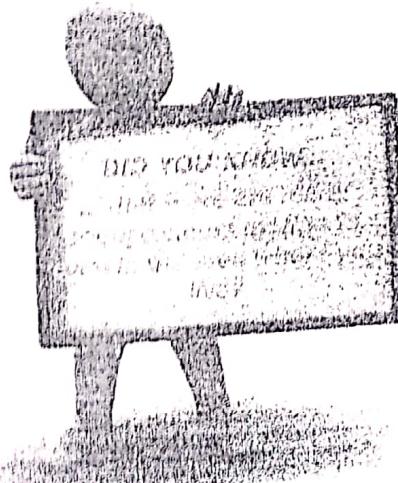


## CHAPTER 13

# Entrepreneurship



In this chapter, you will learn what entrepreneurship is all about; the meaning of enterprise and all concepts related to the subject entrepreneurship. At the end of this chapter, you should be able to:

1. state the meaning of entrepreneurship;
2. explain the term entrepreneur;
3. list the characteristics of an entrepreneur;
4. state the meaning of an enterprise;
5. define self employment;
6. mention facilities available for self-employment; and
7. list successful entrepreneurs in your locality, Nigeria and internationally.

## Meaning of Entrepreneurship

**Entrepreneurship** comes from the French verb 'entrepreneur', which means 'to undertake'. Entrepreneurship is the act or art of organisation or owning a business by taking financial risks with a view to making profit. Entrepreneurship is about taking risks; it is also about innovation, new products or services and having a great business sense with a view to transforming ideas into economic goods for a profit.

## Meaning of Entrepreneur

An **entrepreneur** is a person who is able to think of, see or identify opportunities that do not yet exist, and who has the confidence and courage to undertake or start up a business at great financial risks for a profit.

Entrepreneurs usually start a new business where there is none before or takeover an existing business to make it better. People who want to work for themselves are considered to be entrepreneurs. Wealth is created when such innovation results in new demand for the product or service.

## Characteristics of an Entrepreneur

1. **Determination:** A successful entrepreneur is always determined and does not give up easily.
2. **Commitment:** An entrepreneur puts in a lot of effort in order to ensure the success of the venture or business.
3. **Insight:** The entrepreneur must have a very clear idea of the business they want to start and keep to it.
4. **Brainstorming:** As the business progresses or starts, the entrepreneur must be able to brainstorm to make changes when and where necessary.

5. **Resourcefulness:** Making sure of all that is needed to set up, run and keep the business going is another characteristics of a successful entrepreneur.
6. **Creativity:** The entrepreneur must be imaginative to be able to continue to rebrand the business and make it better.
7. **Understanding:** To be a successful entrepreneur, every issue and decision must be taken after it has been carefully thought out.
8. **Ingenuity:** An entrepreneur must always have original ideas that other people would not normally have.
9. **Foresight:** The entrepreneur must be able to see and take advantage of every chance available.
10. **Perseverance:** The ability to keep trying is one of the characteristics of successful entrepreneurs.
11. **Courage:** The successful entrepreneur is courageous when it comes to starting a new business and takes decisions about the day-to-day running of the business.
12. **Confidence:** Entrepreneurs should be very confident if they want to succeed. Being very confident assures people that you know what you are doing.
13. **Toughness:** Being prepared to withstand all sorts of pressure in setting up a business is another good attribute of an entrepreneur.
14. **Independence:** Unwillingness to submit to authority is one of the motivations for being an entrepreneur.
15. **Extreme optimism:** Seeing the good side of everything concerning the business is one of the characteristics of an entrepreneur.

## Entrepreneurship

16. **Ability to prioritise:** The strain of running a business for profit means that the entrepreneur should have the ability to prioritise the needs of the business to ensure that it is the most important items that are provided at the time they are needed.
17. **Continuous learning:** Entrepreneurs, in the course of trying to run an innovative business, continuously learn. What they learn helps them to improve their products or services.

## Meaning of Enterprise

An enterprise is an organisation created for commercial purposes. The creation of an enterprise requires boldness, promptness, energy and financial risk.

## Meaning of Self-Employment

Self-employment is the operation of a business or service as a sole owner, partner in a partnership, independent contractor or consultant.

Self-employment, therefore, is working for oneself. Self-employed people work for themselves instead of an employer, drawing income from the trade or business that they operate.

Being self-employed is not necessarily the same as being a business owner. Many self-employed people are involved in the day-to-day running of a business, either as managers or both. An individual who owns a business may or may not work in the business firm; that is, another person may be employed to run the business.

## Effect of High Unemployment on a Country

People who have a job have high self-esteem and the income they earn helps them to make

contributions, no matter how small, to the economy of the country. Not having a job takes away a person's self-esteem and makes them feel as if they are doing nothing to help the families, community or their country. This can affect their mental health, make them feel isolated and frustrated.

Joblessness leads to poverty and can make a person turn to a life of crime in order to make ends meet. Poverty also makes people desperate things to make money, like stealing for self-employed and kidnapping people so they can buy clothes and pay the rent. Unemployment, which is therefore, has a very bad effect on a country. Looking at which is why people should do whatever is possible to be self-employed.

## Challenges of Being Self-Employed

- The question is: Having your own business means that:
1. There is a risk of failure, and you may not have anything to fall back on as you may lose all your investments.
  2. You have to put in all your time to make a success out of it, so there is no closing time or opening time.
  3. You may lose friends, and family members may not understand why you do not spend so much time with them again.
  4. You might experience a lot of stress, so you would need to learn to manage it.
  5. You might have to take on jobs that you don't like until the business can stand on its feet.
  6. Customers might not like your products or services.
  7. You might not be able to get to customers who will actually buy your services or products.

## **Facilities Available for Self-Employment**

If you want to be self-employed, you have to start off by thinking of a new idea for a business. For example, you may start thinking of something that is needed in your home or community, or goods that would sell well or even services that are not readily available and that people have to go far to obtain.

An aspect of looking for an idea or facility available for self-employment is the ability to understand the environment in which you are living and within which the business you want to operate will exist. Looking at your environment as a way of helping you generate ideas for starting a new business is something that you need to do if you want to be self-employed.

