Institute of Finance Management (IFM)

Entrepreneurship – MSU 07302
Topic Two

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2.1 BUSINESS PLAN

a. Introduction
b. Meaning of Business Plan (BP)
c. Who should write a BP
d. Who reads BP
e. Perspective to consider when preparing the BP
f. Characteristics / guidelines for writing a successful BP

a. Introduction

What is a plan ?

Planning (also called **forethought**) is the process of *thinking* about and organizing the activities required to achieve a desired goal.

Business is a work relating to the production, buying and selling of goods or services.

b. Meaning of Business Plan

- A business plan is the written document that details the proposed venture. It is the description of the business and what the owner manager wants it to become over say one year to come

OR

- A business Plan is a written document describing all relevant internal and external elements and strategies for starting a new venture.

(Burn 2001).

b. Meaning of Business Plan…

It contains targets, estimates and projections and described how they will be achieved. It must illustrate current status , expected needs, and projected results of the new business.

A business plan or game plan or road map help an entrepreneur to answer the question such as where am I know, where am I going and How will I get there.

c. Who Should Write a Business Plan

The Business plan should be written by an entrepreneur , however s/he may consult other sources in preparation. May consult lawyer, accountants, marketing consultants and engineer .

If an entrepreneur do not have required skills may hire consultant.

d. Who Reads the Business Plan

The business plan may be read by employees, advisors, consultants , customers, suppliers , investors, venture capitalist, bankers etc. All the group read the plan for different purposes and hence the entrepreneur must be prepared to address all their issues and concerns.

e. Perspectives to consider when preparing the Business Plan

i. Entrepreneur Perspective-who understand better than anyone else the creativity and technology involved in the new venture.

ii. Marketing Perspective- Entrepreneur must try to view their business through the eyes of their customer.

iii. iii. Investors perspective -Entrepreneur must try to view their business through the eyes of their investors.

f. Characteristic/Guidelines for Writing a Successful Business Plan

i. A plan should be respectably short-readers who are very important may refuse to read long stories of the plan as the same the same can waste their time, thus a business plan should be concise, short, carefully and clearly presented.

f. Characteristic/Guidelines for Writing Successful Business Plan…

ii. A plan should be organized and packed appropriately-it should be presented in a logical way, have a structured table of contents, a clear and brief executive summary, well arranged appendices, organized graphs, table and figures if any, it should be neat with good grammer

f. Characteristic/Guidelines for Writing Successful Business Plan…

iii. A plan should provide evidence of the effective entrepreneurial team –the business plan should provide the key persons with their expertise and experience. It goes further by addressing the cooperation of the ley personnel team in delivering the organization

f. Characteristic/Guidelines for Writing Successful Business Plan…

iv. A plan should identify and highlights critical risks –The plan should state the critical areas of risk and suggests the action plan and strategies to deal with the same.

f. Characteristic/Guidelines for Writing Successful Business Plan…

v. A plan should be kept written in a third person-It is recommended not to use personalized words in a plan such as ‘I’ ‘We’ and ‘us’, phrasing the words to such as ‘He’ ‘they’ or ‘them’ may deliver the objective and not personalizing.

vi. A plan should be able to capture the reader’s interests-The plan should clearly present the uniqueness of the produces or services. It is advised to use the title page and executive summary to address the image of the organization and capture the readers’ interest.

2.2. Format of a well prepared Business Plan

A detailed business plan include eight to ten sections (depending on the industry and idea). These sections are:-

i. Executive summary
ii. Business Description
iii. Marketing
iv. Operations
v. Marketing
vi. Financial
vii. Critical Risks
viii. Harvest Strategy
ix. Milestone Schedule
x. Appendix / bibliography

2.2. Format of a well prepared Business Plan…

i. **Executive Summary is** the synopsis of the proposed enterprise. It provides a summary of a plan that features highlights of the entire business plan. Potential funders or partners entrepreneurs in the business are the users of the executive summary who find it very useful to them.

