

New One

## CHAPTER 7

# Planning and Starting a New Business

### Introduction

Students who are motivated to see self-employment as a viable career choice must understand the process of planning and starting a new business. It is important to understand that any project which is properly planned and managed has a greater chance of success. Project planning involves certain basic activities which include:

- (i) Identifying targets for achievements
- (ii) Setting timetables or timelines
- (iii) Allocating resources.

Planning for a venture is a key to success and it begins after careful evaluation and selection of opportunities and ideas. Part of the planning process is when an entrepreneur conducts a market research regarding the idea. One of the key purposes of planning is to determine when changes are necessary and to allow time to make them. It is therefore necessary to engage in planning in order to make a proposed venture more certain of success. A student who wants to improve on his grade in the coming semester must plan for it. Using planning guide, the student may describe the procedure and standards that can help him accomplish this goal. This may involve the student planning what he may be doing each day or week.

### Business Start-up Planning

There are a number of steps in starting a business. Small Business & Technology Centre of the University of North Carolina, USA listed the steps as follows:

- (i) Assessing oneself as a potential business owner.
- (ii) Conceptualizing the business idea.
- (iii) Examining critical issues and making important decisions.
- (iv) Investigating legal requirements and selecting the appropriate business structure.

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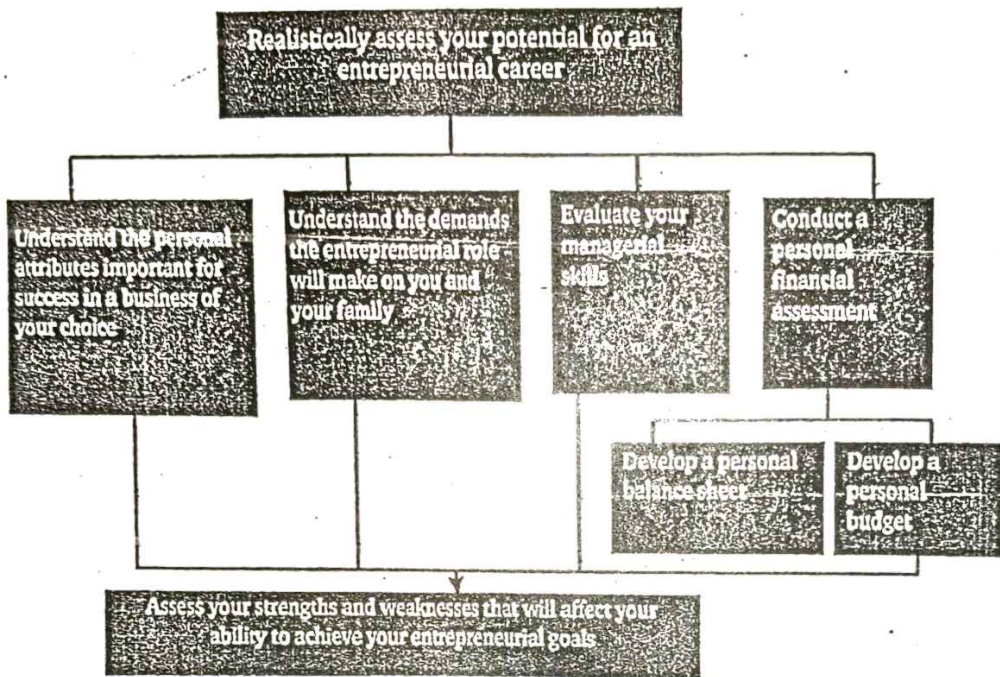
terms of personal characteristics and his capacity to meet the demand of owning and operating a business.

Many people go into a particular business because others are in that business. Some other people go into business first to get something doing while for some they believe people in that business are successful and are able to make money. Some people are into business to fill a gap in demand for a particular product or service while some venture into business only to satisfy the quest or yearnings of the market. It is necessary that any person who wants to go into business must have a good idea of the business. He must be able to conceptualize the idea behind the business properly. He must be able to determine the need for the service or product he is to offer. He must be able to understand himself, determine his strengths and weaknesses, his general disposition to business and assess himself as to what business he can excel in. The prospective entrepreneur must assess himself by focusing on:

- (i) Personal characteristics.
- (ii) Demands of owning and operating a business.
- (iii) Business experience and management skills acquired.