The questions listed below will help you think of ideas for a business:

1. Where do I live?
2. Do I live in a city, town or rural area?
3. What types of goods or services are required in my area or home?
4. What opportunities are there for starting a business?
5. Which geographical condition exists in that area: farmland, desert or savannah?
6. What can I grow or sell in my area?
7. Can I use the natural resources around me to start a business if I am living near the coast or a river?
8. Are there factories, industries or shops near me?
9. Can I supply them with goods or services?

Once you are able to answer these questions satisfactorily, you then need to classify these facilities into three broader headings.

### **1. The natural environment**

With natural resources such as land, soil, air, weather, animals, birds, fish, plants, trees and geographical conditions, you should think about how you could use these natural resources, without damaging the environment, to start a business.

### **2. The social environment**

This includes human resources such as family, friends, neighbours; social resources like clinics and schools; and physical resources like the things that are built such as shops, factories, roads, houses, businesses, railways, ports.

### **3. The economic environment**

This includes economic resources like jobs and work that help the citizens bring in an income and help them to make, spend and save money. A business idea could be to offer people services of some kind, to help them make, spend or save money.

## **Successful Entrepreneurs**

There are many successful entrepreneurs in your locality. You should be able to identify them. There are also entrepreneurs at the national and international levels. We will mention some of them.

## **Successful Entrepreneurs in Your Locality**

In your locality, you should be able to identify some entrepreneurs. They are the:

- a. shop owners dealing in provisions and cosmetics
- b. local butchers
- c. spare part dealers
- d. kerosene sellers
- e. restaurant owners
- f. welders
- g. fashion designers
- h. hair dressers

## International

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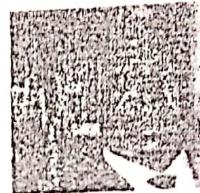
- j. petty traders
- k. chemists
- l. business centre owners
- m. electrical/ electronics store owners
- n. sign writers/ artists, etc.

### Entrepreneurs Worth Noting and Admiring

There are many notable Nigerian entrepreneurs who have made it. They have created wealth and provided employment for many Nigerians. Some notable entrepreneurs in Nigeria are:

S/No	Name	Company Founded
1.	Abdulsamad Rabiu	BUA Group
2.	A.C. Okafor	Chicason Group
3.	Aliko Dangote	The Dangote Group
4.	Folorunsho Alakija	Famfa Oil Limited
5.	Chidi Anyaegbu	Chisco Transport
6.	Cosmas Maduka	Coscharis Group
7.	Femi Otedola	Zenon Oil and Gas
8.	Florence Seriki	Omatek Computers
9.	Prince Samuel Adedoyin	Doyin Group
10.	Jim Ovia	Visafone
11.	Jimoh Ibrahim	Global Fleet Group
12.	Leo Stan Ekeh	Zinox Computers
13.	Adenike Ogunlesi	Ruff 'n' Tumble
14.	Mike Adenuga	Globacom
15.	Mike Ilodibe	Ekene Dilichukwu Transport
16.	Mo Abudu	EbonyLife TV
17.	Razak Okoya	Eleganza Group
18.	Wale Tinubu	Oando Petroleum
19.	Raymond Dokpesi	Daar Communications Plc
20.	Stella Okoli	Emzor Pharmaceutical Industries Limited

S/No	Name
1.	Bill O
2.	Rick
3.	Steve
4.	Mic
5.	Opi
6.	Ami
7.	Lilia
8.	Feri
9.	Mul
10.	Kar



Cosmos Ma...



Mike Adenuga

The list goes on and on. There are many more that are not mentioned here. You can go on the Internet to find out more or ask your parents.

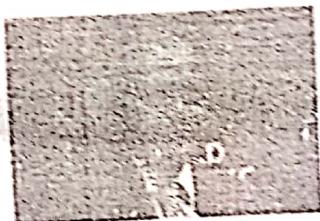
## International Entrepreneurs

Just as we have successful entrepreneurs in Nigeria, so also do we have them at the international level. A few of them are listed below:

S.No	Name	Company Founded
1.	Bill Gates	Microsoft
2.	Richard Branson	Virgin Atlantic
3.	Steve Jobs	Apple Computers
4.	Michael Dell	Dell Computers
5.	Oprah Winfrey	Oprah Winfrey Network
6.	Amancio Ortega	Inditex Group
7.	Liliane Bettencourt	L'Oréal
8.	Fernando Belmont	Yanbal International
9.	Mukesh Ambani	Reliance Industries
10.	Karl Albrecht	Aldi



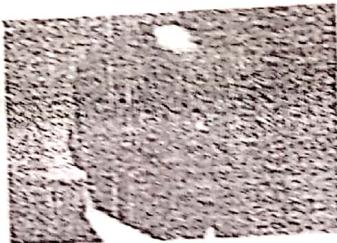
Cosmos Maduka



Aliko Dangote



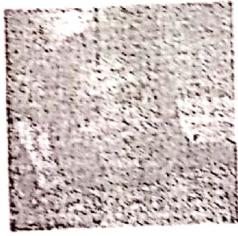
Jim Ovia



Wale Tinubu



Mike Adenuga



Adenike Ogunlesi



Oprah Winfrey



Raymond Dokpesi



Bill Gates

## Summary

In this chapter, you have learnt:

Entrepreneurship is the act or art of organising or owning a business by taking on financial risks to make profit.

An entrepreneur is a person who is able to think of, see or identify opportunities that do not exist, and who has the confidence and courage to start up a business at great financial risks for a profit.

Essential characteristics of an entrepreneur include determination, commitment, resourcefulness and creativity.

An enterprise is an organisation created for commercial purposes.

Self-employment is the operation of a business or service as a sole owner, partner in a partnership, independent contractor or consultant.

High unemployment has bad effects on the economy of a country.

There are successful entrepreneurs at the local, national and international levels.

