of translation services is not consolidated lies in the fact that the market is split to a number of segments oriented to different translation fields and clients. Thus, small companies work mostly with private clients while larger agencies seek to serve corporate clients (Fridelhaus 2011).

As a result of the fragmentation the price dispersion on the Russian market of translation services is significant (literally from 100 to 1100 RUB for a page of translation). In this regard the correlation between the quality level and price for job in upper price segment can be lost as it is shown in the diagram (see fig. 11). Under conditions of non-transparency of the translation process, this situation makes sufficiently complicates the search of an acceptable variant by a customer.

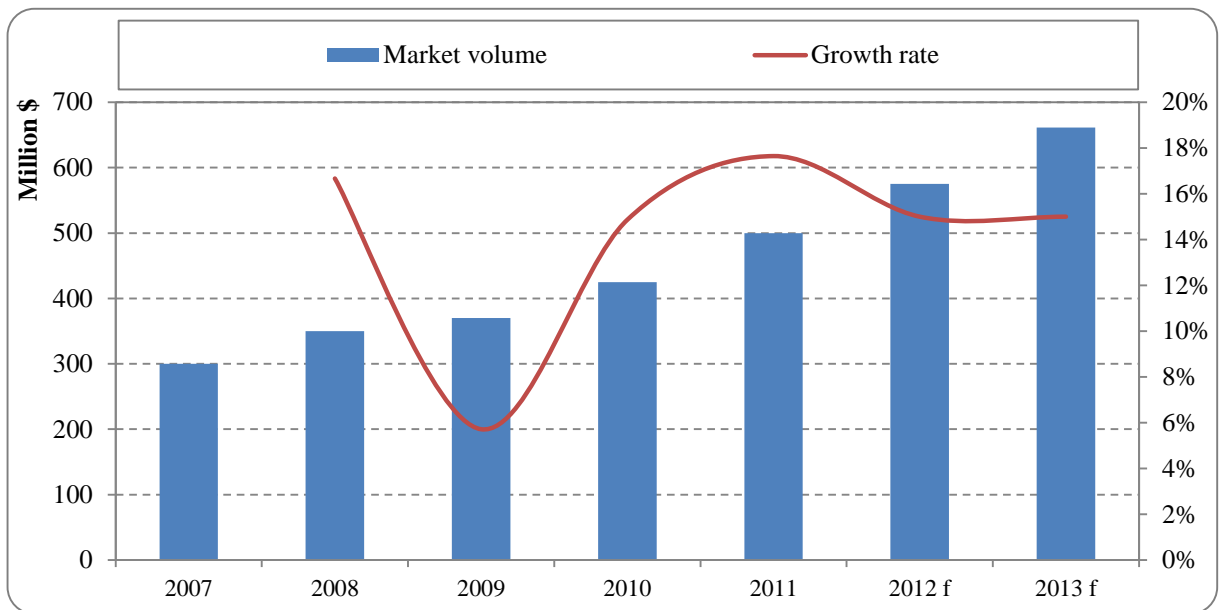
Nevertheless it should be taken into account that the translation services market keeps demonstrating rather high rates of annual growth. After the crisis of 2010, the market growth rates reached the pre-crisis level of 15%. This is why up to the end of 2013 the

annual growth of the Russian translation services market can be expected at the level of 13-17% (Fridelhaus 2011), which on the whole allows forecasting the following dynamics of the market development (see fig. 12). Active growth, in particular, will be facilitated by major events to be conducted in the RF: Olympic Games in Sochi in 2014 and World Football Championship, technical modernization of Russian plants, purchase of imported equipment and machinery, opening by joint ventures by Russian and foreign partners, growth of integration with western countries caused by entering the WTO, etc.



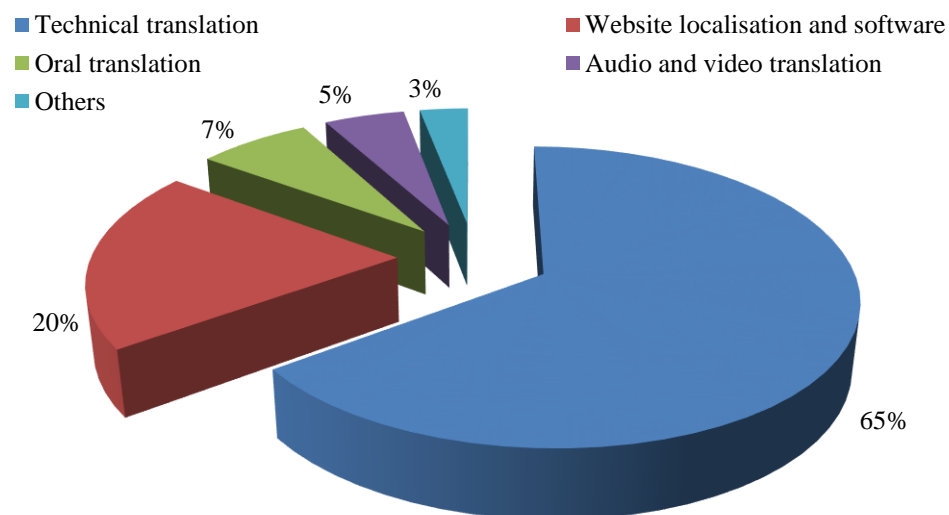
**Figure 12: Dependence of translation quality on translation services price on the Russian market (ABBYY 2012)**

Additional data on the market of translation services can be obtained considering its structure, which in the recent years has remained stable enough despite the crisis. Thus, before the crisis the prevailing share of 65% of the translation services turnover was formed by technical translation (Ebohon and Shebanova 2008), which is actual in full up to the present day (Fridelhaus 2011). At the same time such directions of translation services as localization of web-sites and software, translating and interpreting as well as translation of multimedia materials, video, audio and other interactive materials remain popular (see fig. ure 13).



