

## **Crafting a Business Plan for New Investors in Nigeria**

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### **Abstract**

This paper seeks to provide the salient information required to write an effective business plan for Nigerian investors. It is hoped that the paper would proffer solutions to the difficulties encountered by investors in drafting a plan for investment. Books, journals, and other literature were consulted. From the research, it was clear that business plans de-emphasize financial projections and the focus now is on the people, the opportunity, the context, and the risk/reward factors of a business. It is suggested that if a business plan is properly crafted, it would serve as an effective business tool for investors.

### **Introduction**

In a free enterprise economy, the notion of a business providing returns to owners and investors is fundamental. Without this focus, there would be no real incentive for an investor to take risk of investment. Elegido (2000:212) opines that a basic responsibility of a company is to provide "adequate financial returns" for the investors. This is an issue in which investors are more interested sometimes to the exclusion of an initial good business plan.

Financial projections for an investment in a new venture could be an act of imagination. The beginning of a profitable business venture therefore lies in the ability of the new investor to prepare a "profitable" business plan. Most business plans in the past concentrated on "numbers" without taking cognizance of the information that really matters.

The objective of this paper therefore is to provide useful information for preparing a profitable, and successful business plan for new and seasoned investors. To achieve this, the paper is subdivided into sections that attempt to address the conceptual issues, the people, the opportunity, the context and the possibilities for risk and reward associated with investment.

### Conceptual Perspective

To begin with, a plan as defined by Daft (1991:12) "is a blueprint specifying resource allocations, schedules and other actions necessary for attaining goals". A goal, which is a desired state that an investor attempts to realize, may vary depending on certain factors. To accomplish goals in an era of what Drucker (1978) in Okpara (2000:173) referred to as "the rapid emergence of the new technologies, new industries, the emergence of genuine world economy, the emergence of new pluralization of institutions, and the emergence of knowledge, what becomes central is the production of a convincing business plan: one which is aimed at convincing an investor that the ideas proposed are worth the risk", it becomes paramount to the writer to convincingly present information that shows the company will, indeed make profit: give returns to the investors. Conducting business in a changing information, communication and technology-driven world, the emphasis in writing a convincing business plan is to devote more attention to information that really matters to an intelligent investor. Financial projection should act as key drivers of the business success or failure, but should not be the main focus of a business plan.

A business plan according to Ifechukwu (1992:25) "is a written document prepared by the entrepreneur describing the goals and objectives of the venture along with steps necessary to achieve those goals." A business plan is also referred to as a feasibility study (report).

The objectives of a business plan include a demonstration to outsiders the need to help raise money (capital) for the venture and to keep the investor on his planned cause or possibly to alert him as to events going contrary to his strategy. To achieve a balance



between optimism and realism in order to attract lenders and investors as to the profitability and viability of the business a business plan should be prepared within a framework of four interdependent factors that are critical to every new business. These factors, as put forward by Sahlman (1999:32) include the people, the opportunity, the context and risk and reward.

### The People

To Freemantle (1994:31) "people come first." In any organization, people should be the most prized asset. People as used in this context also mean the men and women starting and running the venture as well as the outside parties providing key services or important resources for it. Basically, a business plan addresses the issue of not just the resume of people but recognizes the need for the right team. Without the right team, none of the other factors do really matter. What the outside world want to know is "who are those people" who intend to invest? What do they know? Whom do they know? And how well are they known?

What and to whom they know are matters of insight and experience. How familiar are the team members with industry players and dynamics? Investors value managers who have been around the block a few times. A profitable business plan should candidly describe each team member's knowledge of the new venture's type of product or service, its production processes, and the market itself from competitors to customers. It also helps to indicate whether the team members have worked together before.

Investors also prefer a team that is known because the real world often prefers experienced people. Start-ups are too unpredictable. The people part of a business plan should receive special care because most investors prefer the "executive skills", and not just ideas. An investor once remarked "if you can find good people, if they are wrong about the product, they will make a switch". Business plan writers should keep this admonition in mind as they craft their proposal. They should talk about the people exhaustively and if there is nothing solid about their experience and abilities to herald, then the investors should think again about launching the venture. If you are considering a business plan for a

packaging company in Makurdi for example, the "personal" questions which each business plan should seek to answer, must be noted. These personal questions are:

- . Where are the founders from?
- . Where have they been educated?
- . Where have they worked, and for whom?
- . What have they accomplished - professionally and personally in the past?
- . What is their reputation within the business community?
- . What experience do they have that is directly relevant to the opportunity they are pursuing?
- . What skills, abilities and knowledge do they have?
- . How realistic are they about the venture's chances for success and the tribulation it will face?
- . Who else needs to be on the team?
- . Are they prepared to recruit high -quality people?
- . How will they respond to adversity?
- . Do they have the mettle to make the inevitable hard choices that have to be made?
- . How committed are they to this venture?
- . What are their motivations?

