

Business Plan

Introduction

- Many business concepts never go beyond the “Idea” stage.
- Even for functional businesses, they tend to lose focus during implementation.
- Developing a business plan helps participants to rigorously think through their business concept and develop a roadmap with specific milestones from the concept to the functional stage.
- This module will help entrepreneurs develop not just a business plan but unfold what must be done for a successful implementation.

Section 1 – Overview of Business Plan

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- Did you write a BUSINESS PLAN for the business you are currently running?
- Starting a business without a **business plan** is like a pilot taking a plane from one place to another without a flight plan
- A business plan is meant to help you navigate through the journey from the place where you start to the place you are going to.
- A business plan can be defined as a document that provides a written description of a company's future, how it intends to get there, and what it will look like when it gets there.
- A **business plan** is a **guide/roadmap** for your business that outlines goals and details of how you plan to achieve those goals.

Types of business plan

1. Startup/New Venture Business Plan

- Written for a new business
- Typically covers period of more than a year
- Roadmap for a new venture

2. Expansion business plan

- New business line in an existing business
- New investment in an existing business

3. Operating Business Plan

- Internal in an ongoing business
- Periodic in nature (usually annual)
- Captures business expectations for the year.

These business plans provide a roadmap for the operations of the business

Purpose of business plans

There are 3 main purposes for a business plan

1. Maintaining business focus

- Comprises of the business identity and strategy
- Using the document as a roadmap and guide in understanding where the business is going and navigating murky waters

2. To secure finances

- Equity and debt holders usually require a business plan to assist in taking informed decision about the business

3. Fuelling ambitions and growth

- Serves as a source of motivation to achieve goals no matter how seemingly daunting

Content of a business plan

The contents of a business plan are under 3 broad headings:

1. Description

- Corporate information
- Products description
- Market description
- Understanding of general business environment

2. Analysis

- The objectives of the business
- Market analysis
- Industry Analysis
- Marketing Plan
- Operations Plan

3. Viability

- Resource requirements
- Projected costs
- Projected results
- Risk analysis and mitigation

Section 1 Summary

- **Business plan** helps to create the future of a business in a document, and assists the entrepreneur to have a glimpse of the future.
- **Business plans** have a purpose, so we need to understand the purpose, as it dictates the way that we will present the plan.
- Life is never in a straight line. The same goes for businesses.
- Businesses have cycles so it is important to have a roadmap (BUSINESS PLAN) so as to navigate through them.
- A business plan covers the whole business from visibility to operations to viability.
- In Section 2, we will be looking in-depth into the components of a business plan.

Section 2 – Components of Business Plan

Components of Business Plan

In constructing a building, we will require various components and building blocks to get the building into our desired shape.

What makes up a Business Plan?

Irrespective of the purpose, a business plan is made up of the following 3 components:

- **Feasibility:**
 - This is the market facing part of the business plan and examines the ability of the business to sell its goods/services.
- **Marketing & Operations:**
 - This tends to look at the ability of the business to produce goods/services to meet the demands of the market most especially the customer segments identified for the business
- **Viability:**
 - Addresses the availability of resources, cash and otherwise to set up and run the business to profitability
 - Also determines if the business would make enough money (cash) to be sustainable.

How feasible is your business idea?

- If we don't adequately serve the **customer**, no matter how good the good/services we provide are, we won't be able to sell.
- The feasibility part of the business plan settles everything that has to do with the market, and helps us to ensure that when the goods and services are produced, they are able to sell when they get to the market.

Feasibility

The feasibility component of the business plan assesses the demand side of the business plan; It provides descriptions and analysis on the following:

1. The Business:

- Who we are (the organization)
- What we believe in (our Vision, Mission and Values)
- What we do (our products/services)

2. The Competition

3. The Customer:

- Who they are
- Their preferences
- Segments

4. The Market:

- Characteristics (General Business Environment)
- Size (how large)
- Complexities (how it is structure)

The Business

- If we don't adequately serve the customer, no matter how good the goods/services we provide are, we won't be able to sell.
- As an entrepreneur, the first important thing to do when thinking about a new business or product is to settle the demand side of business.
- If we want to go into any business, it is important to settle the demand side and analyse it properly so that we are sure that when we start producing, there is a market waiting to pick up the products.
- Think through and ask yourself who your competitions are.

The Competition

Your competition could be:

- 1.The person who produces something similar to what you produce.
- 2.What people can use money for if they are not buying your product/service.
- 3.People who do things themselves
- 4.People who decide not to do anything.