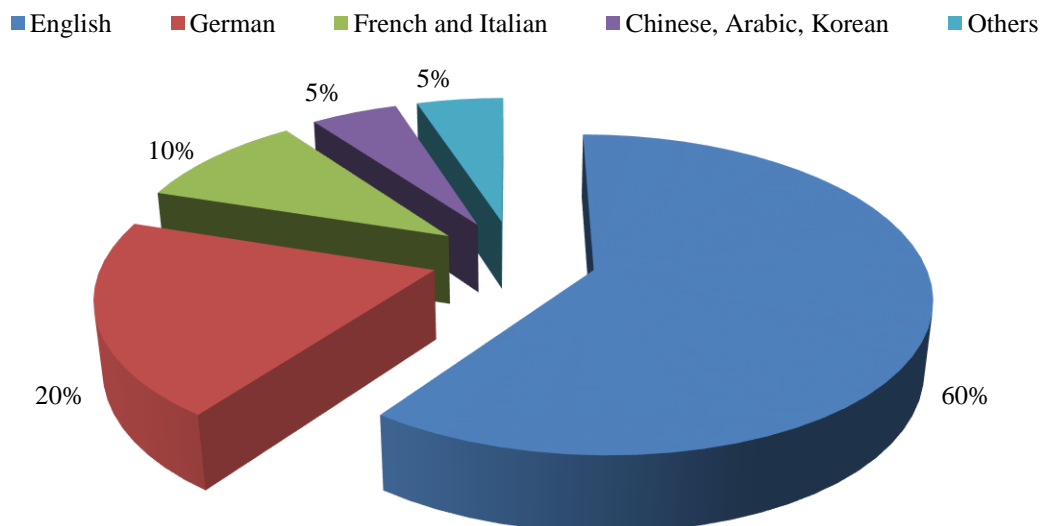
**Figure 13: Dynamics of the Russian translation services market development**  
(Ebohon and Shebanova 2008; Fridelhaus 2011)

It is remarkable that the market is stable enough not only in terms of activity directions, but even profile languages. Thus, before the crisis around 60% of all translations fell on English, 20% - on French, Italian and German (see fig. ure 14) (Ebohon and Shebanova 2008).



**Figure 14: Structure of the Russian translation services market by activity directions**  
(Ebohon and Shebanova 2008)

Along with this, according to post-crisis data, 50% to 75% of the whole volume of translation services fall on the Russian-English pair, which proves the prevailing role of the English language (Fridelhaus 2011).



**Figure 15: Structure of the Russian translation services market by profile languages (Ebohon and Shebanova 2008)**

On the whole, based on the data collected, we can make the inference that the market of translation services in Russia is developing, fragmented and segmented, characterized by absence of strict marketing policies and standards (they have just started the formation process). At the same time the competition level on the market remains very high.

According to the conclusions made, the M. Porter's Five Forces Model can be constructed to characterize the role of principal contractors in the sphere of translation services (see table 5).

Based on the table 5 we can conclude that the future project of a translation agency can be mostly negatively influenced by current and new competitors as well as substitutes. In the first group the negative impact is caused mostly by the big number and diversity of competitors as well as differentiation of services. New competitors become a threat because the market barriers remain low due to light requirements to capital, as well as availability of human recourses, distribution channels and working methods. With respect to substitutes (foreign languages learning programs, user software for translation, etc.), due to their high efficiency and abundance as well as aggressive market development, they are able to significantly influence the translation services market players.

It is noteworthy that in the future the situation should change somewhat. Thus, the number of competitors will be smaller, but their policy rates will rise, leaving them as a major force in the market. New competitors, with stricter rules and introduction of the performance standards will experience increasing barriers to entry the market, which will reduce their





The competitors' dominant role requires their scrutiny by separating into the strategic groups and defining the key factors of their success today and in the future. According to the collected data it is possible to separate the following groups of competitors:

- large companies – companies with a higher level of experience in the market, a high degree of diversification, strong staff of experts, broad financial capabilities (relative to competitors), as well as a focus on a high-price segment in the corporate sector;
- medium-sized companies – companies that at considerable experience and a high degree of diversification are trying to work with a broader base of customers, focusing on the mid-price segment in the private and corporate sectors;
- small companies – companies that may not have experience in the market, limit the choice of services due to low financial capacity and do not use permanent staff, replacing it with the services of freelancers, which leads them to focus on the low-price segment mainly in the private sector.

Within these groups of competitors the following key factors of the success can be defined:

- quality of the order performance;
- quality of the service;
- efficiency of the order performance;
- high quality / price ratio;
- willingness to be flexible;
- easy way of making an order.

It is noteworthy that both today and in the future each of the strategic groups will be able to implement these key factors of the success at a particular level in order to support the formed business model (see Table 6).

**Table 6: KFS analysis of the strategic groups**

<b>KFS</b>	<b>Large companies</b>	<b>Mid-sized companies</b>	<b>Small companies</b>
<b>Condition today</b>			
Quality of the order	Very high	High	Average
Quality of the service	High	Average	Low
Operability	High	High	Average
Quality / Price ratio	High	High	Average

<b>KFS</b>	<b>Large companies</b>	<b>Mid-sized companies</b>	<b>Small companies</b>
Flexibility	Average	Average	High
Easy way of making an order	High	High	Average
<b>Condition in the future</b>			
Quality of the order	Very high <b>(stability)</b>	Very high <b>(growth)</b>	High <b>(growth)</b>
Quality of the service	High <b>(stability)</b>	High <b>(growth)</b>	Average <b>(growth)</b>
Operability	Very high <b>(growth)</b>	Very high <b>(growth)</b>	High <b>(growth)</b>
Quality / price ratio	High <b>(stability)</b>	High <b>(stability)</b>	Average <b>(stability)</b>
Flexibility	Low <b>(reduction)</b>	Average <b>(stability)</b>	High <b>(stability)</b>
Easy way of making an order	Very high <b>(growth)</b>	Very high <b>(growth)</b>	High <b>(growth)</b>

The results showed that at the moment three strategic groups have strong market positions with a high or medium level of the KFS development. In the future, with the market consolidation and introduction of the performance standards, the key factors of the success of translation agencies will generally continue to grow, which requires careful attention to their creation in the new business today.