- It give a brief overview of what to follow, helps put all of the information into perspective, and should be no longer than two to three pages.
- It should be written only after the entire business plan has been completed.
- Who we are; What we sell; Who we sell to; Business Model Canvas

2.2. Format of a well prepared Business Plan…

ii. **Business description -** establish the credibility of the owner manager and his business in the eyes of potential investor. It should illustrate:-

- Overview of the business
- Background or Brief history of the business
- Business details
- Business objective
- Mission and Vision of the business
- Principal activity
- Purpose of the plan
- SWOT/SWOC Analysis

2.2. Format of a well prepared Business Plan…

iii. **Marketing** the entrepreneur must convince the investors that the market exists, sales projections can be achieved and that competition can be beaten.

- Among aspect of market that have to be discussed are market niche and market share: market niche is a homogenous group with common characteristics- that is all the people who have need for the newly proposed product or service. The basis of customers purchases should be included in the niche things like price, quality, service personal contacts etc, Next to this is the list of potential customers who have expressed interest in the product s or service together with the an explanation of interest should be included.
- Competitive analysis –assess the strength and weakness of competing products or services and a review of competing companies should be included.
- Market strategy- pricing policy, advertising plan, sales and distribution.
- Customer overview
- Customer research

2.2. Format of a well prepared Business Plan…

iv. Operations segment- it discusses the following areas:-

- Identifying locations
- Specific operations procedures
- Personal needs and uses
- Proximity to supplies

2.2. Format of a well prepared Business Plan…

v. Management -This segment discusses:-

- Management team-key personnel
- Legal structure-stock agreement, employment agreements, ownership
- Board of director, advisors, consultant

2.2. Format of a well prepared Business Plan…

vi. Financial segment – must demonstrate the potential viability of the undertaking. Three basic financial statement should be presented as follows:-

- The pro forma balance sheet
- Income statement cash flow statement
- Other things include break even analysis, cost controls and budgeting g plan

2.2. Format of a well prepared Business Plan…

vii. Critical risks –this segment discusses:-

- Potential problems
- Obstacles and risks
- Alternative courses of action

viii. Harvest strategy – this segment discusses:-

- Liquidity events
- Continuity of business strategy
- Identify successor

2.2. Format of a well prepared Business Plan…

ix. Milestone schedule: - this segment discusses:-

- Timing and objectives
- Deadlines and milestones
- Relationship of events

x. Appendix and bibliography

2.3. Purpose of Business Planning

i. A business plan creates commitment by writing the ideas which are in the business owners head and force commitment to the implementation of the same. It makes you think about all aspect of your business and help communicating your ideas to other.

2.3 Purpose of Business Planning…

ii. A business plan is essential tool for seeking for financing eg. lenders needs a business plan for their decision and a well prepared business plan can attract investors

iii. A business plan assist managers to identify the areas of risk for contingency plan

2.3 Purpose of Business Planning…

iv. The financial projection such as projected financial statements of the business demonstrates the ability the organization to service its liabilities / the ability to earn return on investment.

v. A business plan is a communication tool between fund providers, the market and operator of the business

2.3 Purpose of Business Planning…

vi. A plan can assist the organization and the entrepreneur by providing measurable benchmarks as a basis for comparison of forecasted and actual results.

vii. Completion of a well prepared business plan will make you feel more confident about your ability to set up and operate a venture.

2.3 Purpose of Business Planning…

viii. Business plan enables you to make a mistake on the paper rather than in a market place eg you think that there is only one competitor in the market but when making plan one realizes that there are many

ix. A business plan will show you how much money is needed, what is it needed for, when is it needed and how long is it required.

2.4 Benefits of the Business Plan

The business plan has two essential functions

I. Guiding the company's operations

ii. Attracting lenders and Investors

- Forces the entrepreneur to look at the whole business
- The time, efforts, research and discipline needed to put together a formal business plan force the entrepreneur to view the venture critically and objectively.

2.4 Benefits of the Business Plan…

- The competitive , economic and financial analyses included in the business plan subject the entrepreneur to close scrutiny for his or her assumptions about the venture success.
- The business plan can help the owner manager crystallize and focus his ideas hence guiding the venture toward success.