The 14 personal questions, if well answered, would surely convince an investor.

### The Opportunity

The opportunity is the next component of a business plan. In this component, a good and profitable business plan begins by focusing on two questions: Is the total market for the venture's product or service large, rapidly growing or both? Secondly, is the industry now, or can it become, structurally attractive? In a business plan, investors look for large or rapidly growing markets because it is easier to obtain a share of a growing market than fight with competitors for a share of a mature or stagnant market. According to Kotler (1999:125) "marketers and indeed smart investors try hard to identify high -growth-potential markets early in their evolution that is where the big payoff are".



As for attractiveness, some industries with lots of competitors each offering similar high-quality products, companies with short product life years, high on-going technology investments, and industries with major shifts in technology and customer needs and intense rivalry leading to lower prices, hence lower margin are indeed structural disaster areas.

Today, the information service industry seems to be a paradise. Investment in business providing data for example to the finance world has every competitive advantage on their ride.

They can assemble or create proprietary content. Once a proprietary content is achieved, the investor would continue to deliver the content to customers very cheaply. Customers could also afford to pay in advance of receiving the service, which makes each flow very handsome. The structure of the information service industry is more than attractive. It is indeed gorgeous.

A business plan must also address the likely consumer response to a new product or service. Economically, viable access to customers is the key to business. Yet many investors take the "field of dreams" approach to this noble idea. They feel that the customer would "just come when they build it." This is a movie strategy but does not work in real world. A business plan must also address the issue of how much people will pay for products or services. Investors always look for opportunities for value pricing - i.e. markets in which the costs to produce the product are low, but consumers will still pay a lot for it. Investors do not invest in a company when margins are skinny. It is also worthy to note that there is money to be made in inexpensive products and services.

A good business plan must demonstrate that careful consideration has been given to the new ventures pricing scheme, cash flow implications of pursuing an opportunity etc. Investors of a sachet water business for example, would want to know the following:

- i) When does the business have to buy resources - supplies, materials, and people?
- ii) When does the business have to pay for them?
- iii) How long does it take to acquire a customer?
- iv) How long before the customer sends the business a check?

- v) How much capital equipment is required to support a Naira of sales.

Investors are looking for business in which management can buy low, sell high, collect early and pay late.

The opportunity section of a business plan must also bring a few others issues to the surface.. It has to demonstrate and analyze how an opportunity can grow- i.e. how the new venture can expand its range of products or services, customer base or geographic scope. This can be found for example, in publishing businesses - books, journals, seminar papers, magazines, newspapers etc.

Another opportunity trap that business plans need to pay attention to is arbitrage - the ability to buy small businesses at a wholesale price, roll them up together into a larger package, and take them public at a retail price without adding value in the process. Arbitrage ventures are basically created to take advantage of some pricing disparity in the market place. Taking advantage of arbitrage opportunity is a viable and potential profitable way to enter a new venture.

In addition, all business plans should carefully and thoroughly cover the territory of competition. In writing a business plan for new investors, the writer should attempt to answer the following questions:

- a) Who are the new investor's competitors?
- b) What resources do they control?
- c) What are their strengths and weaknesses, (what Fry et al 1998:308) referred to as "business profile"?
- d) How will they respond to the new venture's decision to enter the business?
- e) How can the new venture respond to its competitor's response?
- f) Who else might be able to observe and exploit the same opportunity?
- g) Are there ways to co-opt potential or actual competitors by forming alliances?

In answering the above questions, it must be noted that business is like chess. To be successful, one must anticipate several moves in advance. All opportunities have promises as well as



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vulnerabilities. A good business plan should not whitewash vulnerabilities. Rather, it should prove that members of the team know the good, the bad, and the ugly that the business faces ahead.

### The Context

The context as used in this paper refers to the environment of business. Opportunities exist in a context and there are levels of business environment. At one level is the macroeconomic environment - level of economic activity, inflation, exchange rates, interest rates etc. At another level are the wide range of government rates, regulations, policies, etc that affect the opportunity and how resources are marshaled to exploit that opportunity. Yet another level relates to factors like technology that define the limits of what a business or its competitors can accomplish.

Context that is often associated with change (see Dugguh, 2004) has a tremendous impact on every aspect of the business process - from identification of opportunity to harvest. In some cases, changes in the contextual factors create opportunity. For example, privatization could create opportunities for new investors.

