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# CRAFTING A BUSINESS PLAN FOR NEW VENTURE SURVIVAL IN NIGERIA

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## Abstract

This study is essentially design to unlock some of the salient information required to write an effective business plan for Nigerian investors which by extention will contributes to the sustainable and growth of a new venture. It is my belief that the paper would proffer solutions to the difficulties being experienced by perspective investors in writing an effective business plan for investment purposes. The main sources of information gathering include documents, books, internet, magazine, journals and other literature. The finding from the research indicate that business plan de-emphasize market and financial projection but that the focus now is on the people, the genuine business opportunity, the context and also, the risk/reward factors of a business. The paper therefore suggested that if a business plan is properly crafted, it would serve as an effective business tool for investors. Hence, adequate time should be taken to provide a comprehensive business plan to avoid poor performance, liquidation and business failure and to attract investors.

***Keywords:*** *Business plan, the People, the Business Opportunity, the Context, Risk/reward and Growth of new Venture.*

## Introduction

Over time, the concept and practice of business plan has been embraced worldwide and across sectors because of its perceived contribution to organizational effectiveness. In a free enterprise economy, the notion of a business providing returns to investors and owners is fundamental. Without this focus, there would be no real incentive for an investor to venture into taking risk of investment. Emmanuel (2012:212) opines that a basic responsibility of any business organization is to provide adequate financial returns for the investor and eventually for growth. This is an issue in which investors are more interested sometimes to the exclusion of an initial good business plan.

The success of business organizations largely depends on how well they are planned and the extent to which such plans are carefully implemented. Today, most entrepreneurs conceive wonderful business idea but lack the necessary funds required to float a successful business. This makes entrepreneurs to fall back on banks, investors and other financers to fund their business. Attracting the attention of financers depends to a large extent on the entrepreneur's ability to present an entity and acceptable business plan (Alabar and Ayaga, 2013).Most business plans in the past focused on "numbers" without taking cognizance of the information that really matters.

The objective of this paper therefore is to furnish vital and useful information for preparing a marketable, profitable and successful business plan for new and seasoned investors. To achieve this objective, the paper is subdivided into sections that attempts to address the conceptual framework, the people, the genuine business opportunity, the context and the possibilities for risk and reward associated with investment. This is the crux of this paper.

**Conceptual Perspective**

According to Timmons and Spinelli (2004:14), a plan is a blueprint, strategy, resource, and individual requirements for a new venture. A goal, which is something an individual or organization aims to accomplish. Goal varies depending on certain factors. To accomplish goals in an era of what Drucker (20008) in Okpara (2013:173) 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, and will grow. Thus, 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 or failure, but should not be the sole or main focus of business plan.

In the words of MCHugh and MCHugh (2009), a business plan or proposal is a detailed written statement that describes the nature of the business, the target market, the advantages the business will have in relation to competition and the resources and qualification of the owner(s). It must describe current status, expected needs, and projected results of the business. Every aspect of the venture needs to be carried: the project, marketing research and development, manufacturing (if need be), management, critical risks, financing and milestones and/or a timetable. A description of all of these facts of the proposed venture is necessary to demonstrate a clear picture of what that venture is, where it is projected to go and how the entrepreneur proposes it will get there. Therefore, the business plan is the entrepreneur's blueprint or roadmap for a successful enterprise (Kliratkox Hodgetto, 2014). This is because it tells you what you expect and what alternative routes you can take to arrive at your destination which is reward.

The objective 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, business plan should be prepared within a framework of four interdependent factors that are critical to every new business. These factors, according to Sahlman (2010) include the people, the opportunity, the context and risk and reward.

**The People**

In any organization, people should be the most prized and important asset (Freemantle, 2004:31). People as used in this context also mean those starting and operating the venture as well as the outside parties (external) providing key services or important resources for it. Basically, a business plan addresses the issue of not just the resume of people but also recognizes the need for the right team. What the outside world want to know is "who are those people" who intend to invest? What are their experiences in related trade? In other words, what do they know? Whom do they know? And how well are they known? Without the right team assembled, none of the other factors do really matter.

How familiar are the team members with industry players and dynamics? Whom and what they know are matters of insight and experience of members. Investors value managers who have been around the block a few times. Consequently, a profitable business plan should objectively describe each member of the team's knowledge and experience of the new venture's type of product or service including technical description of the business, process, machinery used, patents and design registration, plant location, and the market itself from competitors to customers, and capital needs to sources of finance. It also helps to indicate whether the team members have worked together before.

The people part of a business plan should receive special attention because most investors prefer the "executive skills", and not just ideas. Because start-ups are too unpredictable, investors prefer experienced people because the real world often also prefers a team that is known. An investor once remarked "if you can find good people, it they are wrong about the product, they will make a switch". Business plan writers should therefore 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 for example, you are considering a business plan for a manufacturing juice company in Makurdi, the personal questions which each business plan should attempt to answer must be noted and these personal questions are:

- Where are the founders from?
- Where have they been educated? And what are their educational qualifications?
- What are their working experiences? And 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?
- 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?
- What are their motivations?
- How committed are they to this venture?
- Do they have the mettle to make the inevitable hard choices that have to be made?
- How will they respond to adversity and emotions?

The 15 personal questions, if accurately answered, would definitely convince an investor and/or attract loan from a financial institution.

**Genuine Business Opportunity**

In this component, a good and profitable business plan begins by focusing on two very important questions: is the industry now, or can it become, structurally attractive? Secondly, is the total market for the venture's product or service large, rapidly growing or both? In a business plan, investors usually look for large or rapidly growing markets. This is 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. “Marketers and indeed smart investors endeavours to a large extent to identify high-growth-potential markets early in their evolution that is where the large reward are” (Kotler, 2009:120).