Some of the personal characteristics to consider in the assessment of self include age, educational background, social participation, willingness to take risk, influencing ability, personal efficacy, aspirations and achievement motivation. All these personal characteristics are part of the initial assessment or issues he has to address before he decides on the kind of business to undertake. The prospective entrepreneur must be honest in his self evaluation as this will allow him to assess his personal characteristics and determine if he is cut out for the business he intends to undertake. If he is unable to provide the right answers to the above issues, then he has started on a wrong footing and may face a bigger problem of business failure at a later period.

Neeray Pandey in his paper on "Business Opportunity Identification and Selection" gave a pictorial diagram of what an aspiring entrepreneur should focus on in assessing his potential for entrepreneurial career as follows:



**Figure 7.2:** Assessing one's entrepreneurial potential

### Business Conceptualization and Its Feasibility

Before a business takes off, certain issues and decisions must have been considered. The potential entrepreneur would have considered the feasibility of his business idea to be sure that the business concept is worth pursuing. Baseline information would have been gathered and a number of questions would have been answered to clarify the business idea or concept. A few of the critical issues to consider and take a decision on are:

- (i) The business to start.
- (ii) The product or service the business will offer to customers.
- (iii) The customers of the product or service.
- (iv) How and when customers buy the product or service.
- (v) Whether customers will be willing to buy the product or service of the business.
- (vi) The amount customers will be willing to pay for the product or service.



(vii) How customers will be aware of the existence and features of the product and service.

These and many other issues are what should come to the mind of a potential entrepreneur. Understanding of these issues should guide him in taking decisions to clarify his business concept. This, he can do through formal or informal market research. This effort is to minimize the risks involved in starting a new business.

### **Critical Issues and Important Decisions in Starting a Small Business**

Having clarified the business concept and having been convinced of starting to implement the business idea, certain key issues must be considered and decisions taken on them. These issues include:

- (i) Entry option.
- (ii) Selecting business location.
- (iii) Minimizing business risks.
- (iv) Selecting the appropriate business structure.

**(i) Entry option:** There are various options available to a new entrepreneur to enter the business world. The options could be to buy a franchise, buy an existing business or start a new business.

**(a) Buying a franchise:** A franchise is a type of business in which an individual or company is provided a licensed privilege to do business and offers assistance in organizing, training, merchandizing, marketing and managing in return for monetary consideration. It refers to a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). It refers to a form of business in which the owner (franchisor) sells the right of its business logo, name and model to third party retail outlets, owned by independent third party operators (franchisees).

Franchise is recently a popular way for a potential business owner to start a business. It offers advantage in name and product recognition and proven operation procedures. This

business entry option offers a franchisee the "right to sell or distribute a product or service under a franchisor's system in a particular area". The franchisor "licenses its know-how, procedures, intellectual property, use of its business model, brand and right to sell its branded products and services to the franchisee. In return the franchisee pays certain fees and agrees to comply with certain obligations, typically set out in the Franchise Agreement". For a franchisor, it is business growth strategy rather than an expansion.

To become a franchisee, one needs to pay the upfront franchise fee and sign the franchise agreement that gives the franchisee the right to the use of the following:

- (i) The business or brand name.
- (ii) The system or method of doing business.
- (iii) Operations manual.
- (iv) Marketing materials.
- (v) Other proprietary materials.

Franchising is very popular in USA. As at 2005, there were over 900,000 established franchised businesses in USA. In 2012, there were about 2,031 franchise brands in Brazil with approximately 93,000 locations. Franchising in Canada involves about 1,300 brands. China has the most franchises in the world but the scale of their operation is relatively small. Each franchise system in China has an average of 43 outlets compared to more than 540 in the USA. Aspiring entrepreneurs particularly young unemployed graduates considering entering into the world of business can consider this entry option and it may be cheaper and less risky. In this regard, the aspiring entrepreneurs must consider the following among others before finally taking a decision on this entry option:

- (i) How credible is the franchisor?
- (ii) How acceptable are the products or services of the franchisor?
- (iii) How profitable is the franchisor as well as its current franchisees?