2.4 Benefits of the Business Plan…

- Since all aspects of the venture must be addressed in the plan the entrepreneurs develops and examines operating strategies and expected results for the outside evaluator. So it may attract partners and qualified employees as well.
- It serves as a measurable benchmark against which to track performance

2.4 Benefits of the Business Plan…

- The business plan can help clarify and communicate your goals and objectives
- The business plan provides the entrepreneur with a communication tool for outside financial sources. In this way, the business plan acts as a vehicle to attract any external finance ,needed by the business.
- Becomes a framework for daily decision making and better management

2.4 Benefits of the Business Plan…

Business plan has the following advantage to Financial Sources

- The business plan provides the details of the market potential and plans for securing a share of that market.
- Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.
- The plan identifies critical risks and crucial events with a discussion of contingency plans that provide opportunity for venture success

2.5 The Roles of the Business Plan

Analysis
Gathering and Processing information

Communication
Gaining the support of stakeholders

SUCCESS

Action
Definition of projects and Objectives

Synthesis
Creating the strategy required

2.5 The Roles of the Business Plan…

The above diagram summarizes the roles of a business plan. That is Business Plan can be used as

i. A tool for analysis

ii. A tool for synthesis

iii. A tool for Communication

iv. A tool call for action

2.5 The Roles of the Business Plan…

i. **A tool for analysis** –A well defined business plan is expected to have important information some of which are used as a basis for articulating and refining the objectives, mission and vision of an entrepreneur. It is through this information that the entrepreneurs can generate the mission statement of the business. The use of this information can also assist the entrepreneurs to develop strategy in terms of contents and process for the business. It is important to make sure that clear and SMART objectives are presented in business plan.

2.5 The Roles of the Business Plan…

ii. **A tool for synthesis -** Planning exercise should synthesize the entrepreneur's vision into strategy formulation and ensure that appropriate actions are taken into pursuing the strategy.

2.5 The Roles of the Business Plan…

iii. **A communication tool -** business plan transfer the idea which is intangibles to a readable form so that other may read what you have been thinking., that is communication. Business plan stand as vehicle for communicating with both internal and external stakeholders as well as effective.

2.5 The Roles of the Business Plan…

iv. **A tool that calls for action-**A business plan can be used as a checklist to ensure that every activity has been fully done. Therefore a plan is a call for action as from a plan an action can be created.

NB: In order for the plan to be effective and the business to achieve its success the above four roles should underpin and support each other.

2.6 Preparation of a New Venture

Introduction

New venture creation is all about developing creative ideas suitable for commercial exploitation into new business ventures.

2.6 Preparation of a New Venture…

Transforming creative ideas into successful new business ventures is a challenging task, which needs creativity, understanding of the business environment and the market, careful planning, risk management and business management skills.

Thus a preparation of a new venture begins with environment assessment for new venture.

a. Environment for New Venture

One is supposed to examine the environment before deciding to launch a venture. There are many ways of assessing the business operational environment for a new business. The most common method involve

i. Environmental scanning

ii. Evaluation of industry

iii. Community involvement

i. **Environmental Scanning**

Environmental scanning refers to the efforts by which owner-entrepreneur examines before making a decision :-

a. Internal

b. External environment

a. Internal Environment

Internal environment consist of variables (strengths and weakness) that are within the organization itself. It is within a short control of entrepreneurs. They include:-

- **The venture structure**-the way the venture is organized in terms of communication, authority and workflow. It is graphically depicted in the organization chart.

a. Internal Environment…

- **The organization culture**: is the pattern of beliefs, expectations, and values, shared by the organization’s members.
- **Resources** are assets that constitute the raw materials deployed in the production of an organization’s products or services. Most commonly these assets are termed as 4ms manpower, money, machines and materials.

b. External Environment

The external environment consist of opportunities and challenges variables that are outside the organization and not typically within a short-run control of the entrepreneur. It has two parts.