But, of course, the level of the KFS development depends on the specific needs of the served segments of customers that should be considered in order to understand how to meet them. Information on the segments is presented in the table 7.

**Table 7: Results of the segmentation of customers**

	<b>Corporate sector</b>		
	<b>Large companies</b>	<b>Mid-sized companies</b>	<b>Small companies</b>
Approximate share of the demand in the sector (in value terms)	35 %	45 %	20 %
Social and demographic factors	Revenue – from 1 billion rubles Areas: oil and gas, finance, retail, etc.	Revenue – from 400 million rubles to 1 billion rubles Areas: practically each sector of the economy	Revenue – from 60 to 400 million rubles Areas: practically each sector of the economy
Benefits of the services to the customer	Translation performance for implementation of the specific projects,	Translation performance for obtainment of technical	Translation performance for execution of legal and other documents /

	<b>Corporate sector</b>		
	<b>Large companies</b>	<b>Mid-sized companies</b>	<b>Small companies</b>
	establishment of important business relations with foreign partners, execution of documentation / content	documentation and the project implementation, execution of legal documents / content	content
Consumer's behavior	Search for a large and reliable company for establishment of permanent relations	Search for a large or mid-sized company for performance of large single orders	Search for a mid-sized or small company for performance of small single orders
	<b>Private sector</b>		
	<b>"Experts"</b>	<b>"Tourists"</b>	<b>"Amateurs"</b>
Approximate share of the demand in the sector (in value terms)	45 %	40 %	15 %
Social and demographic factors	Age: 25-60 Income level: above average	Age: 18-75 Income level: any	Age: 12-75 Income level: any
Benefits of the services to the customer	Execution of specified legal and other documents in order to perform professional activity	Execution of specified legal and other documents in order to go abroad	Execution of any content in accordance with the customer's specified demands (books, magazines, video, etc.)
Consumer's behavior	Search in all the groups in order to obtain the best quality / price ratio and stable relations	Search in mid-sized and small companies in order to quickly execute a single order	Search in all the groups in order to quickly execute a single order

According to the results, it can be concluded that in the corporate sector relations between the customer and the translation agency are largely based on the level of capacity and the degree of responsibility of the performer. For this reason, for the segment of large companies mid-sized and small translation companies are generally unacceptable to build long-term relationships. In the private sector, the key objectives of translation are performance of professional activity, as well as implementation of the objectives of short- and long-term tourism. Private customers are more flexible and willing to interact with the organization depending not on its size, but on the specific characteristics, which increases the chances of small businesses.

In general, this market research allows creation of a strategic plan for the development of a new project. However, first it should be noted that the collected data contribute to the goals

specification for the development of a new translation agency, stating that for small businesses it is reasonable to be guided by the needs of private customers and small companies, fulfilling requests for translation of technical documentation and a variety of content (audio, video, etc.), as well as localization of sites and software.

### 3.3 Strategic Plan

Based on the collected data, it is possible to develop the SWOT matrix (see Table 8).

**Table 8: Results on the SWOT matrix<sup>1</sup>**

<b>S</b> (Strengths) <ul style="list-style-type: none"> <li>• High quality of the work</li> <li>• Operability in the order performance</li> <li>• High flexibility in the order performance</li> <li>• High convenience of making the order</li> </ul>	<b>O</b> (Opportunities) <ul style="list-style-type: none"> <li>• Russia’s accession to the WTO</li> <li>• Recovery of the economy</li> <li>• Growth of the tourism activity</li> <li>• Development of the Internet-channel and the software</li> </ul>
<b>W</b> (Weaknesses) <ul style="list-style-type: none"> <li>• Lack of financial resources</li> <li>• Distrust in the first years of development</li> <li>• Absence of specialization and experience</li> <li>• Problems of the service quality</li> </ul>	<b>T</b> (Threats) <ul style="list-style-type: none"> <li>• State pressure</li> <li>• High competition pressure</li> <li>• Low market barriers for the entry</li> <li>• Notable impact of the substitutes</li> </ul>

In accordance with the results of the SWOT matrix it can be concluded that for the development in the market the project of the translation agency should fulfill the following strategic initiatives (see Table 9**Error! Reference source not found.**).

Significant state pressure on small businesses, as well as a high level of competition from the industry players and substitutes increases significantly risks of implementation of the business project. So even now, as an alternative, an option of the refusal of the proposed ideas can be defined. However, in the context of Russia’s accession to the WTO, growth of the tourism activity and recovery of the economy, the sector of translation services remains attractive, allowing an offer of three interrelated strategic initiatives directed at the successful implementation of the project. On their basis, further business plan should be worked out.

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<sup>1</sup>Strengths and weaknesses are defined on the basis of the goals for the project development and the specifications of the strategic groups for the small companies

**Table 9: Choice of the strategic initiatives of the project**

	<ul style="list-style-type: none"> <li>• Russia’s accession to the WTO</li> <li>• Recovery of the economy</li> <li>• Growth of the tourism activity</li> <li>• Development of the Internet-channel and the software</li> </ul>	<ul style="list-style-type: none"> <li>• State pressure</li> <li>• High competition pressure</li> <li>• Low market barriers for the entry</li> <li>• Notable impact of the substitutes</li> </ul>
<ul style="list-style-type: none"> <li>• High quality of the work</li> <li>• Operability in the order performance</li> <li>• High flexibility in the order performance</li> <li>• High convenience of making the order</li> </ul>	<ul style="list-style-type: none"> <li>– Active development both in corporate and private sectors due to their subsequent growth</li> </ul>	<ul style="list-style-type: none"> <li>– Focus on the high-quality service of requests in the segments “experts” and “tourists”</li> </ul>
<ul style="list-style-type: none"> <li>• Lack of financial resources</li> <li>• Distrust in the first years of development</li> <li>• Absence of specialization and experience</li> <li>• Problems of the service quality</li> </ul>	<ul style="list-style-type: none"> <li>– Provision of high-performance work, allowing development on the basis of the proper profit</li> <li>– Formation of the staff of professional employees in the area of the work performance and service</li> <li>– Provision of effective promotion of the company’s name in the market through the Internet-channel</li> </ul>	<ul style="list-style-type: none"> <li>– Refusal of the business due to high competitions and the state pressure on small businesses</li> </ul>

### 3.4 Marketing Plan

In accordance with the strategic initiatives it is possible to define the marketing plan of the business project, based on the model 7P (see Table 10).