## Exercises

1. Explain the meaning of entrepreneurship.
2. Explain the meaning of enterprise.
3. Give one (1) example of an enterprise.
4. Explain the meaning of entrepreneur.
5. Define self-employment.
6. Describe the effect of unemployment on the economy.
7. State three facilities needed for self-employment.
8. Mention five (5) local entrepreneurs known to you and the companies they founded.
9. Mention five (5) international entrepreneurs known to you and the companies they founded.
10. Mention five (5) entrepreneurs known to you in your area and the companies they founded.

Entrepreneur  
people  
money  
At the end

## Importance of entrepreneurship

A very important part of our society. It is very big and growing. An entrepreneur enjoys a lot of freedom and the opportunity to make a difference in the world. They are the ones who do things differently and push boundaries.

**CHAPTER  
19**

## PREPARATION AND PRESENTATION OF A BUSINESS PLAN

Akinola, G. O.

### INTRODUCTION

There are numerous people who are eager to start a small business but have only a vague notion of what they want to do. An entrepreneur needs a realistic business plan at the point at which he/she comes up with an idea for a business and begins discussing the idea with consultants, friends and other business people. What is a Business Plan? A business plan is a detailed written document that describes the nature of the business, the objectives, the strategies, the target market, the advantages the business will have in relation to competition, the financial forecasts, and the resources and qualifications of the owner(s). It sets out the basic idea underlying a business and related startup considerations. It demonstrates persuasively that enough products or services can be sold at a profit to become a viable business. It is a living document that helps in monitoring business' performance and makes it stay on track; it therefore needs updating and changing as business grows.

For the entrepreneur starting a new venture, a business plan has four basic objectives. First, it identifies the nature and the context of business opportunity—why does such an opportunity exist? Second, it presents the approach the entrepreneur plans to take to exploit the opportunity. Third, it identifies the factors that will most likely determine whether the venture will be successful. Finally, it serves as a tool for raising financial capital. It

forces potential owners of small businesses to be specific about the products or services they intend to offer. It is also regarded as a roadmap detailing how an entrepreneur will move a business from its current status to intended status. It details the current status of the business (finance, manpower, and other resources), the goals of the business, reasons why the entrepreneur is convinced that those goals are achievable, and strategies to be employed in making the goals a reality. It is an attempt to predict future opportunities and put in place financial, operational and marketing strategies that will enable the entrepreneur achieve his or her goals.

Simply put, a business plan is a map showing where you are now, where you intend to get to and how to get there. It gives the reader the **what, where, why and how** his/her business will accomplish its objectives and tells **who** will be involved in running it. When planning, you need to define the goals of your business, determine the actions that need to be taken to accomplish them, gather and commit the resources needed, and aim for well-defined targets. A business plan is the difference between running a business proactively or reactively. The owners of businesses must analyze the competition, calculate how much money they need to start, and cover other details of operation. Thus, a business plan has many functions, from securing external funding, as it is mandatory for talking with bankers and other investors, to measuring success within the business. Above all, the business plan should explain the key variables for success or failure, thereby helping the entrepreneur prepare for different situations that may occur by thinking about what could go right and what could go wrong.

\* There are many benefits to creating and managing a realistic business plan. Even if it is just in-house, it can help in spotting potential pitfalls before they happen, structure the financial side of the business efficiently, focus owner's efforts on developing the business, and work as a measure of the business' success. Many people regard a business plan as a document used to secure external funding to enable potential investors, including banks, to invest in an entrepreneur's idea, work with the entrepreneur or lend him money as a result of the strength of the entrepreneur's plan. The people who may request to see the business plan at some stage, therefore, are banks; external investors—a friend, a venture capitalist firm, or a business angel grant providers anyone interested in buying the business as well as potential partners. It provides a structure for communicating the entrepreneur's mission to current and prospective employees of the firm.

## GUIDELINES FOR WRITING A BUSINESS PLAN

The quality of a completed business plan depends greatly on the quality of the underlying business concept. It should be noted that the plan is not the business. A poorly conceived new venture idea cannot be rescued by good writing. A good concept may be destroyed, however, by writing that fails to effectively communicate. Clear writing gives credibility to the ideas presented in a business plan. Factual support must be supplied for any claims or promises made. When promising to provide superior service or explaining the attractiveness of the market, for example, the entrepreneur must include strong supporting evidence; i.e., the plan must be believable. Plans are unique to each business situation; there is no rigid formula for writing business plans that would fit every new business. Still, there are general guidelines to be followed:

- 1 **Consider your Audience.** You need to show the benefit of your business to your reader. Investors want their money to go into market-driven businesses, which satisfy wants and needs of customers, rather than technology-driven ones, which focus more on the product or service being made than on what people want.
- 2 **Keep it Brief.** Your business plan should be long enough to cover all major issues facing the business yet should not look like a copy of *War and Peace*. Your final plan should be complete, yet concise. Your plan should be less than 40 pages long, with financial projections and appendices inclusive. Your first draft could be longer, which could be edited to 40 pages or less.
- 3 **Point of View.** Try to write your business plan in the third person (do not use "I" or "we"). This helps maintain objectivity by removing your personal emotions from the writing process.
- 4 **Create a Professional Image.** The overall appearance should be professional and attractive but not extravagant. Having your document laser printed on white paper, with coloured stock cover, dividers and spiral binding is fine. Think of the message your business plan will send to bankers and investors: having it bound in leather with gold leaf trimmed pages is not a good sign. It should show that you really need the money and will spend it wisely. Let it look like you were really serious about your business. As you write the first draft of your plan, have several people who are not involved in your business read your work to get their initial reactions. Do they quickly

grasp the essence of your proposal? Are they excited about your idea? Do they exclaim "Wow!"? Getting feedback while you are still writing the plan can help you refine your work and get the reader to say "Wow!"

- 5 **Where to Get Help.** You should write the business plan for your proposed venture. This is because the person who is best qualified and who receives the most benefit from the planning process is the person who is going to implement the plan. It is your business and it needs to be your plan, though you can get aid in writing the plan if you need it. You can get assistance in writing your plan from one of the many guides written on business plan, Small Business Administration pamphlets, your area Small Business Development Center, your local Chamber of Commerce, and a college or university near you. You need to emphasize your competitive advantage and show your objectives in order to distinguish your business from others.

