

LECTURE SESSION ELEVEN

BUSINESS PLAN

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11.1 Introduction

Have you ever gone for a journey that made you be away from home for a week or so? For you to be comfortable wherever you were you had to plan very well and carry all the things you would need to make your journey successful. Starting a business is like going for a journey. And hence you have to plan well and get all the resources you need to start and operate it successfully.

Business planning can be a highly beneficial exercise for the entrepreneur. In order to derive the desired benefits from business planning it is important to take full ownership of the process, and make it your own from beginning to end.



1.2 Learning Outcomes

By the end of the session, the learners will be able to;

- i) Explain the Concept of a Business Plan.
- ii) Describe the value of the Business Plan.
- iii) Explain the components of a Business Plan
- iv) Analyse the risks involved in business as far as planning is concerned.

11.3 The Concept of Business Planning

A business plan is a document prepared by the entrepreneur highlighting all the planned activities pertaining to the business, when they will be implemented and the resources required for implementation together with the anticipated problems that may hinder successful operations of the business. It outlines the business objectives and gives detailed plans and budgets showing how the objectives will be achieved.



Intext Question 1: When do you suggest should be the right time to write a business plan?

Probably you suggested that you can write a business plan; when starting a new business, when planning for the expansion of an existing business, when applying for a loan or when evaluating actual and targeted business performance. You are actually right. It is written by the entrepreneur or someone the entrepreneur has identified. the entrepreneur's business advisor can also write the business plan.

11.4 Value of Business Planning

The business plan is valuable to the entrepreneur and can be used in any of the following ways;

- i. As a management tool serving as a basis for making sound decisions and policies in diverse areas of the business, such as purchasing, marketing, staffing, investment, budgeting and quality control.
- ii. As a road map guiding the entrepreneur on the day-to-day activities of the business.
- iii. It helps determine the viability of the business venture in a designated market.
- iv. The entrepreneur can use it to seek external funding from banks and other financiers.
- v. Assists the entrepreneurs evaluate business performance by comparing actual performance against forecasted performance.
- vi. Helps the entrepreneur to Set reasonable objectives and figure out how to accomplish them.
- vii. The business plan communicates business ideas to all the people concerned.

11.5 Evaluating and Presenting a Business Plan.

11.5.1 Evaluating a Business Plan.

After you create your Business Plan, in order to succeed, it is essential that you evaluate it periodically and modify the sections that you feel are not working for your business.

In this post, we will explore 5 ways in which you can evaluate your business plan:

i. How Viable is your Plan?

While starting up your business, there may have been many assumptions you made that do not translate well into the functioning of your business.

When evaluating your plan, look for the gap between these assumptions and the reality of your business. Make adjustments and corrections to ensure that your business plan is more realistic and in touch with the current and future scenarios of your business.

Create a Business Action plan based on this evaluation and ensure it works well with your strategies for growth.

ii) Involve your employees

Your employees are involved in the details of the running of your business. Share your Business plan with them and ask for their feedback.

This will allow you to gauge how the plan actually impacts the running of your business. It is key to ask them questions such as:

1. Do they have suggestions to improve ways to provide better customer service?
2. Do they feel the objectives laid out in the business plan align with the way they currently do their jobs?
3. Do they feel that the correct target audience is being reached?
4. Is there any possible target group that could also be targeted for your business?

iii). Is your Target Group(TG) correct?

Before starting your business, you may have listed out your ideal consumer based on age, income, gender and so on.

After your business has been running for a period of time, you will need to look at these demographics, check if your assumptions were right and if you can find a way to widen your TG by enhancing your products or services.

Getting a good grip on which the right TG is for your business will enable you to make better marketing decisions as well as allocate funds in a better, smarter way.

iv). What are Current Industry Trends?

When evaluating your Business Plan, it is important to look at industry trends and ensure that you are making the best of current trends that impact your business.

It is also essential that you examine the ways in which competitors have changed their functioning to accommodate the change in trends.

This does not mean that it is necessary to ape competitor moves but rather you look at the best way you can better your service and deliver benefits to consumers that competitors are unable to due to their restraints in the market.

v). Are your funds allocated properly?