**Table 10: The final variant of the marketing-mix project**

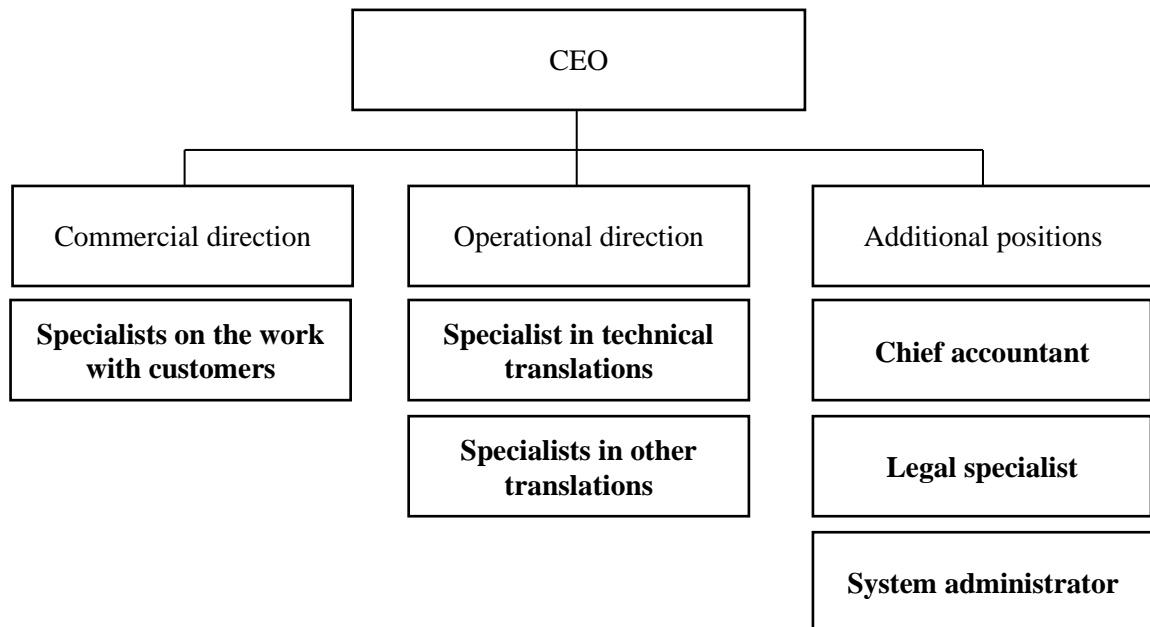
Model 7P	Characteristics
Product	High-quality services in the sector of translation of technical documentation and content, as well as localization of sites and software
Price	Development in the average price segment due to orientation on the provision of the works of high quality (500-700 rubles / page)
Promotion	Promotion through the Internet-channel (development of the proper site, advertisement at other sites, work in the social networks)
Place	Performance of translation of the documents sent by post, fax, submitted personally or downloaded into the system of the on-line order

<b>Model 7P</b>	<b>Characteristics</b>
People	High-skilled and experienced professionals, performing translation activity and customer's service
Process	Performance of translations with the help of the software, quick receipt of orders on the basis of the on-line system
Physical evidence	Conveniently located and well-equipped office, having the necessary communications and the security system

According to the marketing plan, it is possible to form an organizational plan of the project of the translation agency shown below.

### 3.5 Organizational Plan

Translation agency will be developing on the basis of a simple linear-functional organizational structure shown below (see Fig. Figure 16). In the future, its active expansion is expected due to successful market expansion of the business.



**Figure 16: Organizational structure of the project**

The head of the company will be CEO, who will be running commercial and operational directions, as well as additional positions (chief accountant, legal expert and system administrator). General functions of each of them are presented below, see Table 11.

On the basis of the general guidelines for the organizational and financial plans it is possible to develop a financial plan of the business.

**Table 11: General position functions in the project**

<b>Position</b>	<b>General function</b>
CEO	Tactic and strategic administration of the company's development, performance of the current management (in the first stages)
Chief accountant	Tracing of financial accounts, performance of accountability, interaction with taxation authorities
Legal expert	Solution of current legal issues of the company, performance of notarization of documents
System administrator	Administration of the company's promotion in the Internet, aid to the experts in the projects of localization of sites and software
Experts in translation (in general)	Performance of operative activity on translation of technical documentation, content, sites and software
Experts on the work with customers	Receipt and handling of customer's orders, performance of the after-sale service

### **3.6 Financial Plan**

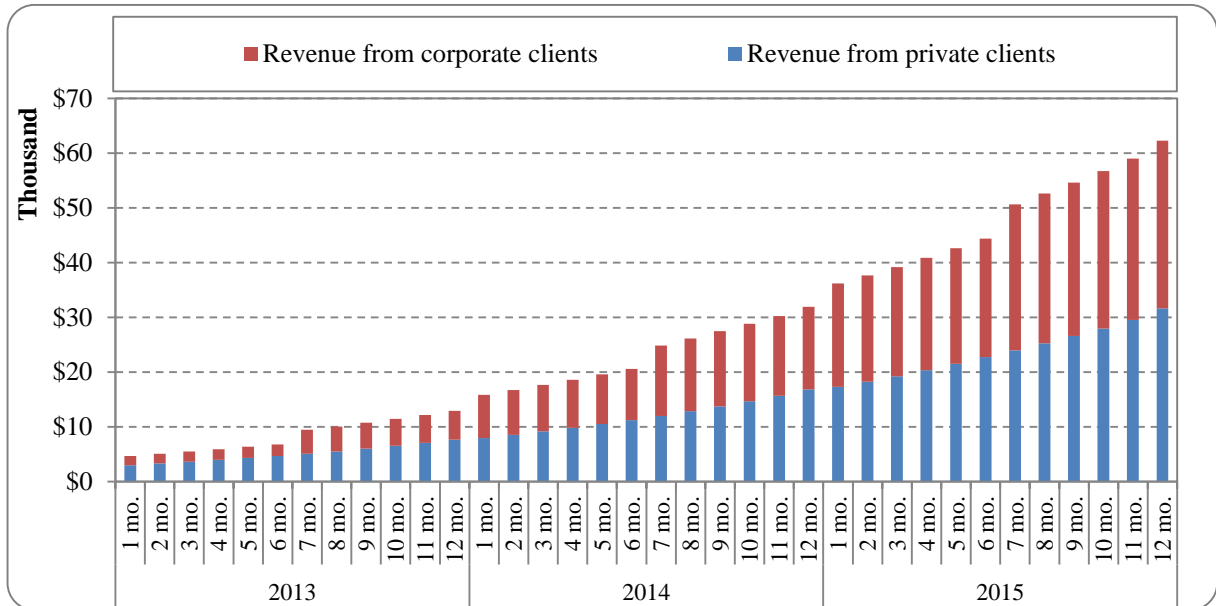
To develop a financial plan, first it is necessary to determine a commercial plan and a budget for current expenses.