## BUSINESS PLAN CONTENTS

One of the most difficult tasks in writing a business plan is knowing where to start. A good business plan takes a long time to write, but it is required that your reader be convinced not to throw the plan away in not more than five minutes. As there is no perfect business plan, prospective entrepreneurs should think out the smallest details in writing their business plans. It should provide details of how the business should be developed, when it should be developed, who is going to play a part, and how the finances would be managed. According to Nickels, McHugh and McHugh (2008), a good business plan is between 25 and 50 pages long and takes at least six months to write; but Hatten (1997) believes that the plan should present your strengths clearly and in a logical order in 40 pages or less.

Four interdependent factors should be given thorough consideration in deciding on the content of a business plan for a startup company:

- *The people.* A description of the men and women starting and running the venture as well as any outside parties, such as lawyers, accountants and suppliers providing key services or important resources.
- *The opportunity.* A profile of the business itself: what it will sell and to whom, how much and how rapidly it can grow, what its financial outlook is, and who and what may stand in the way of its success.

- **The context.** The big picture: the regulatory environment, interest rates, demographic trends, inflation and other factors that inevitably change but cannot be controlled by the entrepreneur.
- **Risk and reward.** An assessment of everything that can go wrong or right, with a discussion of how the entrepreneurial team can respond to the various challenges.

Keep these general factors in mind as you compose the specific content of your business plan. While a plan's contents vary from business to business, its structure is fairly standardized; no single format or formula can guarantee success. Your plan should contain as many of the following sections as appropriate for your type of venture.

- Cover Letter.** A business plan could be used to source for funds, and so when writing any business plan, write it as if you are using it to source for funds. You should therefore remember that you are not the only one applying for money to start a business; you need to make the funders be interested in reading your business plan instead of the other hundreds on their desks. The cover letter is the first thing they will read about your business plan and so you have to be tactical in writing it. This should summarize the most attractive points of your project in as few words as possible. Be sure to address the letter to the potential investor by name. You should avoid "To whom it may concern" or "Dear Sir"; it is not the best way to win an investor's support.
- Cover Page:** This is also referred to as .the title page. It is the first page of the business plan and should include the name of the business, its address and phone number, fax number and Web address, and company logo (if available); names, titles, addresses and phone numbers of the owners and key executives; the date on which the plan was issued; number of the copy (to help keep track of how many copies are outstanding); and name of the preparer, if other than the owners and key executives. If this information is overlooked, you will have a problem if a potential investor tries to reach you to ask additional questions (or send a cheque).
- Table of Contents:** For the business plan to be as easy to read as possible, an orderly table of contents will allow the reader to turn directly to the sections desired.
- Executive Summary:** This is crucial for getting the attention of the

one-minute investor. Begin this with a two- or three-page management summary of the proposed venture. This is the most important section of the plan because readers do not want to wade through 35 to 40 pages to get the essential facts. It must convey a clear and concise picture of the proposed venture and at the same time create a sense of excitement regarding its prospects. This means that it must be written—and, if necessary, rewritten—to achieve clarity and create interest. If you do not capture the reader's attention here, s/he is certainly not likely to read the rest of the plan. Include a short description of the business and discuss major goals and objectives, mission and keys to success. The executive summary should include:

**Company Information.** What product or service you provide, your competitive advantage, when the company was formed, your company objectives, the background of you and your management team.

**Market Opportunity.** The expected size and growth rate of your market, your expected market share and any relevant industry trends.

**Financial data.** Include financial forecasts for the first three years of operations, equity investment desired and long term loans that will be needed.

This is a lot to condense to two pages. Although the executive summary is the first section of the plan, it should be written last. A hint for writing the executive summary is: As you compose all the other sections of the plan, highlight a few key sentences that are important enough to include in your executive summary.

- Vision and Mission Statement:** An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society—either a service or a product. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served. It may also include

the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become—management's strategic vision of the firm's future. A mission statement describes what the organization is now; a vision statement describes what the organization would like to become.

- 6 Company and Industry:** Describes company operations to date (if any), potential legal considerations and areas of risk and opportunity. Summarizes the firm's financial condition and includes past and current balance sheets, income and cash flow statements and other relevant financial records. It is also wise to include a description of insurance coverage. Here, investors want to be assured that death or other mishaps do not pose major threats to the company. Give company history by going into some detail describing what your business does and how it satisfies customers' needs. How did you choose and develop your products or services to be sold? Do not be afraid to describe any setbacks or missteps you have taken along the way in forming your business. They represent reality and leaving them out could make your plan and projections look "too good to be true" to lenders or investors.

You should also describe the industry you operate within. One helpful way to draw the line between what and who to include in your industry is to consider possible substitutes that your customers have for your product. You should consider businesses that sell these substitutes as part of your industry. What competitive reactions and industry-wide trends can you identify? Who are the major players in your industry? Have any businesses recently entered or exited? Why did they leave? In other words, things to be included are company ownership, start-up summary, company locations and facilities and government regulations. In writing this section, the entrepreneur should answer the following questions:

- When and where was this business started?
- What changes have been made in structure and/or ownership?
- In what stage of development is the firm—for example, seed stage or full product line?
- What has been achieved to date?
- What is the firm's distinctive competence?

- What are the basic nature and activity of the business?
- What is its primary product or service?
- What customers will be served?
- What are the firm's objectives?
- What is the firm's form of organization—sole proprietorship, partnership or corporation?
- What are the current and projected economic states of the industry?
- Does the firm intend to become a publicly traded company or an acquisition candidate?