Every month, spend an hour with your accountant or set up a weekly meeting in order to get a clear picture of how your resources are being spent.

Discover if there are other ways in which your resources can be optimized, how you can reach more people by concentrating on more marketing channels or focusing on the ones that will reap you better benefits for the time and effort spent on them.

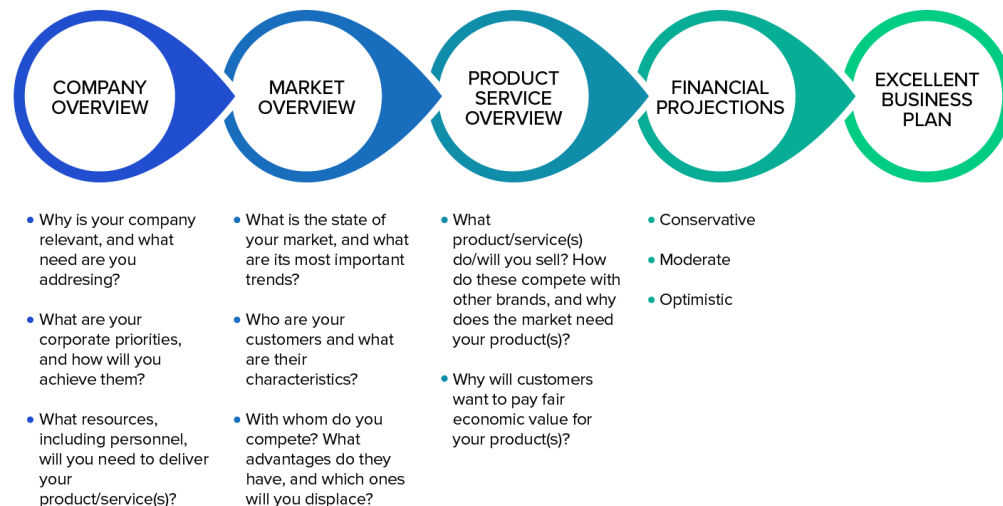
It is very important as your business grows and expands to ensure that you are on the right track with your business plan. Make sure that you take the time to evaluate your plan at least every quarter to make sure your business and your business plan is on the path to success.

11.5.2 Presenting a Business Plan.

It is often necessary for an entrepreneur to orally present the business plan before an audience of potential investors. In this typical forum the entrepreneur would be expected to provide a short (perhaps 20-minutes or half-hour) presentation of the business plan.

source

Four Key Elements to an Excellent Business Plan



Source: <https://www.toptal.com/finance/business-plan-consultants/importance-of-business-plan>

11.6 Information Needs and Components of a Business Plan.

Before committing time and energy to preparing a business plan, the entrepreneur should do a quick feasibility study of the business concept to see whether there is any possible barriers to success.

11.6.1 Information Needs

The information, obtainable from many sources should focus on marketing (segmenting, targeting, and positioning), finance (list of all possible expenditure, demand forecast, revenue), and production (location, manufacturing operations, raw materials, equipment, labour skills, space, overhead), competition and human resource.

11.6.2 Components of a Business Plan.

The following are the major parts of the business plan:

Cover page
i) Executive summary
ii) Business Description
iii) Marketing plan
iv) Organization and management
v) Production plan
vi) Financial plan
vii) Critical risks and problems
viii) Action plan
ix) Summary and conclusions
Appendices

i) Executive Summary

This is a brief overview of the whole business plan. It is written last but appears first.

ii) Business Description

You will be required to discuss the following;

- The sponsor/ Owner manager – do you have what it takes to do this business.
- The Business – size, status, name, objectives, location and address.
- Justification for choice of Business Location.
- Justification of business venture.
- Form of business ownership.
- Entry Strategy.
- Growth Strategy.
- The business Industry.
- Anticipated problems that may hinder business operations.
- Suggested solutions to the problems.

iii) Marketing plan

You will describe the marketing plan in terms of;