Conversely, there are times when the context makes it hard to start new enterprises, difficult financial environment for new company's establishment requirements, etc. At times a shift in context turns an unattractive business into an attractive one and vice versa. Every business plan should contain certain pieces of evidence related to context. This could be done by:

- a) demonstrating that the investor shows a heightened environment (context) and how it helps or hinders their specific proposal;
- b) demonstrating knowledge that the venture's context will inevitably change and describe how those changes might affect the business;
- c) spelling out what management can (and will) do in the event the context grows unfavourable; and



- d) explaining the ways in which management can affect context in a positive way e.g. having the ability (resource) to lobby government etc.

### Risk and Reward

The last leg of the framework deals with risk and how to manage it. Risk is the probability that an anticipated or expected outcome may turn out to be wrong. Pride et al (1993:639) defined risk as "the probability that a loss or injury will occur." Fry et al (1998:242) see risk taking "as the willingness to undertake action without knowing what the result will be." To Okpara (2000:49) the ability of an investor "to swim where others drown qualifies him as a risk taker." An investor should therefore be in love with risk as he intends to go into business to take risk. Where there is no risk, there is no business. Business entails different degrees of risk. Investors must analyze not only the expected profitability but also the possible deviations from the expectations.

Since a business plan is viewed as a snapshot of events in the future, it requires taking a picture of the unknown. But good business plans should go beyond events. It should show people, opportunity and context as moving target. All the three factors are likely to change over time as a business evolves from start - up to ongoing enterprise. A business plan worth the time it takes to write or read, needs to focus attention on the dynamic aspects of the entrepreneur process.

Though the future is hard to predict, a profitable business plan should give potential investors a sense of the kind and class of risk and reward they are assuming with a new venture. Two kinds of risk as put forward by Nickels et al (1999:669) are: Speculative risk and pure risk. Speculative risk involves a chance of either profit or loss. It also includes the chance a firm takes to make extra money by buying new machinery, acquiring more inventory and making other decisions in which the probability of loss may be relatively low and the amount of loss is known. For example, building a new plant by an investor is a speculative risk. "Pure risk" refers to the threat of loss with no chance for profit. It involves the threat of fire, accident, or loss.



It is the pure risk that concerns the investor more than the speculative risk. This is because pure risk threatens the very essence of investment. A good business plan must show an investor the option of reducing the risk, avoiding the risk, self-insurance against the risk, and finally buying insurance against the risk.

There is no immutable distribution of outcome. It is ultimately the responsibility of management to change the distribution, to increase the likelihood and consequences of success, and to decrease the likelihood and implications of problems. Investors are risk seekers: they want to capture all the reward and give the risk to others. A business plan in addition, must unflinchingly confront the risks ahead in terms of people, opportunity and context. For instance, what happens if one of the new venture's leading team members leaves? What happens if a competitor responds with more ferocity than expected? What happens if there is a revolution in a state or country that serves as the major source of raw materials? What then will management or the investor do?

Another very important area in the realm of risk and reward management relates to harvesting. Investors would want to know if a company is "Ipoable" i.e. can the company be taken public at some point in the future? Some businesses are inherently difficult to take public because doing so would reveal information that might harm its competitive position. For example, it would reveal profitability thereby encouraging entry or angering customers or suppliers.

A business plan should address candidly the end of the process. How will the investor eventually get money out of the business assuming it is successful? Investors prefer business with a wide range of exit options. They like companies that work hard to preserve and enhance those options along the way, form alliances with big corporations that could someday actually buy them. Investors feel a lot better about risk if the venture's endgame is discussed up front. It is better for an investor to know where he/she might end up when he/she has a map for getting there. A business plan should be the place where that map is drawn. For a journey is a lot less risky when a traveler has directions.

Rewards, according to Griffin and Ebert (1993:222) "are all the positive things people get for working; they include pay, praise,



promotions, job security, and many other factors." Rewards, tied to performance serve as positive reinforcement. A business plan should therefore show how an investor will receive rewards for performing better and also the type of rewards that the company will offer for a better performance.

### Conclusion

In today's economy, few ideas are truly proprietary. There has never been a time in recorded-history when the supply of capital did not outrace the supply of opportunity. A business plan must not be an albatross that hangs around the neck of the investor's team. Instead, a business plan must be a call for action - one that recognizes management responsibility to fix what is broken proactively and in real time.

Risk is inevitable and avoiding risk is impossible. Risk management is the key, always titling the venture in favour of reward and away from risk. As stated earlier, a good business plan must demonstrate a complete business process from identification of opportunity to harvest. A business plan should not be regarded as a way of separating unsuspecting investors from their money by hiding "the fatal flaw."

Most of the successful companies now started with a business plan. Crafting a business plan so that it thoroughly and candidly addresses the ingredients of success - the people, the opportunity, the context and the risk/reward picture is virtually important. A business plan built of the right information and analysis leads investors to profitable business investment. As opined by Iornem (1997:19) the failure on the part of an investor to have a good business plan can "result into a woolly perception of the business."

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