- 7 Products and Services:** List and describe the products or services to be offered to the firm's customers. For each business offering, cover the main points, including what the product or service is, how much it costs, what sorts of customers make purchases, and why. What customers need does each product or service line fill? You might not want or need to include every product or service in the list, but at least consider the main sales lines. Focus on customer benefits. It is always a good idea to think in terms of customer needs and customer benefits as you define your product offerings, rather than thinking of your side of the equation—how much the product or service costs, and how you deliver it to the customer. Things to be included here are: product and service description, competitive comparison, sales literature, technology, and future products and services. If a new or unique physical product is to be offered and a working model or prototype is available, a photograph of it should be included in this section of the business plan. Investors will naturally show the greatest interest in products that have been developed, tested and found to be functional. Any innovative features should be identified and any patent protection explained. If the product or service is similar to those offered by competitors, any special features should be clearly identified.

- 8 Market Analysis Summary/ Marketing Research and Evaluation:** You need to know what constitutes your market: customer needs, where they are, how to reach them, etc. Evidence that a market exists for your business is much more convincing than an unsubstantiated claim or guesswork. Present the facts you have gathered on the size and nature of your markets. An investor will want to know if a large

enough market exists and if you can be competitive in that market. State market size in naira and units. Give your sales forecast by estimating from your marketing research how many units and naira-worth of your product you expect to sell in a given period. That sales forecast becomes the basis for projecting many of your financial statements. Indicate your primary and secondary sources of data and the methods you used to estimate total market size and your market share.

**Market Needs/ Target Market Segment Strategy.** Marketing is the process of creating and delivering goods and services to customers and involves all of the activities associated with winning and retaining loyal customers. The "secret" to successful marketing is to understand the company's target customers' needs, demands and wants before competition can; to offer them the products and services that will satisfy those needs, demands and wants; and to provide those customers with quality, service, convenience and value so that they will keep coming back. The marketing function cuts across and affects every aspect of a company's operations, such as finance, production, hiring and purchasing. You must identify your target markets and then concentrate your marketing efforts on these key areas. These markets must have some commonly identifiable need that you can satisfy. What do people who buy your product have in common with each other? There could be a demographic variable, a geographic variable, a psychographic variable or other variable used to segment your markets. Describe actual customers who have expressed a desire to buy your product. What trends do you expect to affect your markets?

**Market Trends.** Markets and consumer tastes change, so you will need to explain how you will assess your customers' needs over time. A danger of segmentation and target marketing is the belief that those segments and markets will stay the same. Identify how you will continue to evaluate consumer needs so you can improve your market lines and aid new product development.

**Market Growth.** Among three or four primary competitors, identify the price leader, the quality leader and the service leader. Realistically discuss the strengths and weaknesses of each. Compare your products or services with those of competitors on the basis of price, product performance and other attributes. This section offers a good opportunity to include the SWOT analysis. Identify the strengths and weaknesses of your business and the

opportunities and threats that exist outside your business. Since you have identified the size of your market and your competitors, you can estimate the market share you intend to gain. Market share refers to your sales in relation to the total industry sales expressed as a percentage. It can effectively be shown and explained using a pie chart.

Other things to be included under this section are: a service business analysis, which includes distributing a service; competition and buying patterns; main competitors and business participants. Your job in writing the marketing research section of your business plan is to convince the reader that a large enough market exists for your product for you to achieve your projected sales forecasts.

- 9 **Marketing Plan/ Strategy and Implementation Summary:** On several occasions, entrepreneurs create business plans that describe in great detail what the entrepreneur intends to accomplish (e.g., "the financials") and pay little, if any, attention to the strategies to achieve those targets. Other entrepreneurs fail miserably because they are not willing to invest the time and energy to identify and research their target markets or to assemble any business plan at all. These entrepreneurs squander enormous efforts pulling together capital, staff, products and services because they neglect to determine what it will take to attract and retain a profitable customer base. To be effective, a business plan must contain both a financial plan and a marketing plan. Like the financial plan, an effective marketing plan projects numbers and analyzes them, but from a different perspective. Rather than focus on cash flow, net profits and owner's equity, the marketing plan concentrates on the customer. This section is on how to create an effective marketing plan, which is an integral part of a total business plan. Before producing reams of computer-generated spreadsheets of financial projections, an entrepreneur must determine what to sell, to whom and how often, on what terms and at what price, and how to get the product or service to the customer. Your marketing plan shows how you intend to reach your sales forecast. The marketing plan must identify user benefits and the type of market that exists. You should start by explaining your overall marketing strategy by identifying your potential markets and deciding the best ways to reach them. Include your marketing objectives (what you want to achieve) and the strategies you will use to accomplish these

objectives. In short, a marketing plan identifies a company's target customers and describes how that business will attract and keep them. Be specific. Include management responsibilities with dates and budgets. Make sure you can track results.

**Value Proposition:** The value proposition conveys the benefit(s) to be offered or offered by the brand of your product. These benefits may be functional, emotional or self-expressive. The intent is to consider the benefits that distinguish a brand from its competition. The value proposition expresses the underlying logic of the relationship between the brand and the customer.

**Competitive Edge:** What are your competitors doing? How many competitors do you have? What is your advantage over your competitors? Is the market large enough to support you and your competitors? Compare the features, benefits and advantages of your product or services over your competitors' offerings of the same, similar or substitute products. This is where you explain the uniqueness of your product or service, why there is a need or demand for it, and what benefits it offers the customer. This is also where you compare the offerings of your competitors and what makes your product different or better. Many people include a SWOT analysis as part of this section, which is a method by which to examine the strengths, weaknesses, opportunities and threats in relation to your business. It's usually done in a grid or table format with bullet points listed in each section.

**Marketing Strategy:** Small business owners must understand the importance of developing relevant marketing strategies that will work in today's turbulent global business environment, noting that these marketing strategies are not just for mega-corporations competing in international markets. Though they may have small marketing budgets, small businesses are not powerless in developing effective marketing strategies. Small businesses have a lot of strategies at their disposal, which may include: frontal assault, flank defense or flanking maneuver, pre-emptive defense, bypass attack, encirclement and guerrilla warfare. To develop a winning marketing strategy requires a business to master three vital resources: people, information, and technology. People are the most important ingredient in formulating a successful marketing strategy. Hiring and retaining creative, talented, well-trained people to develop and implement a marketing strategy is the first step; implementing a successful marketing strategy relies on an entrepreneur's ability to recruit people with the talent to do the job and to teach them to work together as a team. Information is the fuel that feeds the

marketing engine, without which a marketing strategy soon sputters and stops. Successful marketing relies on a company's ability to collect more data than competitors, put them into a meaningful form faster and disseminate the information to everyone in business, especially those who deal with customers, in order to give the company a competitive edge. Technology has proved to be a powerful marketing weapon, but technology alone is not the key to marketing success. Competitors may duplicate or exceed the investment of a small business in technology, but this does not guarantee their marketing success. However, the way a company integrates the use of technology into its overall marketing strategy is what matters most.