General data of the commercial plan are presented in Appendices 1-3. It is assumed that in 2013-2015 monthly number of private customers of the company will increase from 50 to 198 or 290 %. At the same time, the average monthly number of the addressing companies will increase from one to six organizations for the same period. At the initial cost of services of \$ 20 for individuals and \$ 24 for businesses for one equivalent of a page (1800 words), sales structure will ultimately change as follows (see Fig. ure 17). If at the beginning of the activity of the translation agency the revenue, formed through corporate customers, will be only 35.9 % of the total revenues, by the end of 2015 it will be 49.2 % due to the growth of the company's reputation in the market (see Fig.ure 17).

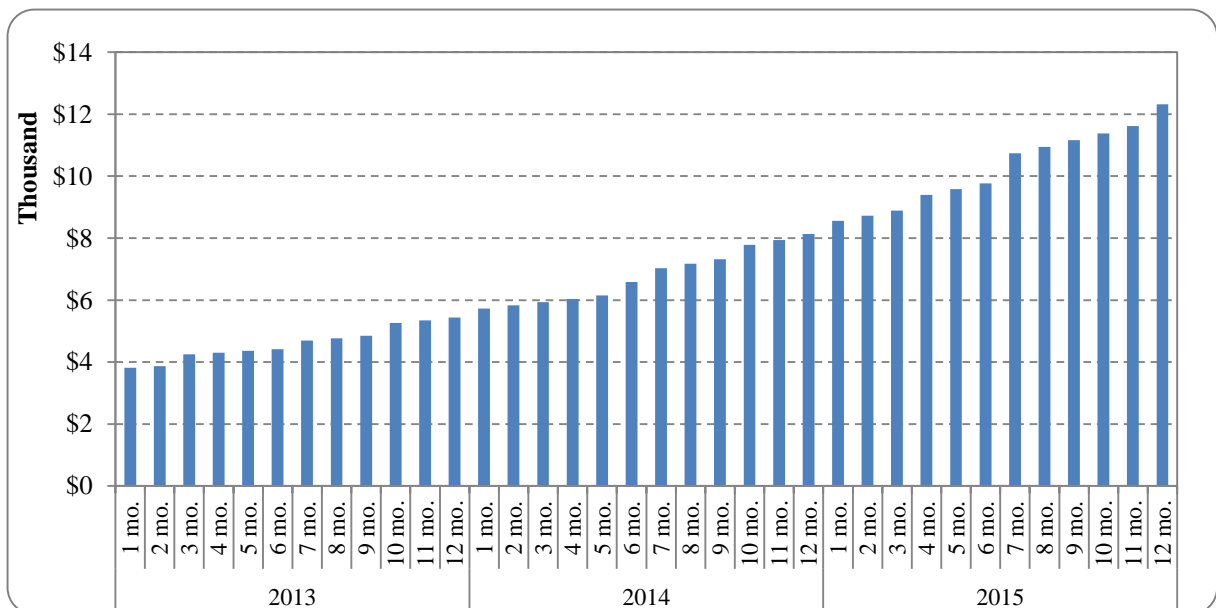
In response to the growth of the number of customers there will be a need to constantly expand the staff, as the average load of one translator is usually no more than 8-10 pages a day. Given the fact that the starting salary of an expert-translator in the company will be \$



1,400 (including the social security tax), and besides about 10 % of the revenue will be spent on the office issues (this includes purchase of furniture / office equipment for the business expansion) and about \$ 65 – on the monthly rent of one square meter of the office space (which will be expanded with the business development), in general there will be the following cost price dynamics (see Appendix and Fig. ure 18)



