

**NATIONAL AVIATION UNIVERSITY
FACULTY OF TRANSPORT, MANAGEMENT AND LOGISTICS**

Department of Management of Foreign Economic Activity of Enterprises

**METHODICAL RECOMMENDATIONS FOR STUDENT PREPARATION
TO PRACTICAL (LABORATORY) CLASSES**

**ON DISCIPLINE "BUSINESS PLANNING IN FOREIGN ECONOMIC
ACTIVITY"**

FOR STUDENTS ___ 5 ___ YEAR

Educational and Professional Program: "Management of Foreign Economic Activity"
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Department _____

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INTRODUCTION

This subject is a theoretical and practical basis for a set of knowledge and skills that form the profile of a specialist in the management of foreign economic activity.

The purpose of teaching the subject is to acquaint students with the features of business planning in the enterprises of the country and to determine the strategic, tactical and operational goals in the implementation of foreign economic operations.

The objectives of the subject are:

- mastering by students of the categorical apparatus used in the approaches of planning foreign economic operations of business entities;
- formation of a system of knowledge about the theoretical foundations of the analysis of the internal and external environment of the enterprise;
- mastering the methods of obtaining and processing information in economic and foreign economic activity;
- definition of the main components and features of construction of the planned policy of the enterprise in the international markets, in particular the markets of the EU countries;
- study of forms of interaction of business partners in the framework of creating a plan to enter foreign markets;
- research of features of the organization of planned policy at the enterprises - subjects of foreign economic activity;

The teaching material of the subject is structured on a modular basis and consists of two training modules, namely: training module № 1 "Strategic and operational planning of foreign economic operations of economic entities", which is a logical complete, relatively independent, integral part of the subject, the mastering of which involves a modular test and analysis of the results of its implementation. And the training module № 2 "Course project", which is the result of training and knowledge gained in teaching the subject.

Situational tasks and typical and specific tasks are solved on the basis of the methods developed by the teachers and the department of management of foreign economic activity of the NAU enterprises.

MODULE 1. STRATEGIC AND OPERATIONAL PLANNING OF FOREIGN ECONOMIC OPERATIONS OF ECONOMIC ENTITIES"

Integrated requirements of the module № 1: analyze the results of the organization, compare them with the factors of external and internal environment; determine development plans for the organization; work in a team and establish interpersonal interaction in solving planned tasks; evaluate existing plans, ensure their quality and motivate the organization's staff; understand the principles of psychology and use them in planning activities; to make a forecast with the involvement of various information sources and computer technologies, to use the whole set of information for the development of alternatives and planning decisions.

Practical lesson 1

Task 1

1. Define the term 'Project'. How will you classify the projects?
2. Define Project Management and outline its features clearly.
3. What can a firm do to stimulate the flow of Project Ideas?
4. What factors influence the project ideas?
5. What do you understand by project identification?

Task 2

Imagine then you are a manager of the project.

You must make short presentation of your project including:

- The essential of project
- Product: features, quality and quantity.
- Promotional message
- Distribution channels
- Product price
- Amount of investment
- Risks

Presentation volume – 1-2 page

Task 3

Tony and Steve are considering whether to purchase a new "bending brake." This machine puts precise bends in a material used in their vinyl siding business. The machine will cost \$70,000. Tony and Steve estimate that the machine will generate profits as follows: \$20,000 in its first year, \$15,000 in years 2, 3, and 4, \$10,000 in years 5 and 6. They believe the machine will have no value after year 6.

(a) Should they purchase the machine if they believe they can make 11 percent on their money in other investments of similar risk?

(b) Should they purchase the machine if they believe they can make only 4 percent on their money in other investments of similar risk?

Practical lesson 2

Task 1

Answer the question:

- What is a business plan?
- Why you think it's important for an entrepreneur to write a business plan?

Task 2

Lets work as a class to brainstorm ideas for the components you think would be important to include in one.

Effective business plans must have these components:

- Business description (an explanation of what the business will be and the need it will fill for consumers)
- Market analysis (a study of the competition in the industry)
- Marketing and sales strategy (a plan for how to sell the business's services or products and convince people to buy them)
- Funding requirements (an estimate of how much money will be needed to make the company successful)
- Financial projections (an estimate of how much money the company will be able to make)

Read and discuss a sample business plan as a class.

Task 3

Make Your Business Plan activity sheet. Each student should to choose a company they admire and create their own business plan for it as if they were starting it from scratch. You choice could be anything from a film studio to a clothing brand to a video game company.