**Promotion Strategy:** How will you attract the attention of and communicate with your potential customers? For industrial products you might use trade shows and advertise in trade magazines, direct mail, or promotional campaigns. You should also give the advertising schedule and costs involved. Examples of advertising or brochures may be included in the appendix of the business plan.

**Positioning Strategy:** This is the combination of product, value-chain, price and promotion strategies that a firm uses to position itself against its key competitors in meeting the needs and wants of the market target. It seeks to position the brand in the eyes and mind of the buyer and distinguish the product from competition.

**Pricing Strategy:** Your pricing policy is one of the most important decisions you will have to make. The price must be "right" to penetrate the market, to maintain your market position, and especially to make profits. Compare your pricing policies with the competitors you identified earlier. Explain how your gross margin will allow you to make a profit after covering all expenses. Many people go into business with the intent of charging lower prices than the competition. If this is your goal, explain how you can do this and still make a profit: through greater efficiency in manufacturing or distributing the product, through lower labor costs, lower overhead, or whatever allows you to undercut the competition's price. You should discuss the relationship between your price, your market share, and your profits. For example, by charging a higher price than the competition you may reduce your sales volume, but hold a higher gross margin and increase the bottom line.

**Sales Strategy:** Describe how you intend to sell and distribute your products. Will you use your own sales force or independent sales representatives or

distributors? If you will hire your own sales force, describe how it will be structured, the sales expected per salesperson per year, and the pay structure. Your own sales force will concentrate more on your products by selling them exclusively. If you will use sales representatives, describe how they will be selected, the territories they will cover, and rates they will charge. Independent sales representatives will also be handling other products and lines than just your own, but they are much less expensive for you since they are not your employees. Your place strategy describes the level of coverage (local, regional, or national) you will use initially and as your business grows. It includes the channels of distribution you will use to get and to sell products.

**Sales Forecast:** Forecasting is usually easier when you break your forecast down into components. As an example, consider a forecast that simply projects ?10,000 in sales for the month, compared to one that projects 100 units at ?100 each for the month. In the second case, when the forecast is price x units, as soon as you know the price is going up, you know that the resulting sales should also increase. Thinking of the forecast in components is easier. Developing your sales forecast is not as hard as most people think. Think of your sales forecast as an educated guess. Forecasting takes good working knowledge of your business, which is much more important than advanced degrees or complex mathematics. It is much more art than science. Whether you have business training or not, do not think you are not qualified to forecast. If you can run a business, then you can forecast its sales. Most people can guess their own business' sales better than any expert device, statistical analysis, or mathematical routine. Experience counts more than any other factor. Break your sales down into manageable parts, and then forecast the parts. Guess your sales by line of sales, month by month, then add up the sales lines and add up the months.

**Service Policies:** If you sell a product that may require service, such as cameras, copy machines, or bicycles, describe your service and warranty policies. These policies can be important in the customer's decision-making process. How will you handle customer service problems? Describe the terms and types of warranties offered. Explain whether you will provide service via your own service department, subcontract out the service work, or return products to the factory. Also state whether service is intended to be a profit center or a break-even operation.

The marketing plan focuses the company's attention on the customer and recognizes that satisfying the customer is the foundation of every business. Its purpose is to build a strategy of success for a business,

but from the customer's point of view. Therefore, a marketing plan should accomplish four objectives which are: determine customer needs and wants through market research, pinpoint the specific target markets that the small company will serve, analyze the firm's competitive advantages and build a marketing strategy around them, and help create a marketing mix that meets customer needs and wants.

**10 Web Plan Summary:** For e-commerce, include discussion of website, development costs, operations, sales and marketing strategies. If your business has or will have a Web site, describe how your Web site fits into your advertising and promotion plan.

**11 Management Summary:** Describe the organization and the key management team members.

**Management Team:** A good management team is the key to transforming your vision into a successful business. Show how your team is balanced in technical skills (possessing the knowledge that is specific to your type of business), business skills (the ability to successfully run a business), and experience. As in building any team, the skills and talents of your management team need to complement one another. Include a job description for each management position, and specify the key people who will fill these slots. Can you show how their skills complement each other? Have these individuals worked together before? An organizational chart can be included in the appendix of your plan to graphically show how these positions fit together. Résumés for each key manager should also be included in the appendix. State how your key managers will be compensated. Your chances of obtaining financing are very slim unless the managers are willing to accept substantially less than their market value for salary while the business is getting started. Managers must be committed to putting as many proceeds as possible back into the business. Discuss the management training your key people have had and may still need. Be as specific as possible on the cost, type, and availability of this management or technical training. Like your managers, you may need professional assistance at times. Identify other people with whom you will work, including a lawyer, a certified public accountant, an insurance agent, and a banker. Identify contacts you have supporting you in these areas.