**Figure 17: Structure of the project revenue**



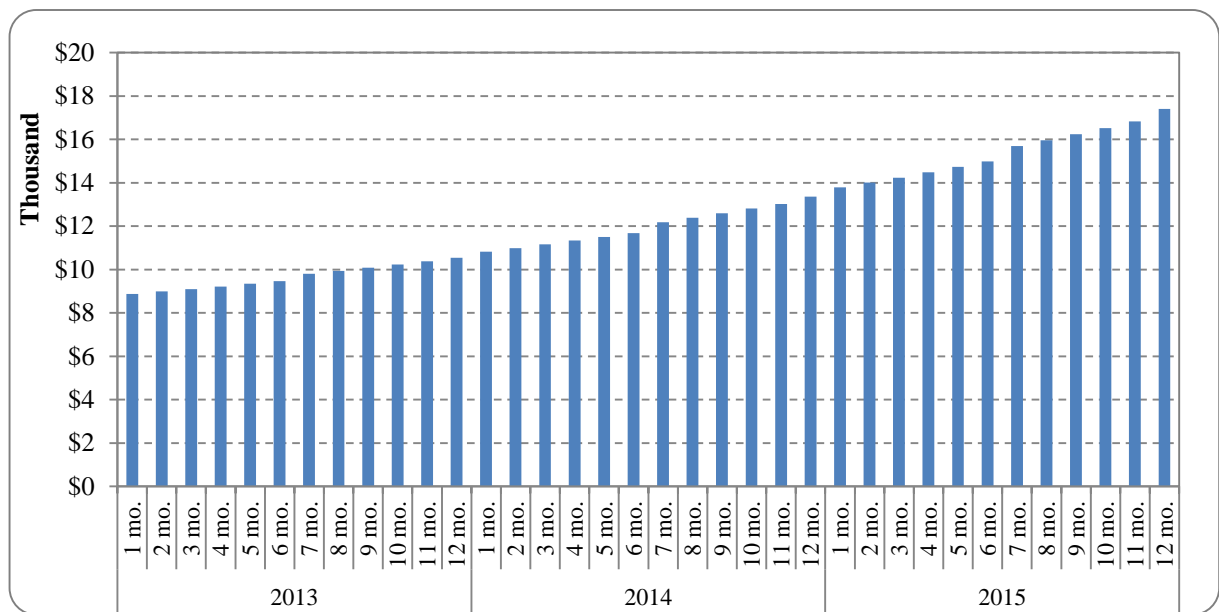
**Figure 18: Dynamics of the project cost price**

The business of the translation agency also implies administrative, commercial and general expenses, namely:

- expenses on salaries of administrative staff, namely, Chief Executive Officer ( starting rate of \$2 200 per month), Chief Accountant (starting rate of \$2 000 per month), specialist of the legal department ( starting rate of \$1 600 per month);

- expenses on salaries of commercial staff, namely, Customer Relations Specialist, (starting rate of \$1 200 per month), whose performance will allow keeping the same number of employees in the future (up to the end of 2015, one person in this position will be enough);
- additional commercial expenses, connected with the expenses on advertising and website (allocated equally across income dynamics in the amount of 6% of the revenue);
- additional general expenses on expendable office materials, electricity, communications, etc. (allocated equally across income dynamics in the amount of 4% of the revenue).

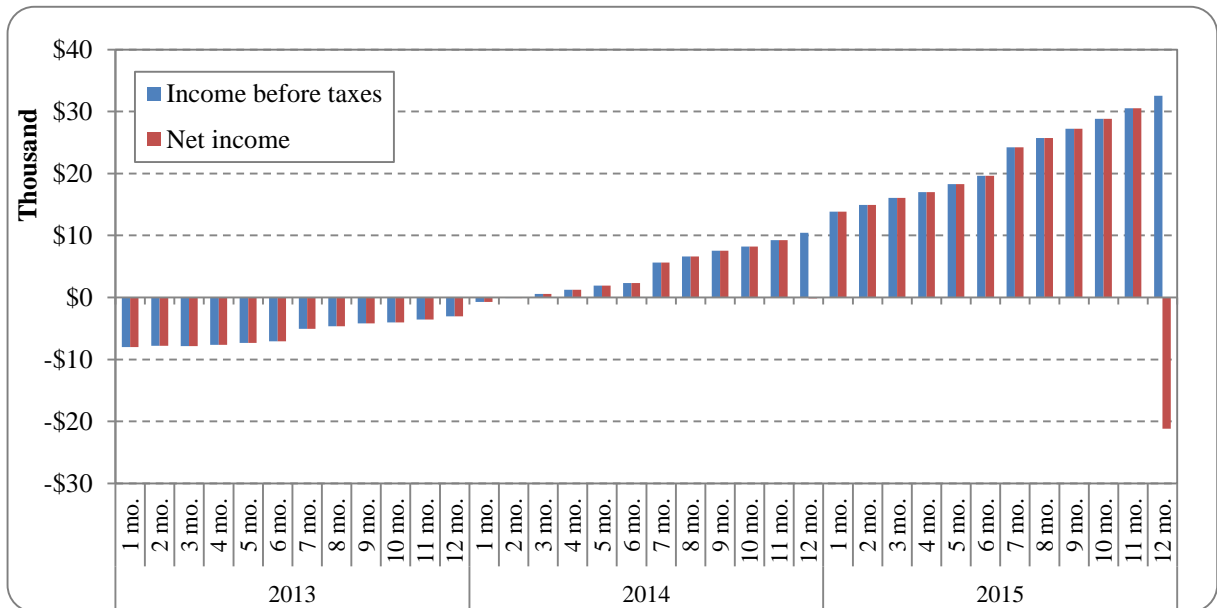
Hence, one can expect the following dynamics of commercial and administrative expenses (see appendices see appendices **Error! Reference source not found.-Error! Reference source not found.** and fig. 19).



**Figure 19: Dynamics of project's commercial, administrative and general expenses**

Obtaining the complete data on the project's incomes and expenses allows estimating income before taxes, as well as net income (see appendix **Error! Reference source not found.** and fig. 20).

According to the forecasts for the third month of 2014, the translation agency should start to generate net income. Along with that, over 2015, it will reach \$215 thousand. Thus, the general financial plan of the project was worked out. However, to substantiate it, the project evaluation should be carried out.



**Figure 20: Dynamics of the project's income before taxes and net income<sup>2</sup>**

### 3.7 Business Valuation

Before carrying out project evaluation by NPV, IRR and DPP, the investment budget of the project should be appraised, and also an acceptable discount rate should be calculated.

According to the carried out appraisal, the approximate investment budget of the project will amount to \$38 thousand (see table 12). These funds will be directed to forming the company, purchasing the furniture, office repair and decoration, office equipment and other needs.

**Table 12: Investment budget of the project**

Expenses	Amount
Company registration and formation	\$2 000
Furniture and office design	\$15 000
Office equipment and computers	\$12 000
Purchase of software	\$4 000
Formation of working capital	\$5 000
<b>Total</b>	<b>\$38 000</b>

In regard to the discount rate, it was calculated on the basis of the CAPM formula (the project will develop only on the basis of investment funds) and amounted to 22.02% (see table 13).