Competitive Strategy

- Competition could refer to any product/service which contests for the share of the customers resources with our offering
- These could be;
 - Direct; situation where customer buys similar products
 - Indirect; situation where customer uses resources to do something else
- The following are questions relating to competition:
 - Who are our competitors?
 - What advantage do they have above us?
 - How does the customer view their product/service in relation to ours?
 - How do we position our product/service in relation to the competition?

Weakness or strength is justified by how we position with the customer and whether the customer sees us as providing better value than the competition

Feasibility Plan

Understanding the market & the customer helps to:

- Validate the opportunity
- Provide insight to what obtains in the market
- Decide on the market & customer segments to focus on
- Determine the thrust of the marketing and operations plans
- Provide input into the competitive strategy

How do you get your product to the market?

How do you produce for the market?

Marketing Mix/Activities

- What will the **product** look like?
- What will the **price** be and how will it be set?
- What distribution channels/network are we considering
- What media/communication strategy are we adopting?

Marketing Mix/Activities

1. Product – function, packaging, services
2. Price – costs, discounts, margins
3. Promotion – advertising, sales, publicity
4. Place – distribution, logistics, channel

Always identify your company's market niche

Your pricing strategy must reflect the position of the market and how you want to get your brand to be seen and known in the market.

Marketing Plan Considerations

1. Product quality should be in line with what the market is willing to pay for
2. Pricing strategy should reflect what the market is willing to pay and in line with the position of the brand (product & corporate) in the market
 - Skimming strategy; (for new products, luxury goods, hard-to-come by products or at introduction in a defined market)
 - Penetration strategy; (for commodity, easy to accept products, where market access is less distinct)
3. Distribution should reflect the type of product;
 - Wide distribution network – customer goods
 - Exclusive – Luxury/Distinct products
 - Selective – Home appliances etc.
4. Communication/Promotion should reflect customers preferences and product types
 - Tangible products – communication is focused on product.
 - Non tangible products – communication is focused on the company.
 - Distinctive products – rationale side
 - Simple products – communication is focused on emotional side

Operational Plan

Which is more important?

1. Concentrating on selling?
2. Ensuring quality?

Your production capacity must be more than your decided production quantity.

Operations Plan

The operations plan is important in a business plan for the following reasons;

- To validate the marketing plan
- To layout and examine various possible production options
- Bring out the resource requirement for operations as an input into the startup capital requirement

Content of the Operations Plan

- 1.Product Description
- 2.Proposed production volume
- 3.Production procedures/process
- 4.Capital requirement (Equipment/Machinery)
- 5.Raw materials requirement
- 6.Proposed operations costs (cost of investment and cost of production)
- 7.Operating competitive advantages
- 8.Working capital requirement and other resources.

Typical Production Decision/Consideration

1. Determining production volume/quantity
 - Based on quantity required by marketing as well as quantity of finished goods stock to hold
 - Consideration for equipment/machinery capacity
2. Decide on what production procedure
 - What process to adopt
 - Own production vs outsourcing
 - Technology
 - Production cost models (least cost vs quality)
3. Determine what equipment to purchase
 - New, used or refurbished?
 - Equipment capacity.
 - Where will equipment be located (own factory, leased spaces, etc)
4. Raw materials Consideration
 - Quality of the required raw materials
 - Source and suppliers
 - Raw materials inventory policy
 - Inventory costs
 - Purchasing, holding, etc
 - Characteristics of material
5. Total investment cost
 - Structure of production land and infrastructure
 - Building and plant
 - Machinery, equipment
 - Working Capital
6. Structure of production costs
 - Fixed costs
 - Variable costs

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Production plans must be able to deliver the revenue projections you have set, as well as the quality you have promised.

Viability/Financial Plan

Every **business plan** must end with a **financial plan**.

What do you think is the purpose of the financial plan?

The purpose of the Financial Plan is to assess:

- 1.The overall resource requirements for the business
- 2.Where resource flows from and where it flows to
(Cash Flow)
- 3.Overall financial viability of the business

Viability/Financial Plan

The financial plan gives basics for controlling the business venture

Important Considerations for the Financial Plan

1. What is the startup resource (financial) requirement?
2. How will the money be raised: debt or equity?
3. What will the cost structure be?
4. What percentage of cost will be selling and general administration expenses?
5. Will there be credit from suppliers or to customers?
 - If so, what would be the terms and conditions?
6. What would the working capital requirements be?