- (iv) How organized is the franchisor?
- (v) What is the level of public acceptance of the franchisor's products or services?
- (vi) The cash requirement for the franchise and how reasonable is this compared to other franchisors?
- (vii) The integrity and commitment of the franchisor.
- (viii) The monitoring system put in place by the franchisor.

The franchise option has its own advantages and disadvantages which must be considered before deciding on this entry option. The advantages of franchise model are:

- (i) Ownership mentality – the franchisee will have the attitude or mentality of being a business owner and is more likely to devote time, attention and capital to growing the business.
- (ii) Franchises offer the independence of small business ownership supported by the benefits of a big business network.
- (iii) Franchisee does not need business experience to run a franchise. Franchisors usually provide the training the franchisee would need to operate their business model.
- (iv) Franchises have higher chance of success than start-up business.
- (v) Franchisee may find it easier to secure finance for a franchise.
- (vi) It may cost less to buy a franchise than a start-up business of the same type.
- (vii) Franchisors often have an established reputation and image, proven management and work practices which will be made available to the franchisees.

The main disadvantages of buying a franchise are:

- (i) Buying a franchise means entering into a formal agreement with the franchisor.

- (ii) There may be little room for creativity because franchise agreement dictates how to run the business.
- (iii) There is always a restriction on where the products or services can be sold and the suppliers to use.
- (iv) Bad performance of other franchisees may affect the franchise's reputation.
- (v) It involves ongoing sharing of profit with franchisor.
- (vi) There may be quality control and related issues, at least as compared to company's operations.

Franchising may be seen as a simple way to go into business for the first time; but it is not a guarantee of business success. It is not an equal partnership because of the control or preponderance of the franchisor over the franchisee. However, the same business principles and concept of good management such as informed decision-making, time management, hard work and good customer service delivery will be made available to the franchisee.

- (b) *Buying existing business:* Another entry option is that of buying an existing business. This option may be less attractive and less challenging to a young unemployed graduate who has opted for self-employment as a career choice. The cost of buying existing business may be too expensive to bear. There are some other disadvantages of this option, though, there are some advantages.

The disadvantages of buying an existing business include:

- (i) It may require an investment of large amount upfront.
- (ii) It will require hiring and payment of a number of experts and professionals such as solicitor, accountant, management consultant and surveyor.
- (iii) It will require a thorough investigation of why the current owner is selling the business. Sometimes, if the business is not doing well, the owner and his employees might hide the fact by false statement.
- (iv) Account receivable may be worth less than the face value.

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- (v) It will require the entrepreneur to investigate how the business might have been managed and the staff morale.
- (vi) An established customer and supplier base may not be reliable.
- (vii) Equipment may be obsolete.
- (viii) Changes can be difficult to implement.
- (ix) Existing policies may not work with the new ideas of the new owner.
- (x) Inherited employees may be unsuitable and the location may become unsatisfactory.
- (xi) It reduces originality.

Despite all these disadvantages, buying an existing business has its own advantages which include:

- (i) All background work to get the business off the ground would have been done. The difficult start-up work would have been done.
- (ii) The entrepreneur can hit the ground running without any further work.
- (iii) It may be easier to get finance if the business has a proven track record.
- (iv) The market for the business products and services would have been established and would have got established customer and supplier base that can guarantee reliable income.
- (v) The experience of the previous owner can be put to use.
- (vi) The marketing method and programmes including distribution infrastructure would have been in place and many of the problems would have been discovered and addressed.
- (vii) Experienced staff would have been in place.

Buying an existing business is an extensive process and expensive issue which a young aspiring entrepreneur may not find too palatable.