<sup>2</sup> Income tax is paid at the end of each year

**Table 13: Investment budget of the project**

Indicator	Value	Source
Risk free rate	7,00%	Rusbonds 2012
Risk premium	8,25%	Damodaran 2012
Beta (information services)	91,00%	Damodaran 2012
Beta additional coefficient	2,00	
<b>Risk (equity)</b>	<b>22,02%</b>	

On the basis of the general results there can be calculated the discounted cash flows and certain indicators that characterize the investment attractiveness of the project for starting up the translation agency (see table 14).

**Table 14: Evaluation of investment attractiveness of the project**

	0	1	2	3
Net income per year		-\$70 297	\$42 376	\$215 046
Investments	-\$38 000			
Cash flows	-\$38 000	-\$70 297	\$42 376	\$215 046
DCF	-\$38 000	-\$57 614	\$28 464	\$118 384
Accumulated DCF	-\$38 000	-\$95 614	-\$67 150	\$51 234
NPV	\$51 234			
IRR	48%			
DPP	2,57			

According to the obtained results , over three years, the NPV of the project will amount to \$51.2 million, IRR – 48%, DPP – 2.57 years. Thus, the project is feasible, which substantiates the recommendations made earlier regarding the development of the translation agency in Moscow.

## DISCUSSION & CONCLUSIONS

On the basis of the carried out research, the following conclusions can be drawn:

- the process of business plan development requires involving a large amount of versatile information in order to meet the requirements of stakeholders (where investors can be singled out), as well as carrying out a comprehensive study of a potential situation and the efficient implementation of the formulated business idea;
- the structure of the business plan in broad sense includes a strategy, a marketing plan, as well as a sales plan, a production plan, the plans for work organisation and financing. All these points are relevant for a startup project, as well. Such similarity exists because a business plan is viewed as a certain model of an enterprise's activity, which uses all the best practices of traditional planning in respect to the categories of market economy;
- for the purposes of this research the following subsections were included in business plan: strategic plan, marketing plan, organizational plan, commercial/financial plan and investment appraisal;
- the goals of the project imply having a sufficient number of staff and developing the system of efficient work organisation up to 2013, forming a customer relations system and ensuring the profitability of the business up to 2014, as well as achieving stable incomes, where regular customers will have accounted for minimum 40% of the demand by the end of 2015;
- the negative impact on the current state of Russia's macroenvironment is mainly caused by political (a tougher legislation, the growth of corruption). Besides, the negative tendencies can be seen in economic sphere as well, first of all, due to a post-crisis slowdown of the GDP's growth rate, which limits business's potential. Nevertheless, on the whole, the situation remains positive. Favorable social and technological factors, as well as possible increase in demand for translation services due to Russia's accession to the WTO stabilize the situation;
- the Russian market of translation services is a developing one, non-consolidated, fragmented and segmented, and it also lacks strict marketing policies and standards (they are only starting to shape). Along with that, the level of competition remains

very high. Therefore, the major negative impact on the translation agency project will be made by the existing and new competitors, as well as substitutes.

- at the present moment, three strategic groups (big, medium-sized and small translation agencies) have steady market positions at the high or medium level of KSF. In the future, as long as the market consolidates and new operational standards get introduced, the key success factors of translation agencies will continue to develop, which requires that attention be paid to their creation in a new business today already;
- in terms of corporate sector, the relationships between a customer and a translation agency in many ways depend on the level of opportunities and how responsible the agency is. At the same time, private customers are more flexible and are ready to cooperate with the organisation taking into account its specific characteristics, rather than size.
- for a small-sized translation business it is reasonable to focus on the needs of private customers and small companies, fulfilling the orders for translation of technical documentation and various content (audio, video, etc.), as well as localization of websites and software.

## MANAGERIAL IMPLICATIONS

The final stage of the research develops the key managerial recommendations, namely:

- in the context of Russia's accession to the WTO, an increased tourist activity and recovery of the economy, the sphere of translation services remains rather attractive, which allows proposing three interconnected strategic initiatives aimed at successful implementation of the project. These initiatives suggest active development in both corporate and private sectors due to their future growth; they propose to focus the attention on meeting customer requirements by producing a high quality product, to ensure efficient performance, to form a team of professionals and promote the company's name in the Internet;
- within the frames of marketing-mix, to implement the strategy, the company will have to establish high-quality service system, to develop in medium price segment, to promote through the Internet, to perform translations of paper documents and electronic documents/content, to attract highly qualified specialists, to use software support, and also to have a conveniently located comfortable office;
- the translation agency should develop on the basis of a simple linear-functional organizational structure. The company will be headed by the Chief Executive Officer and commercial and operating divisions will be subordinated to him, as well as additional positions (Chief Accountant, Legal Specialist and System Administrator);
- the approximate time for the project to reach profitability - the third month of 2014. The implementation of the strategy will allow the project to reach the NPV of \$51.2 million in three years, along with IRR of 48%, and DPP of 2.57 years. This makes this project feasible.

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<sup>3</sup> FAT – Federal Agency of Tourism

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<sup>4</sup> FSSS - Federal State Statistics Service