- **The customers** – who are your target customers?, what do they buy (the benefits your product or service offers), when do they buy?, why do they buy your products or services?.
- **Competitors** - prepare a SWOT Analysis table to highlight the strengths, weaknesses, opportunities and threats of each and every competitor.
- **Suppliers** – mention their names and indicate the criteria for choice of suppliers.
- **The product** – discuss the competitive product features.
- **The pricing strategy** – show how you arrive at the price for your products or services.
- **Promotion and advertising-** how will you advertise and promote the sales for your product or services.
- **Place** – What are the channels that you will use to distribute your products. How will your products or services reach the final consumer.
- Estimate your percentage market share.

iv) Organization and management plan

This section of the business plan describes the following;

- The organization Chart.
- The required Staff academic qualifications and experiences.
- Staff duties, Roles and Responsibilities.
- Staff training and Development plan.
- Staff Selection and Recruitment plan.
- Staff discipline and disciplinary procedure.
- Staff remuneration and other benefits.
- Staff promotion
- Legal requirements for the business.
- Business Support Services

v) Production plan

In this section one discusses;

- The production process.
- Production strategy.
- Production facilities and equipments.
- Government policies affecting the business operations.

vi) Financial plan

This section covers the following;

- Pre-operational Costs.
- Working capital Requirements
- Desired Financing.
- Cash flow Projections.
- Projected Income Statements.
- Projected Balance sheet.
- Interpretation of Financial Statements.

viii) Action plan



Take Note

A business plan should be comprehensive enough to give any potential user a complete picture and understanding of the venture and will help the entrepreneur clarify his or her thinking about the business.

Although there is no generally accepted format of a business plan, a typical format would possess the above listed items.

vii) Critical risks and problems

- i. The likelihood that the actual results will differ from expectations
- ii. Trying anything new involves risk due to, miscalculations and unknown factors. But doing nothing also involves risk. Not responding to changing environment such as market change, technology change can disadvantage complacent firm.
- iii. Risks in small business are of different types and include:
 - a) Financial: cash flow, budget requirements, and remuneration. Must close shop to make changes leading to income loss.
 - b) Organizational: culture, structural, people issues associate with effective operations. Outsider providing ideas confuses employees' sense of place or value.
 - c) Legal: compliance with legal requirements, regulations, standards, codes. Planned changes do not meet building code, leading to fines.
 - d) Operational: planning, operational activities, and resources including people, needed to deliver a product or service. Overseeing project takes owner away from business operations.



Activity

Outline other risks and problems which businesses are likely to experience during their business operations.

State how these risks can be mitigated.

Mitigating the Risks which refers to ways of managing the risks includes the following measures.

- i. Assessing the likelihood of an event occurring. Understanding how to mitigate or respond to these events includes. Proposing a business continuity plan. Preventative measures or strategies for managing or mitigating (reduce) risk in a business continuity plan include. Reducing probability of risk example, proper training of workers to enhance safety. transferring risk such as buying insurance to cover loss. Spreading risk such as finding partners to share cost. Eliminating risk such as changing methods or processes.

- ii. Putting in place systems to deal with the consequences such as select and implement measures to modify risk and Identify risks that need attention by owners/managers.
- iii. Monitoring the effectiveness of the risk management approaches and controls.

a) Appendix (contains backup material)

- i. Letters
- ii. Market research data
- iii. Leases or contracts
- iv. Proforma invoices and Price lists from suppliers



11.7 Summary

The session embarked on defining a business plan and progressed to highlight the importance of having a business plan by the entrepreneur. Learners' attention was drawn to when a business plan should be written. The format of the business plan was shown together with the risks associated with operating a small business. The mitigation of the risks also has been discussed here.



11.8 Review Activity

1. Identify a business idea of your choice and draft its marketing plan.



11.9 References and Further Reading

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2. Kuratko, D. F. (2016). Entrepreneurship: Theory, Process and Practice, 10th Edition. Boston, MA, USA: CENGAGE Learning (ISBN-13: 978-1285051758).
3. Scarborough,M.N.(2015). Essentials of Entrepreneurship and Small Business management, 8th Edition