Coefficient of variation:

$$V_k = \frac{\sqrt{\frac{(PR_i - PR_{average})^2}{n}}}{PR_{average}} * 100\%$$

If $V_k < 33\%$ then the risk is acceptable.

If $V_k > 33\%$ then the risk is high

Practical lesson 4

Task 1

Tests:

1. Return on equity is defined as :
 - a. Profitability = Net Worth / Profit after tax
 - b. Profitability = Profit after tax / Net Worth
 - c. Profitability = Profit after tax / Gross Worth
 - d. Profitability = Gross Worth / Profit after tax

2. Net Present Value (NPV) is the:
 - a. difference between present value of cash inflows and present value of cash outflows.
 - b. difference between future value of cash inflows and present value of cash outflows.
 - c. difference between present value of cash inflows and future value of cash outflows.
 - d. difference between future value of cash inflows and future value of cash outflows.

3. Internal rate of return (IRR) is the:
 - a. is that rate which equates the present value of cash inflows with the present value of cash outflows of an investment project
 - b. is that rate at the which NPV of a project is under one
 - c. is that rate at the which NPV of a project is upper zero

Task 2

The following are the net cash flows of an investment project :

Project	Investment (C), \$			Cash Flow (CF), \$		
	1 year	2 year	3 year	1 year	2 year	3 year
A	90000	45000	56000	250000	300000	110000
B	80000	20000	90000	256000	398000	120000
C	150000	15000	59000	220000	280000	160000

Calculate the **net present value** and **pay back period method (PBP)** of the project at discount rates of 10, 20, 30 and 35 percent.

Compare the projects and decide what is the most effectiveness.

Practical lesson 5

1

Mr. Kulonda, VP of Operations at McClain Manufacturing, has to make a decision between two investment alternatives. Investment A has an initial cost of \$61,000, and investment B has an initial cost of \$74,000. The useful life of investment A is 6 years; the useful life of investment B is 7 years. Given a cost of capital of 9% and the following cash flows for each alternative, determine the most desirable investment alternative according to the net present value criterion.

Year	Investment A's Cash Flow, \$	Investment B's Cash Flow, \$
1	19000	19000
2	19000	20000
3	19000	21000
4	19000	22000
5	19000	21000
6	19000	20000
7	19000	11000

Task 2

Evaluate the following capital investments according to net present value. Each alternative requires an initial investment of \$20,000. Assume a 10% cost of capital. Which is the preferred investment?

Year	Cash Flow from Investment 1	Cash Flow from Investment 2	Cash Flow from Investment 3
1	\$ 1,000	\$7,000	\$10,000
2	1,000	6,000	5,000
3	3,000	5,000	3,000
4	15,000	4,000	2,000
5	3,000	4,000	1,000
6	1,000	4,000	1,000
7	—	4,000	1,000
8	1,000	2,000	—
9	—	—	1,000

Practical lesson 6

Task 1

Look at the indicators in a following table and calculate the indexes of financial stability of the enterprise. Appreciate the dynamic of the indexes. Draw a conclusion about condition of the enterprise.

Aggregate balance sheet of the enterprise for the period

Indicator	Periods (quarters)			
	I	II	III	IV
Share capital	54028,6	53321	53080,2	52864
Assets				
Non-circulating assets (Fixed capital)	57125,9	56583	56351,7	55591
Stocks	5975	7123,4	7280,4	5110
Cash	1254,1	1467,2	857,1	836
Total assets	64355	65173,6	64489,2	61537
Liabilities				
Short-term liabilities	9183,5	10028,2	9808,5	7541
Long-term liabilities	588,3	588	744,7	894
Equity	54583,2	54557,4	53939	53102
Total Liabilities	64355	65173,6	64492,2	61537
Receivables	1249,9	1464,3	856,3	831
Short-term loans	1392	1418,1	1427,5	1375
Production results				
Income from sales	375	682,5	2186,2	2905
Production costs	536	1006,7	2714,1	3465
Gross profit	-212,4	-417	-856,5	-964
Balance profit	-212,4	-417	-856,5	-964
Taxes	12,8	12,8	12,8	13
Net Profit / Чистый прибуток	-225,2	-429,8	-869,3	-977

Methodical instructions:

I. Profitability

1. Return on assets (ROA) - efficient use of enterprise assets.

$$ROA = \text{Net Profit} / \text{Assets} * 100\%$$

The lower value of this indicator is 15%.

A positive trend is the growth of the indicator in the dynamics.

2. Return on equity (ROE)

$$ROE = \text{Net Profit} / \text{Equity} * 100\%$$

The lower value of this indicator is 10%.