**Management Team/Gaps/Personnel Gap:** If you plan to employ staff, now or in the future, you need to specify the type of employment arrangement you are going to use, the number of staff you intend to employ, the positions they will hold, and the duties they will perform. Include the positions filled by owners and family, even if they are not paid a commercial wage or salary for their contribution. The laws that govern employment conditions differ according to the type of arrangement—i.e., full-time, part-time, casual or contract—and whether your employees come under the state or federal industrial relations system. The fines and penalties for mistakes in relation to employee benefits such as superannuation, workers' compensation, holiday pay and sick leave can be costly, so it is important to consult the relevant experts to ensure you get it right from the outset. Provide the name of any award or industrial agreement covering your employees and once you have checked that you are complying with all the legal requirements of an employer, including having in place workers' compensation insurance, making superannuation contributions and providing a safe work place, you will be able to make a statement to this effect in the business plan. Other issues to consider include office space and furniture requirements, company vehicles, communication networks (computers and mobile phones), payroll tax and the extra administration costs in relation to managing all of this. Given the importance of a good team in achieving business success, it is worth taking some time to formulate policies in relation to recruitment and retention, performance management, remuneration structures and any opportunities for career advancement and training. This section of your plan can prove to be a valuable tool in both attracting and retaining good staff. Depending on the size of your business, you may also wish to outline its organisational structure which should clearly demonstrate who reports to whom and the different levels of accountability and responsibility within the business. There are alternatives to employing staff, such as outsourcing, engaging sub-contractors or using the services of a labour hire firm (often referred to as a temp agency).

- 12 **Financial Plan:** Your financial plan will be highly scrutinized by your business plan reader. All the ideas, concepts and strategies discussed throughout your entire business plan form the basis for, and should flow into, your financial statements and projections in some manner. When it gets down to it, your reader wants to know if and when you will make money and become profitable. Financial statements and projections should follow generally accepted accounting standards

and must (at a minimum) include properly prepared balance sheets, income statements, and cash-flow statements. Bankers and investors are familiar with the correct content, organization and presentation of financial statements and expect to see them in your business plan. Don't cut corners or attempt to devise your own method of financial and pro forma statement presentation. In most cases, capital sources expect financial projections for a three- to five-year period, and historical statements for the past three years (or since inception if operating period is less than three years).

Your financial plan is where you demonstrate that all the information from previous sections like marketing, operations, sales, and strategies can all come together to form a viable, profitable business. Potential investors will closely scrutinize the financial section of your plan to ensure it is feasible before they become involved. Projections should be your best estimates of future operations. Your financial plan should include the following statements (existing businesses will need historical statements and pro forma projections, while start-ups will only have projections):

- sources and uses of capital(initial and projected),
- cash-flow projections for three years,
- balance sheets for three years,
- profit and loss statements for three years, and
- break-even analysis.

With the financial statements, you need to show conclusions and important points, such as how much equity and how much debt are included, the highest amount of cash needed, and how long the payback period for loans is expected to be.

**Sources and Uses of Funds:** This section explains to your reader which sources you expect to secure capital from, and what you specifically plan to spend it on.

**Cash Flow:** This is the most important financial statement for a small business because if you run out of cash, you are out of business. A cash flow statement shows you that from your opening cash balance you add all the money that comes into your business for a given time period (week, month, quarter),

then you subtract all the money you spend for the same time period. The result is your closing cash balance, which becomes your opening balance for the next time period. A cash flow statement should be projected by month for the first year of operation and by quarter for the second and third years. Cash flow shows what the highest amount of working capital will be; this can be critical if your sales are seasonal in nature or cyclical.

**Break-even Analysis:** These figures demonstrate the volume of sales, in units and dollars, that must be generated to cover fixed and variable expenses. At the break-even point, you start becoming profitable. Normally this data is presented in a graph format with sales on the X-axis and units sold on the Y-axis. Your break-even point is that point at which income from sales covers all costs, including overheads. At this point the business will make neither a profit nor loss. Sales volume below this point will result in a loss, while sales above this point will render a profit. How many units (or naira worth) of your products or service will have to be sold to cover your costs? A break-even analysis will give you a sales projection of how many units or naira need to be sold to reach your break-even point, that is, the point at which you are neither making nor losing money. To reinforce your financial projections, you may want to compare them to industry averages for your chosen industry. Compare your projected financial ratios with industry averages to give the reader an established benchmark.

**Projected Profit and Loss:** This is a financial document that shows sales revenues, expenses, and net profit or loss. Don't expect your profit and loss statement to be a finely honed, 100-percent-accurate projection of the future. Your objective is to come up with as close an approximation as possible to what your sales revenues and expenses will be.

In making your projections, it is helpful to break sales down by product line (or services) and to determine a best-case scenario, a worst-case scenario, and a most likely scenario somewhere between the two extremes. Start with the left

column to show what your sales and expenses would be under the worst of conditions. Assume that you have difficulty getting products, that the weather is terrible, that your sales people are out spending all their time playing golf instead of selling, that the state highway department closes the road that runs in front of your only location for repairs. Imagine that anything bad that can happen will. Now, in the right column, make projections as if everything goes exactly your way. What would your sales and expenses be if customers with cash in their hands are waiting in line outside your door every morning at opening time, if suppliers rearrange their schedules so you never run out of stock, and if competitors all close their doors for a month of vacation just as you are beginning operations. This is a lot more fun, but not any more likely to happen than the first scenario, although either could happen. Your most realistic estimate will fall between the two in the center column. Question and test your projections. Is there enough demand for you to reach your sales goal? Do you have enough space, equipment and employees to reach your sales goal? Break your sales down into number of units, then the number of units bought per customer, and then the number of units sold per day. When viewed this way, you may find that every person in town would have to buy eight cartons of bottled water per day, 365 days per year, for you to achieve your sales projections for your proposed bottled water shop. Obviously, you would need to revise your goal, expand your menu, do more to control your expenses, or convince people to drink more water than is humanly possible for your business to succeed.

**Balance sheet:** The balance sheet shows all the assets owned by your business and the liabilities, or what is owed against those assets. The difference between the two is what the company has earned, or the net worth of the business, which is also called capital. From the balance sheet, bankers and investors will calculate some key ratios, such as debt to equity and current ratio, to help determine the financial health of your business. You need to prepare balance sheets ending each of the first three years of operation.

**Business/Financial Ratios:** Providing standard financial ratios helps your business plan reader to analyze how well your company will perform compared to other companies within your industry. For existing companies, show the trends over the last 3 to 5 years to outline any improvements in your performance.

**Capital Required:** Indicates the amount of capital needed to commence or continue operations and describes how these funds are to be used. Make sure the totals are the same as the ones on the cash-flow statement. This area will receive a great deal of review from potential investors, so it must be clear and concise.