It may also be difficult to get a perfect match between the business and personal goals of the aspiring entrepreneur. It requires the control of the controllable thorough research and investigation which sometimes may be very expensive and add to the cost of buying the business. It may require the entrepreneur to analyze and find out certain information in the following critical areas:

- (i) The real reason why the owner wants to sell the business.
- (ii) The physical condition of the business and its assets.
- (iii) The market potential of the business products and services.
- (iv) Customers' characteristic and composition as well as competitors analysis.
- (v) The legal aspect of the business including on-going liabilities and labour relations.
- (vi) Whether the business is financially sound.

The above issues suggest that a comprehensive due diligence study is required before an entrepreneur takes a decision regarding this entry option. The disadvantages of buying an existing business must be weighed against the benefits before taking a decision on the entry option.

- (c) *Starting a new business afresh:* A third entry option is to start a new business afresh. The option of starting a new business can be an exciting endeavour. It allows a great deal of freedom and opportunity to explore and develop one's business ideas. For capacity development and innovation, this will be an entry option for most young people willing to enter into the world of small business. This option can provide a sense of accomplishment and satisfaction for educated youths, although, it has its own challenges. Starting a new business from the scratch can really be intimidating. An aspiring entrepreneur must consider the benefits and the challenges before deciding on this option.

**(ii) Selecting a business location:** This issue is more important in certain businesses than some others depending on the business characteristics and industry. A prospective entrepreneur would



need to take a decision on where to locate the business based on a number of factors which include among others the following:

- (a) The type of industry.
- (b) The product or service of the business.
- (c) Nearness to the customers or market.
- (d) Availability of raw materials.
- (e) Availability of basic infrastructure such as water, power supply, good road network and security.
- (f) Economic policy of the government, region or state.
- (g) Demographic characteristics of the area to site the business and its relevance to the product or service of the business.
- (h) The mindset of the customers or the aura of a particular region or area.
- (i) Availability of suitable skill and workforce.
- (j) Site availability and regulations.
- (k) Expansion potential in the location.
- (l) Proximity to other businesses and services.
- (m) Level of competition in the area.

All these factors are important issues to consider in locating a business as they can either spell doom or facilitate success for the business.

**(iii) Minimizing risks:** Every business has its own risks. Starting a new business is venturing into the world of the "unknown" and therefore carries a lot of risks. A prospective entrepreneur must have to minimize the risks from the start, a task which should be addressed during the planning stage. Such risks can come in various forms. Advice from relevant professionals and those already doing well in the business will help to mitigate the risks. Sometimes, such risks may be mitigated through insurance cover or protection. In some cases, a thorough market research may assist to provide necessary information that can guide the would-be entrepreneur as to how to minimize the risks.

- (iv) **Selecting the appropriate business structure:** The entrepreneur has to choose the form of business he considers appropriate for the business. This can be sole proprietorship, partnership or limited liability company. Each of these forms of business has its own advantages and disadvantages and these must be put into consideration before registering the business. The three forms of business structure are further discussed in Chapter 8 of this book.

### Legal and Regulatory Requirements

There are a number of legal and regulatory requirements which a prospective entrepreneur must be aware of and understand thoroughly before the business start-up. These requirements are sometimes not only a condition precedent to commence operation but can also affect or determine the course of some actions in the operation of the business. The major legal and regulatory requirements are: business registration and obtaining relevant permits and licences.

- (i) **Business registration:** Any person that plans to go into business must meet certain legal requirements such as registration and obtaining relevant permits and licences. Stiff penalties may be meted against a business and/or a business owner if he fails to comply with certain government requirements.

To start with, the prospective entrepreneur must register the business with Corporate Affairs Commission (CAC). There are various forms of business structure and the would-be entrepreneur determines the business entity to register. The prospective entrepreneur can register the business as a sole proprietorship, partnership or corporation (limited liability company). Each of these business structures has its own advantages and disadvantages which the would-be entrepreneur should find out more about before the selection of the appropriate structure to register. Sometimes, it is not easy for the would-be entrepreneur to handle this by himself. He may need the services of an attorney or chartered secretary or any other person that is conversant with the business registration process.