A positive trend is the growth of the indicator in the dynamics.

3. Return on investment (ROI) - investment efficiency (equity + long-term liabilities).

$$\text{ROI} = \text{Net Profit} / (\text{Equity} + \text{Long-term liabilities}) * 100\%$$

The lower value of this indicator is 12%.

A positive trend is the growth of the indicator in the dynamics.

4. Return on invested capital (ROIC) - efficiency of total investments (equity, long-term and short-term liabilities).

$$\text{ROIC} = \text{Net Profit} / (\text{Equity} + \text{Long-term liabilities} + \text{Short-term loans}) * 100\%$$

The lower value of this indicator is 10%.

A positive trend is the growth of the indicator in the dynamics.

5. Return of sales (ROS) - efficiency of production activity of the enterprise.

$$\text{ROS} = \text{Gross profit} / \text{Income from sales} * 100\%$$

The lower value of this indicator is 30%.

A positive trend is the growth of the indicator in the dynamics.

6. Inventory turnover ratio (ITR) - how many times on average the company's stocks are covered in a certain period of time (quarter).

$$\text{ITR} = \text{Production costs} / \text{Stocks}$$

The lower value of this indicator is 2 (twice).

A positive trend is the growth of the indicator in the dynamics.

II. Solvency/ Платоспроможність

1. Debt capital concentration ratio (DAR) - dependence of the enterprise on external sources of financing.

$$\text{DAR} = (\text{Long-term liabilities} + \text{Short-term loans}) / \text{Assets} * 100\%$$

The **max** value of this indicator is 70%.

A positive trend is the **decrease** of the indicator in the dynamics.

2. Times interest earned (TIE) - The degree of protection of creditors from

non-payment of interest. It shows how many times during the reporting period the company has earned money to pay interest on loans.

$$\text{TIE} = \text{Balance profit} / \text{Taxes}$$

The lower value of this indicator is 2.5.

A positive trend is the growth of the indicator in the dynamics.

3. Receivables Turnover (RT) - resource efficiency of the enterprise (volume of sold products / volume of resources used in production).

$$\text{RT} = \text{Income from sales} / \text{Receivables}$$

The lower value of this indicator is 7.

A positive trend is the growth of the indicator in the dynamics.

III. Liquidity /Ліквідність

1. Current Ratio (CR) - the ability of the enterprise to pay on short-term liabilities

$$\text{CR} = (\text{Stocks} + \text{Cash}) / \text{Short-term loans}$$

The lower value of this indicator is 3.

A positive trend is the growth of the indicator in the dynamics.

2. Quick Ratio; Ratio of the rapid liquidity; the 2-nd level liquidity\$ "Acid test" (QR) - the ability of the enterprise to pay on short-term liabilities without taking into account the value of stocks.

$$\text{QR} = \text{Cash} / \text{Short-term loans}$$

The lower value of this indicator is 1.

A positive trend is the growth of the indicator in the dynamics.

3. Net Working Capital (NWC) – - the amount by which current assets exceed current liabilities.

$$\text{NWC} = (\text{Stocks} + \text{Cash}) - \text{Short-term loans}$$

The lower value of this indicator is 0.

A positive trend is the growth of the indicator in the dynamics.

Consider: can profitability be negative?

Practical lesson 7

Task 1

Initial data on the investment project:

Year	Cash-flow (thousand hryvnias)	Investments (thousand hryvnias)	Year of adjustment and its cost (thousand hryvnias)	Discount rate, %
1	170	950		10
2	150			
3	290		150	
4	300			
5	420			
6	480			

Determine the net present value.

Task 2

Robert Hall is considering a new machine for his shop. The machine is expected to generate receipts as follows: \$50,000 in year one; \$30,000 in year two, nothing in the next year, and \$20,000 in the fourth year. At an interest rate of 6 percent, what is the present value of these receipts?

Task 3

Pat Maggard needs to purchase a new milling machine. She is considering two different competing machines. Milling Machine A will cost \$300,000, and will return \$80,000 per year for six years, with no salvage value. Milling machine B will cost \$220,000, and will return \$60,000 for five years, with a salvage value of \$30,000. The firm is currently using 7 percent as the cost of capital. Using Net Present Value as the criterion, which machine should be purchased?

Task 4

Portland Savings and Loan is considering new computer software, which because of installation and training cost will have an unusual pattern of net receipts. The expected receipts are: \$20,000 in year one; nothing in the next year, \$30,000 in year three, and \$50,000 in the fourth year. At an interest rate of 6 percent, what is the present value of these receipts?