b. External Environment…

- **Task environment –**includes elements or groups that directly affect and are affected by the organization's major operations. These include stakeholders, government,, suppliers, local communities, competitors, customers, creditors, labor unions, special interest groups and trade unions.

b. External Environment…

- **Societal Environment:** It constitute forces that do not directly affect the short-run activities of the organization but can and do often influence long-run decisions. It includes legal, economic, political, ethical, social, technological etc. The launch of new venture has to consider the constraints that each of these variables impose on the enterprise.

b. External Environment…

The external environment can also be examined by looking at it from

i. Macro-view

ii. Micro-view

i. Macro-view

Macro-view is broad perspective of examining the business environment. It include economic, regulatory and industry environment.

a. **Economic Environment**-can be friendly or hostile to a one's specific venture. An assessment of this environment can help entrepreneurs to avoid pitfall that can lead to a failure.

i. Macro-view…

ii. Regulatory environment- a business must comply with government rules and regulations. Government rules affect smaller ventures in variety of ways such as prices, cost irregularities, competitive restrictions, managerial restrictions, mental burden etc. It is therefore important for entrepreneurs to turn to public sector and demand assistance when it comes to easing the regulatory burdens.

i. Macro-view…

iii. **Industry environment** –it can be assessed basing on the following dimensions

a. Common industry characteristics to an emerging venture such as technological uncertainty, strategic uncertainty, first time buyers, short-time horizons etc.

i. Macro-view…

b. **Barrier to entry** in an industry which include proprietary technology, access to distribution channels, access to raw materials , risk and cost advantages.

i. Macro-view…

c. **Competitive analysis**-both the quantity and quality of the competition must be carefully scrutinized. It involves consideration of the number as well as the strength of competitors in terms of product, uniqueness, quality price,, convenience, image, location etc.

ii. Micro-view

Micro-view focus on analysis of the community where the new venture will be launched. It is a specific analysis and it focus on the following areas

a. **Research on the location** –where by community demography (size, education, occupation, extent of entrepreneur activity in the community), Economic base (employment, size and distribution of income), population trends and business climate.

ii. Micro-view…

b. Determining reliance and deservedness

Reliance-is the extent to which the community relies on the entrepreneur's venture .

Deservedness-is the extent to which the community feels that the entrepreneur deserves the community support.

2.7 Marketing Research for a new venture

A market is a group of customers and potential customers who have the purchasing power and unsatisfied needs.

Market research involves the gathering of information on a particular market, followed by an analysis of that information for marketing decision- making.

The key to market analysis is the market research process

a. Market Research Process

The market Research process follow the following steps

i. Defining the research problem and objectives- the information required for decision making must be clearly and consistency defined. The problem identification should be translated to specific objectives to be achieved at the end of research.

a. Market Research Process…

ii. **Data collection** –collecting the information about the target customers. The information collected could be geographic, demographic and psycho-graphic. The information can be included through secondary data and primary data.

a. Market Research Process…

iii. **Analyze and interpret data** -for data collected to provide a solution/ meaning they must be analyzed and interpreted. Among the methods that can be used to summarize and simplify information include tables, charts and graphs. Descriptive statistic such as mean, mode and median can as well be used.

a. Market Research Process…

iv. Reporting the information –findings should be presented in a report format which can easily be understood by decision maker .

b. Inhibitors to Market Research

i. Cost-Entrepreneurs belief that due to the expensive nature of market research only major organization can afford doing research.

ii. Complexity-a number of marketing research techniques involves sampling, survey and statistical analysis which is found to be complex by most of entrepreneurs.

b. Inhibitors to Market Research…

iii. Strategic decisions-there is a belief that due to cost and complexity of research it has to be conducted when the decisions to be done are major.

iv. Irrelevancy- Entrepreneurs believe that the market research data will support what they already know or provide irrelevant information altogether.

2.8 Financial preparation for entrepreneurial

General entrepreneur need human, material and financial resources. However the discussion will be limited to financial resources. Financial plan is a tool that helps entrepreneurs manages their business.