Content of the Financial Plan

1. Background/historical financials (for existing businesses)
2. Highlights of financials forecast for the new venture, including
 - Key assumptions – costs, sales projections, admin expenses, etc.
 - Required funds; their sources and used
 - Key financial forecast; representing profitability and solvency
 - Sensitivity analysis – “what-if” planning
 - Scenario analysis – best case, worst case, realistic projections
3. Other details to be included in the Appendices

Financial Plan Summary

1. Financial plan shows the viability of the business
2. Takes input from marketing and operations
3. Financial projections helps in setting controls and evaluation of the venture
4. Sensitivity analysis help to assess what happens when conditions change
5. Scenario planning helps to plan different scenarios for the venture

Section 3 – Evaluating the Viability of the Business Plan

Appraising the viability of the business can be viewed from the following view points:

1. Do we have adequate revenue streams?
2. What's the health of the balance sheet?
3. What sort of cash flow do we have?
4. What's the ability of the business to meet its obligations?

Cash is King

Businesses have to pay their bills or they will be forced to close their doors

Ways of assessing viability

1. Quantitative:

- Applying quantitative methodologies to assess the viability of a business

2. Qualitative:

- Considering other factors other than quantitative factors

Quantitative Evaluation

3 main methods of appraisal

1. Break Even Analysis

- It is simply how long it takes the business to cover up all its initial investment and become profitable
- The shorter the duration, the better

2. Net Present Value (NPV)

- Total value generated from the investment
- The more positive the cashflow, the better the investment

3. Internal Rate of Return (IRR)

- Assess the cash flow operations and it is the return generated by each naira invested in the business

Depending on investment outlook of the investors(s), it is recommended that all three techniques are used.

Break-even point

- The typical break-even point in the telecommunications industry is 5 years.
- Every industry has its own typical break-even point.
- If you have two investments, the one with the shorter break-even point is the more attractive one.



Qualitative Appraisals

Qualitative Appraisals would include:

1. Social impact
2. Employment potential
3. Will the business bring common good to the society?
4. What need is the business meeting?

Section 4 – Summary

Overview

Section 1 – Definition of Business Plan

Section 2 – Components of a Business Plan

Section 3 – Evaluating the viability of a business

Business Plan Outline/Content

1.Executive Summary

- (Usually written last, gives a snapshot/overview of the plan)

2.Company Overview

- Legal entity structure, ownership, vision, mission, etc.

3.Products/Services description

4.Market Analysis

5.Market plan

6.Financial plan

7.Appendix

Some considerations

1. Be clear on the purpose of the plan
 - Startup, expansion or fundraising
2. Know the audience of the plan
3. Coordinate the various aspects of the business well so the plan will be cohesive
4. It is recommended that the business owner writes the plan but could get guidance from someone e.g., a consultant

Tips

- Clearly identify who would read the plan
- Plan your writing to make the process easier
- Be sure to research sufficiently, so you have clear flow
- Avoid complicated words, use simple language and presentation style
- Make the plan as detailed as possible but not too bulky
 - Other documentation can be added to the appendix
 - Full financials can be added to the appendix

When giving details of your business plan, be **careful not to give out your trade secrets.**

As an entrepreneur, you must know where you want your company to go and spell out a route to get there.

-Melvin J. Gordon

Business Plan Case Study

At Crossroad Roads Amaka was at the verge of completing her youth service in Kano, she came into Kano about a year before. On arrival in Kano however, she was amazed at the vast trading opportunities, being someone who was entrepreneurially minded, she saw a field ready for harvest. Opportunities ranged from trading in commodities, to textiles, food products and processing. she even saw opportunities in light manufacturing of various items that the raw materials were in abundance. After several considerations, she laid down a plan to start a fashion business beginning with trading cotton fabrics (guinea brocade and “*Atiku*”) which were very popular in the north and are in abundant supply and was in high demand in the southern part of the country. Two months into the service year, she started the trade; buying a few fabrics from the Kantin Kwari market. She commenced trading with two hundred and fifty thousand Naira (N250,000), loaned from her brother who worked with an oil company in Port Harcourt and before long quickly multiplied the initial capital, repaid her loan and was soon making profits. All these she did without any structured plan, but she was using her contacts and that of her older siblings and parents to sell the materials. In her words *“I know this is not all there is to the business, my passion is to start a fashion line, make bespoke clothing and a ready to wear line. But I am at crossroads on how to go about this. I know setting up a fashion outfit is completely different from just trading as there are lots of intricacies involved, I am at loss of what to do”*. Amaka had at some point attended a fashion school to learn sewing, but apart from this, she had no formal training and skills in fashion. The only thing she has going for her is the passion and determination to build a thriving fashion business and within the first five years become a household name in the fashion industry in Nigeria and West Africa.

Question 1

In developing the financial plan, what will you consider?

Question 2

List the steps you will follow in helping Amaka develop her business plan? What direction will you point her?

Question 3

How will you go about assisting her with the Business Plan?

Question 4

What direction will you point her?