Practical lesson 8

Introduction

How to Create a Risk Management Plan

1) Identify Risks

Before you can develop response plans, you need to know which risks are out there. Some will be obvious while others will be more hidden, such as an unsafe part of the production area.

To track down every risk, brainstorm with your team. Also, include other stakeholders and industry experts in your identification process. They might have experience which sheds light on risks your team hadn't thought about.

Once you have found all the risks, put them in a centralized location, accessible to your entire team. That way, your team can continuously monitor the risks. It also helps to divide your risks up into categories. For example, you could have a section for operational risks and one for financial risks. Or, you could separate them by parts of the school-day, by creating categories like recess risks or cafeteria risks.

2) Assess Each Risk's Likelihood and Impact

Once you have the list of risks, you can start analyzing each one. Start by going through the list and giving them a likelihood score (low to high). Then, give them an impact score (low, moderate, or severe).

You can also assign probabilities or numbers to each risk. You can use these numbers in this formula to calculate each event's risk.

$$\text{Risk} = \text{Probability} \times \text{Impact}.$$

Then, put the organized matrix of risks into a live document where your team members can track and update them. For instance, if one child became sick from a certain contagious skin infection, then the probability, and therefore risk, of the event would increase.

3) Create Response Plans

Next, you should create plans to lessen the chances of risks occurring and responses if the risks should occur. A plan to lessen the chances of risk of infection on a school bus could be limiting bus capacity. And, a response would be what actions to take if a child shows symptoms on the bus.

Remember, the magnitude of loss prevention measures taken in schools for each risk depends on the risk's probability and severity. So, when creating response plans, you need to keep your resources (time, budget) in mind. It's unwise to spend a lot of a teacher's time on preventing a low probability, low impact risk, like a student losing their favorite pencil.

4) Choose a Lead for Each Risk

When you pick a leader, you assign them responsibility, and the selected person is, therefore, more likely to take immediate action. That way, if the event should take place, there will be no confusion on who needs to begin the response plan. The leader will put water on the fire as quickly as possible.

5) Make Contingency Plans

Because life seems to love testing us, even risk responses have associated risks. Sometimes the first response plan will go wrong because you lack the right resources at the time. Or, perhaps the circumstances are slightly different than your team had anticipated.

So that these possible problems don't completely derail your response efforts, you need contingency plans (plan Bs) for each risk, especially the most likely and severe ones. Make sure to put these in your centralized location also, and ensure the owner of the risk is aware of the plan B.

6) Continuously Monitor Risks

New risks will come into time progresses, especially during such unprecedented times, So, it's critical to monitor your risks and continue adding new ones or editing the probabilities of old ones.

Identification of Various Risks of The Company

Example

The primary risk exposures at the company X that are identified is provided below, which are inclusive but not exhaustive and it will be the responsibility of the risk managers to review these on a periodic basis.

I. Market Risks

It is the risk that the value of the company will be adversely affected by movements in market rates or prices, foreign exchange rates, national & global fluctuations, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

The market risks identified at company X are as follows

- Government Policy risks
- Product Risks
- Environmental risks
- Volatility of export orders
- Price Competition in the local & export market
- Currency fluctuation for export orders

II. Operational Risks

The operational risks identified at chocolate company are as follows

- Fire & Allied Risks
- Machinery breakdown/ obsolescence
- Volatility of Raw material & Packing material prices
- Quality/ Ageing risks of Raw material/ Packing material

- Delivery risk of Suppliers
- Loss of data & information- IT security
- Manpower Availability risks
- Accidents
- Inventory carrying risk

III. Reputation Risks

These are risks arising from negative public opinion resulting from failures of process, strategy or corporate governance.

The Reputation risks identified at this company are as follows

- Contamination-hygiene
- Product expiry/Shelf life
- Corporate Governance

IV. Credit Risks

Non receipt of receivables or delay in receipts is the credit risks attributable to the company.

These may be identified as

- Payment risk from customers-local
- Payment risk from Customers- export
- Security from customers
- Advance to Suppliers

V. Liquidity Risks

The possibility is that the company will be unable to fund present and future financial obligations.

These may be identified as

- Cash flow & working capital management
- Cost overruns

VI. Strategic Risks

Risks that are arising from adverse business decisions or the improper implementation of such decisions.

These may be identified as follows

- Business Plan forecasts.
- Attrition of key people.

Assignment:

1. Choose a company you know and, by analogy with company (YOUR VERSION), identify its risks by group

- marketing risks
- operational risks
- reputation risks
- credit risks
- liquidity risks
- strategic risks

2. Make a conclusion about the reliability of the company's performance in the future.

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