2.8 Financial preparation for entrepreneurial…

Important of financial information

- Financial information pulls together all the information presented in the segment of the business such as market, manufacturing and management.
- It quantifies all the assumptions and historical information concerning business operations.

2.8 Financial preparation for entrepreneurial…

Some of financial –related questions that are answered in financial plan are:-

- What will it cost to open the business?
- What will be the cash flow in month basis?
- What is the total estimated income for the first year?

2.8 Financial Planning for Entrepreneurial…

In financial management the following information should be considered:-

i. The legal form of organization including its tax implications

ii. Techniques and uses of projected financial statements

iii. The important of ratio analysis in planning

2.8 Financial Planning for Entrepreneurial…

iv. Designing a cash flow schedule

v. Techniques and approaches for developing a capital budgeting.

vi. Inventory management consideration

vii. Cash and temporary investment management issues.

Financial Statements

A financial plan mirrors through financial statements which include the key components such as Balance sheet, Income statement Cash flow

Financial Statements

a. Balance sheet-which represents the financial condition of a company at a certain date. It is a snap-shot at a point in time that shows where the money in the business is invested and from where this money comes.

The balance sheet must follow the traditional accounting equations

Assets=liabilities + owner's equity

Financial Statements

Assets-something of value the firm owns while liabilities are claims that the creditor have against the company.

Financial Statements

b. **Income statement (profit and loss statement)** -is a statement that shows the change that has occurred in a firm's position as a result of its operations over a specific period. It provides a measure of business success through proving the manager with the results of operations. It reports the success or failure of the business during the period.

Financial Statements

c. **Cash flow statement**-is analysis of cash availability and cash needs of the business. The projected cash flow is the useful tool of planning for decisions to borrow and making investment decisions.

Pro forma financial statements

Pro-forma statements are projections of a firm's financial position over a future period (pro forma income statement) or on a future date (pro forma balance sheet). In normal accounting cycle, the income statement is prepared before the balance sheet.

Pro forma financial statements

Preparation of pro forma financial statements uses the tool of budgeting to carry out financial forecast.

Three types of budget that can be used are

i. Operating budget-is a statement of estimated income and expenses over a specified period. This budget can be created basing on the following steps.

Pro forma financial statements

- The first step is the Preparation of sales forecast which can be done through the use of techniques such as linear equation ($Y=a+bx$) and trend analysis. After sales forecast, expenses must be estimated. This involves estimating the cost of good sold which follow sales on income statement.

Pro forma financial statements

- Second step is the preparation of production budget in which the management's estimate of the number of units that need to be produced in order to meet the sales forecast.
- The third step is to determine material required for producing the specified number of units from analysis of the bill of materials for the product being produced.

Pro forma financial statements

- The last step is estimating the operating expenses for the period by looking at variables cost (change in relation to change in operating activities eg direct labor, materials, sales commission etc. , fixed cost do not change in response to change in activates eg rent, depreciation and salaries and mixed cost (blend of fixed and variable costs)

Pro forma financial statements

ii. Cash flow budget-a statement of estimated cash receipt and expenditures over a specified period. It is said to be the lifeblood of the business. Identification of time of cash inflow is crucial in the preparation of cash flow budget the cash inflow may originate from cash sales, cash payment receivable on account and loan proceeds.

Pro forma financial statements

iii. Capital budgeting-is used to plan expenditures on assets whose returns are expected to last beyond a year. A technique that can be used to help plan for capital expenditures is the concept of capital budgeting. In preparing capital budget it is important to identify the cash flow and their timing.

Why do Some Business Venture Fail

Often discontinuance or failure of venture results from one or more of the following weakness

- Too much was left at chance
- Too many decision were based on intuition
- Crucial obstacles went unnoticed for a long time

2.9 Why do Some Business Venture Fail

- The amount of time and physical efforts demanded by the small business manager were not recognized and planned for
- The amount of capital needed was either not estimated or grossly underestimated

NB:A well prepared business plan play a crucial role of mitigating the above cited problems.

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Pitfall 1. Inability to define realistic goal-indicators are lack of any attainable goals, lack of timeframe to accomplish things, lack of priorities and lack of action steps.