- 13 **Manufacturing and Operations Plan:** The manufacturing and operations plan will stress elements related to your business's production. It will outline your needs in terms of facilities, location, space requirements, capital equipment, labor force, inventory control, and purchasing. Stress the areas most relevant to your type of business. For instance, if you are starting a manufacturing business, outline the production processes and your control systems for inventory, purchasing, and production. The business plan for a service business should focus on your location, overhead, and labor force productivity.

**Geographic Location:** Describe your planned location and its advantages and disadvantages in terms of wage rates, unionization, labour pool, proximity to customers and suppliers, types of transportation available, tax rates, utility costs, and zoning. Again you should stress the features most relevant to your business. Proximity to customers is especially important to a service business, while access to transportation will be of greater concern to a manufacturing business.

**Facilities:** What kind of facilities does your business need? Discuss your requirements for floor space (including offices, sales room, manufacturing plant space, and storage areas), parking, loading areas, and special equipment. Will you rent, lease, or purchase these facilities? How long will they remain adequate: One year? Is expansion possible?

**Make or Buy Policy:** In a manufacturing business, you must decide what you will produce and what you will purchase as components to be assembled into the finished product; this is called the make-or-buy decision. Many factors go into this decision. In your business plan, you should justify the advantages of your policy. Describe potential subcontractors and suppliers.

**Control Systems:** What is your approach to controlling quality, inventory, and production? How will you measure your progress toward the goals you have set for your business?

**Labor Force:** At the location you have selected, is there a sufficient quantity of adequately skilled people in the local labor force to meet your needs? What kinds of training will you need to provide? Can you afford to offer this training and still remain competitive? Training can be one of those hidden costs that can turn a profit into a loss.

- 14 **Critical Risks and Assumptions:** All business plans contain implicit assumptions, such as how your business will operate, what economic conditions will be, and how you will react in different situations. Identification and discussion of any potentially major trends, problems, or risks you think you may encounter will show the reader that you are in touch with reality. These risks and assumptions could relate to your industry, markets, company, or personnel. This section gives you a place to establish alternate plans in case the unexpected happens. If potential investors discover unstated negative factors after the fact, they can quickly question the credibility of you and the business. Too many businesses are started with only a Plan A and no thought to what if X, Y, or Z happens. Possible contingencies you should anticipate are:

- Unreliable sales forecasts. What will you do if your market does not develop as quickly as you predicted or, conversely, if your market develops too quickly? Each situation creates problems. Sales that are too low cause serious financial problems; sales that are too high can cause bottlenecks in production, difficulties in purchasing enough products from vendors or suppliers, trouble hiring and scheduling employees, or dissatisfied customers who must wait longer

- than they expected for your product or service.
  - Competitors' ability to underprice or to make your product obsolete.
  - Unfavourable industry-wide trends.
  - Appropriately trained workers not as available as predicted.
  - Erratic supply of products or raw material, and
  - Any one of the 10,000 other things you didn't expect.
- 15 **Location Analysis:** The location of the business is one of the most important factors in retailing and some peculiar businesses. A comprehensive demographic analysis of consumers in the area of the proposed business as well as a traffic-pattern analysis and vehicular and pedestrian counts should be provided.
- 16 **Benefits to Community:** Your new business will have an impact on many other people beside yourself. Describe the potential benefits to the community that the formation of your business could provide.
- Economic development:* Number of jobs (to be) created (total and skilled), purchase of supplies from local businesses, the multiplier effect (which shows the number of hands that new dollars brought into the community pass through before exiting).
- Community development:* Providing needed goods or services, improving physical assets or the appearance of the community, contributing to a community's standard of living.
- Human development:* Providing new technical skills or other training, opportunities for career advancement, developing management or leadership skills, offering attractive wages, other types of individual growth.
- 17 **Appendix:** Supplemental information and documents not crucial to the plan, but of potential interest to the reader, are gathered in the appendix. Résumés of owners and principal managers, advertising samples, brochures, or any related information can be included. Different types of information such as résumés, advertising samples, organization chart, and floor plan should each be given a separate appendix labeled with successive letters of the alphabet (Appendix A, Appendix B, and so on). Be sure to identify each appendix in your table of contents (for example, "Appendix A: Advertising Samples"). It also includes all marketing research on the product or service (off-the-shelf reports, article reprints, etc.) and other information about

the product concept or market size. It also provides a bibliography of all the reference materials you consulted; and it should demonstrate that the proposed company would not be entering a declining industry or market segment. Start each appendix on a new page.

**Review Process:** Writing a business plan is a project that involves a long series of interrelated steps. Beginning with your idea for a business, you want to determine its feasibility through the creation of your business plan. The technique illustrated in Figure 19.1 will allow you to identify the steps you need to take in writing your plan. Steps connected by lines show that lower-numbered steps need to be completed before moving on to higher-numbered ones. Steps that are parallel show that these take place simultaneously. For example, Steps 6 through 10 can be completed at the same time, and all must be accomplished before you can estimate how much capital you need in Step 11. As with any project involving a number of complex steps and calculations, your business plan should be carefully reviewed and revised before you present it to potential investors. After you have written your plan, rate it yourself as lenders and investors will evaluate it.

## FEATURES OF A SUCCESSFUL BUSINESS PLAN

In order to raise capital from outside investors, the business plan must be the "right" plan, that is, it must speak the investors' language. It should hardly exceed 40 pages in length, as investors generally will look at brief reports and avoid those that take too long to read. Also, the overall appearance of the report should be attractive and the report should be well organized, with numbered pages and a table of contents. Investors are also more market-oriented than product-oriented, realizing that most patented inventions never earn a dime for the inventors. Other features that interest investors include:

- evidence of customer acceptance of the venture's product or service;
- an appreciation of investors' needs, through recognition of their particular financial goals, as evidenced in their required rates of return;
- evidence of focus, through concentration on a limited number of products or services; and
- proprietary position, as represented by patents, copyrights and trademarks.