<sup>5</sup> IWS – Internet World Stats

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## APPENDICES

### Appendix 1. Sales plan – 2013 year

	2013											
	1 mo.	2 mo.	3 mo.	4 mo.	5 mo.	6 mo.	7 mo.	8 mo.	9 mo.	10 mo.	11 mo.	12 mo.
Number of private clients	50	53	56	59	62	65	68	71	75	79	83	87
Monthly growth rate		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Number of corporate clients	1	1	1	1	1	1	2	2	2	2	2	2
Average private order (pages eqv.)	3,00	3,09	3,18	3,27	3,36	3,45	3,55	3,64	3,73	3,82	3,91	4,00
Average corporate order (pages eqv.)	70,00	72,73	75,45	78,18	80,91	83,64	86,36	89,09	91,82	94,55	97,27	100,00
Private sales (pages eqv.)	150,0	163,8	178,2	193,1	208,5	224,5	241,1	258,2	279,5	301,6	324,5	348,0
Corporate sales (pages eqv.)	70,0	72,7	75,5	78,2	80,9	83,6	172,7	178,2	183,6	189,1	194,5	200,0
Total sales (pages eqv.)	220,0	236,5	253,6	271,3	289,5	308,2	413,8	436,4	463,2	490,7	519,0	548,0
Average private price (page eqv. \$)	\$20	\$20	\$20	\$21	\$21	\$21	\$21	\$21	\$21	\$22	\$22	\$22
Average corporate price (page eqv. \$)	\$24	\$24	\$24	\$25	\$25	\$25	\$25	\$26	\$26	\$26	\$26	\$26
Revenue from private clients	\$3 000	\$3 306	\$3 628	\$3 967	\$4 323	\$4 695	\$5 085	\$5 492	\$5 998	\$6 526	\$7 079	\$7 656
Revenue from corporate clients	\$1 680	\$1 761	\$1 844	\$1 928	\$2 012	\$2 099	\$4 372	\$4 548	\$4 728	\$4 909	\$5 094	\$5 280
<b>Total revenue</b>	<b>\$4 680</b>	<b>\$5 067</b>	<b>\$5 472</b>	<b>\$5 895</b>	<b>\$6 335</b>	<b>\$6 794</b>	<b>\$9 456</b>	<b>\$10 041</b>	<b>\$10 725</b>	<b>\$11 436</b>	<b>\$12 173</b>	<b>\$12 936</b>

## Appendix 2. Sales plan – 2014 year

	2014											
	1 mo.	2 mo.	3 mo.	4 mo.	5 mo.	6 mo.	7 mo.	8 mo.	9 mo.	10 mo.	11 mo.	12 mo.
Number of private clients	90	94	98	102	106	110	114	119	124	129	134	139
Monthly growth rate	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Number of corporate clients	3	3	3	3	3	3	4	4	4	4	4	4
Average private order (pages eqv.)	4,00	4,09	4,18	4,27	4,36	4,45	4,55	4,64	4,73	4,82	4,91	5,00
Average corporate order (pages eqv.)	100,00	102,73	105,45	108,18	110,91	113,64	116,36	119,09	121,82	124,55	127,27	130,00
Private sales (pages eqv.)	360,0	384,5	409,8	435,8	462,5	490,0	518,2	551,7	586,2	621,5	657,8	695,0
Corporate sales (pages eqv.)	300,0	308,2	316,4	324,5	332,7	340,9	465,5	476,4	487,3	498,2	509,1	520,0
Total sales (pages eqv.)	660,0	692,7	726,2	760,4	795,3	830,9	983,6	1028,1	1073,5	1119,7	1166,9	1215,0
Average private price (page eqv. \$)	\$22	\$22	\$22	\$23	\$23	\$23	\$23	\$23	\$23	\$24	\$24	\$24
Average corporate price (page eqv. \$)	\$26	\$27	\$27	\$27	\$27	\$27	\$28	\$28	\$28	\$28	\$29	\$29
Revenue from private clients	\$7 920	\$8 530	\$9 165	\$9 826	\$10 512	\$11 225	\$11 965	\$12 840	\$13 749	\$14 691	\$15 668	\$16 819
Revenue from corporate clients	\$7 920	\$8 203	\$8 490	\$8 780	\$9 074	\$9 372	\$12 897	\$13 304	\$13 715	\$14 130	\$14 551	\$15 101
<b>Total revenue</b>	<b>\$15 840</b>	<b>\$16 733</b>	<b>\$17 655</b>	<b>\$18 606</b>	<b>\$19 587</b>	<b>\$20 597</b>	<b>\$24 863</b>	<b>\$26 144</b>	<b>\$27 463</b>	<b>\$28 821</b>	<b>\$30 219</b>	<b>\$31 920</b>

### Appendix 3. Sales plan – 2015 year

	2014											
	1 mo.	2 mo.	3 mo.	4 mo.	5 mo.	6 mo.	7 mo.	8 mo.	9 mo.	10 mo.	11 mo.	12 mo.
Number of private clients	143	147	151	156	161	166	171	176	181	186	192	198
Monthly growth rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Number of corporate clients	5	5	5	5	5	5	6	6	6	6	6	6
Average private order (pages eqv.)	5,00	5,09	5,18	5,27	5,36	5,45	5,55	5,64	5,73	5,82	5,91	6,00
Average corporate order (pages eqv.)	130,00	132,73	135,45	138,18	140,91	143,64	146,36	149,09	151,82	154,55	157,27	160,00
Private sales (pages eqv.)	715,0	748,4	782,5	822,5	863,5	905,5	948,3	992,0	1036,6	1082,2	1134,5	1188,0
Corporate sales (pages eqv.)	650,0	663,6	677,3	690,9	704,5	718,2	878,2	894,5	910,9	927,3	943,6	960,0
Total sales (pages eqv.)	1365,0	1412,0	1459,7	1513,5	1568,1	1623,6	1826,5	1886,5	1947,5	2009,5	2078,2	2148,0
Average private price (page eqv. \$)	\$24	\$24	\$25	\$25	\$25	\$25	\$25	\$25	\$26	\$26	\$26	\$27
Average corporate price (page eqv. \$)	\$29	\$29	\$29	\$30	\$30	\$30	\$30	\$31	\$31	\$31	\$31	\$32
Revenue from private clients	\$17 303	\$18 246	\$19 220	\$20 354	\$21 526	\$22 735	\$23 983	\$25 269	\$26 594	\$27 960	\$29 519	\$31 625
Revenue from corporate clients	\$18 876	\$19 417	\$19 964	\$20 516	\$21 075	\$21 639	\$26 652	\$27 344	\$28 043	\$28 749	\$29 462	\$30 666
<b>Total revenue</b>	<b>\$36 179</b>	<b>\$37 663</b>	<b>\$39 183</b>	<b>\$40 870</b>	<b>\$42 601</b>	<b>\$44 375</b>	<b>\$50 635</b>	<b>\$52 613</b>	<b>\$54 637</b>	<b>\$56 708</b>	<b>\$58 981</b>	<b>\$62 291</b>