Mitigation-Setting a detailed timetable, having a well defined specific steps that are necessary to be accomplished within a specific period of time.

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Pitfall 2: Lack of commitment or dedication –indicators are excessive procrastination, missed appointments and no desire to invest personal money. **Mitigation:** Being ready and willing to act without delay (acting quickly) and ensure that if there is any professional appointment for technical advice has to be followed.

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Pitfall 3: Lack of action and demonstrated expertise in the preparation of action plan indicators are having ideas but no true knowledge of it and ignorance of the proposed business. **Mitigation:** Seeking consultancy from experts. This is only possible if it is made open that the business owner has no practical knowledge of preparing business plan. Hence a business owner may decide to learn on how to write a pan or hire experts to do it for them**.**

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Pitfall 4: Cost consciousness indicator is fear of cost of business plan.

Mitigation –making cost benefit analysis and establish the benefit of having a plan as compared by cost of not having a plan.

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Pitfall 5: failure to establish the road map, the indicators are not being able to recognize possible problems that may arise and failures to establish possible strengths and weakness of the business. **Mitigation-**relating a list of possible challenges/obstacles that can arise and set the alternative course of action to overcome against the same.

Pitfalls to Avoid in Business Plan and Mitigation to Pitfalls

Other pitfalls

- Ideological reasons, that business plan is corporate and not small for small business…

Assignment: look for mitigation of this pitfalls.

2.10 Formula for Business Success

Success = Idea + Know How + Know Who

What you need to have are:

- Right business Idea
- The knowledge and expertise to make that idea work
- You also need a strong network of contacts, make yourself a kind of a person who can make it all happen.

2.11 Analyse opportunities in the business environment

2.12 Conduct a feasibility study for a new venture

2.13 Construct a business model for a new venture

2.14 Develop a branding strategy for a new venture

2.12 Conduct a feasibility study for a new venture

a. What is feasibility study?

A feasibility study is an assessment that determines the likelihood of a proposed project being successful. This study is very important for a new venture because it will determine whether the proposed venture is viable and worth pursuing. It involves evaluating the potential risks, obstacles and rewards of the new venture.

2.12 Conduct a feasibility study for a new venture

b. Process of conducting feasibility study?

i. Technical feasibility analysis
ii. Market feasibility analysis
iii. Financial feasibility analysis
iv. Analysis of organization capabilities
v. Competitive analysis

2.13 Construct a business model for a new venture

a. Value proposition
b. Customer segments
c. Revenue streams
d. Key resources
e. Key activities
f. Key partnerships
g. Cost structure
h. Channels
i. Customer relationship Management (CRM)
j. Metrics and key performance indicators (KPI's)

2.14 Develop a branding strategy for a new venture

a. What is brand?

Brand is a product or service which is unique and has immediate recognizable identity that distinguishes itself from others in the market. A brand serves as a powerful marketing and sales tool for a new venture. It differentiate a venture from competitors. It is more than just a logo, name or tagline, it is increases customer relationship because of quality and loyalty.

b. What is brand development

It involves creating and managing a unique identity for a company or product/services that sets it apart from its competitors. Building a successful brand requires careful consideration of your target customers, define brand's core value, and compelling message in the logo, website, social media and promotional materials. In today's digital world, a strong online business is crucial for an entrepreneur and new venture. Examples of brands are pepsi, cocacola, BMW, iPhone etc

2.14 Develop a branding strategy for a new venture…

c. **Developing a brand strategy**

i. Identify core values (mission, vision, unique aspects)
ii. Research the Market (target audience, customers needs and preference)
iii. Brand promise and position (brand story, compelling brand name, logo, promotion materials, colours, typography etc)
iv. Implementation and action (build online presence, website, social media platforms)
v. Evaluation and measurement (engage with your audience, encourage user – generated content and reviews)
vi. Brand development (monitor and adapt, legal consideration and evaluate and iterate)

THE END

OF

TOPIC TWO

Kindly refer to the recommended books, class assignment and tutorial questions