- (ii) **Regulatory requirements: Permits and licences:** There are a number of regulatory requirements which a small business must



comply with. This depends on the type of business, the products and services of the business and the environment in which the business operates. Most businesses are expected to obtain some kind of licences or permits. Most important among these is the registration with National Agency for Food & Drug Administration and Control (NAFDAC). It is mandatory that any company producing food, medical services, cosmetics, drugs, agrochemicals and other similar products in Nigeria must get the product registered with NAFDAC and obtain a registration certificate authorizing the company to market and distribute the product in Nigeria. Each product that is registered is assigned a NAFDAC registration number which is unique. "No processed food shall be manufactured, imported, exported, advertised, sold or distributed in Nigeria unless it has been registered in accordance with the provision of Decree 19 of 1999 as amended by Food, Drugs and Related Products". Entrepreneurs interested in bringing into the market any product in the list that requires NAFDAC registration must therefore ensure that the registration is obtained as part of their preparation for business start-up.

Sometimes, it may require that an entrepreneur gets quality certification for its products from Standard Organisation of Nigeria (SON). Product certification is to ensure that locally manufactured products in Nigeria give the required degree of satisfaction to consumers. The purpose is to promote global competitiveness among local manufacturers and encourage continual improvement on the quality of locally manufactured products.

There are other local and state permits and licences peculiar to some specific states and local governments which entrepreneurs must comply with. Such permits may include those related to pet rearing, signpost, alcohol sales, operating a restaurant, nursing home, auctioneering, child care, etc. Some trade associations and professional bodies require registration and permit to operate. For instance, to set-up an audit firm, a chartered accountant must register and obtain permit from the Institute of Chartered Accountant of Nigeria (ICAN). Even to set up a rental service business, an entrepreneur must register and obtain necessary permit from the relevant association. All these issues must be

investigated and prospective entrepreneurs must ensure they comply and obtain the relevant licences and permits before the business start-up.


### **Developing Business Plan and Arranging for Finance**

These two issues are quite important and are separately discussed in Chapters 9 and 10 of this book.

### **Conclusion**

Starting and managing a small or micro business is not as simple as it appears. It is, in fact, complex and time-consuming. There are many things that go into it apart from the products or services that the business offers. The entrepreneur is responsible for conceptualization of the business idea, choosing the location to site the business, sourcing finance, protecting the business assets, keeping the business legal, keeping business records, managing employees and more. It has its risks and challenges as well as its rewards. Despite all these, the small business sector is one that is still widely open for investors and emerging entrepreneurs.

Going into micro or small business in Nigeria can be an excellent means of realizing some good income for youths in this country. Many people always lose hope when times are tough, but it must be understood that when times are tough, it is the best time to get excited about the future. This is confirmed by a study by Ernest & Young (2009) which found that majority of entrepreneurs saw economic downturn as the best time to pursue new market opportunities. Salami (2011) also noted that recession tends to favour the naturally innovative temperament of entrepreneurs. When millions of people are out of job, one should always think there is a way out. One of such ways is to start a small business to earn a living. However, people must understand the requirements for business success, plan for its success and must be able to assess themselves to determine if they are cut out for it. This is necessary because the calamities that may come after it may be enormous. Business promoters and would-be entrepreneurs must always think of and put in place a good business practice to enable their businesses to grow and succeed. A business that fails to plan is a business that plans to fail. Therefore, planning for the future is one of the most important functions of an





entrepreneur in a small business. Planning builds confidence in the entrepreneur as the future of the business is already planned thereby making it ready for the business to face the future with confidence.

### Revision Questions

1. There are six (6) steps a prospective entrepreneur must take before starting a new business. What are these steps?
3. It is important for a prospective entrepreneur to conduct a self assessment before starting a particular business. What are the issues and personal characteristics to focus on in self assessment?
4. What is franchise as an entry option for business? What are the advantages and disadvantages of franchise? What are the issues a prospective entrepreneur must consider while contemplating to use franchise as a business entry option?
5. There are a number of factors a prospective entrepreneur must consider in selecting the location for his or her business. List out and explain ten (10) of these factors.