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

Today, the information service industry seems to be a paradise. Investment in business providing data for instance to the finance world has every competitive advantage on their ride. They can assemble or create proprietary content and once this is achieved, the investor would continue to deliver the content to the customers very cheaply. Customers could also afford to pay in advance of receiving the service, which makes each flow very handsome and attractive. Hence, the structure of the information service industry is not only attractive but also gorgeous indeed.

A business plan must also consider the likely competitors and consumer’s response to a new product or service as economic and valuable access to customer is the key to business success. 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 which does not work in real world. Still, a business plan must address the issue of what to produce, whom to produce, how much people will pay for products or service thereby enhancing the fair operation of the market by giving special attention to individual customers as regards sales order, credit offer, sales discount. Usually, investors always look for opportunities for value pricing. That is, a market in which the costs to produce the product are low, but consumers will still pay a lot for it. Investors do not usually invest in a company when margins are skinny. It is also worthy of note that there is money to be made in inexpensive products or services.

A good and effective business plan must demonstrate that careful consideration has been given to the new ventures pricing scheme, cash flow implications of pursuing an opportunity. For example, investors of a cake production business, would want to known the following:

(i) When does the business have to resources – suppliers, 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?

An investor is looking for business opportunity in which management can buy low, sell high, collect early and pay late.

The opportunity section of a business plan must also 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 scope. This can be found for example, in publishing businesses such as books, journals, seminar papers, magazines, newspapers etc.

Another opportunity trap that business plans need to address is arbitrage. This is the ability to buy small businesses at a wholesale price, roll them up together into a larger package, and then, take them public at a retail price without adding value in the process. The technique is basically created to take advantage of some pricing disparity in the market place. Hence, taking advantage of arbitrage opportunity is a viable and potential profitable way to enter a new venture.

Furthermore, all business plans should carefully and adequately cover the territory of competition. Consequently, in writing a business plan, the writer should attempt to answer the following basic questions correctly.

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 a game of chess. To be successful therefore, one must anticipate several moves in advance. All opportunities have promises as well as vulnerabilities. Thus, 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. In sort, a good business opportunity should state the consumer problems and define nature of the products or services and the opportunities created by these problems.

**The Context**

The context as used in this paper refers to the environment of which business operate. Every business entity operations in a given environment and each business have its own environment. Opportunities for example, exist in the context and there are levels of business environment. At one level, is the microeconomic environment – level of economic activity, inflation, exchange rates, interest rates. At another level are those set of forces and conditions that originates from suppliers, distributors, customers and competitors, etc. Still, another level are the wide range of government rates, regulations, policies etc that affect business operation's ability to obtain impute and dispose of its outputs. Yet another level relates to factors such as technology, economic forces, political/legal force that define the limits what a business or its competitors can accomplish.

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

Conversely, there are times when the context makes it hard to start newenterprises, difficult financial environment for new venture's establishment requirements; while at times, a shift in context turns an unattractive business into an attractive one and vice versa. Every business plan should contain 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- having the ability (resource) to lobby government etc (Dughuh 2004). Conversely, note that, competition tends to be less intense as the production group or service become more complex. The more complex the commodity group, given the scale of operation, the greater the initial capital and the higher the skill required to handle it.

**Risk and Reward**

The last leg of the framework deals with risk and how to manage it. Pride et al (2003:639) defined risk as "the probability that a loss or injury will occur". Fry et al

(1998:242) describe risk taking as "willingness to undertake action without knowing what the result will be". To Okpara (2010:49) the ability of an investor to "swim where others drown qualifies him as a risk taker". This motivational influence on entrepreneurship is an offshoot of the need for achievement factor, for individuals with a high need for achievement would have moderate propensities to take risk because activities with moderate risk are challenging and at the same time appear to be attainable. 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, as business entails different degrees of risk. Investors must therefore, 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 good picture of the unknown. But good business plans should go beyond events. It should also 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. Thus, a business plan that 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 class and kind of risk and reward they are assuming from a new venture. Two kinds as put forward by Nickels et al (2009:669) 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 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, war, flood or loss and the like.

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. Hence, 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 of implications of problems. Investors are risk takers, they want to capture all the reward and give the risk to others. Furthermore, a business plan, must unflinchingly confront the risks ahead in terms of people, opportunity and context. For example, 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 crucial and important area in the realm of risk and reward management relates to harvesting. Investors would want to know if a company is “ipoable” that is, can the enterprise be taken public at some point in the future? Some businesses are inherently difficult to go public because doing so would reveal information that might harm its competitive advantage. For example, it would reveal profitability thereby encouraging entry, increasing taxes paid to government or angering customers or suppliers etc.

A business plan should also 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 alliance with big corporations that could someday buy them. Investors feel a lot better about risk if the venture’s endgame is discussed up front. It is better for 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 the traveler has directions.

Rewards, according to Cantillon (2010:222) “are all the positive things people get for working; they include pay, praise, promotions, job security, awards, 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.

**Summary and Conclusion**

In today’s economy, no 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 bean albatross that hangs around the neck of the investor’s team. Rather, 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 earlier stated, a good business plan must demonstrate a complete business process from identification of opportunity to harvest.

A properly crafted business plan can help solidify your vision as well as ensure its success. Most of the successful companies now started with a business plan so that it thoroughly and candidly examined and evaluate 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 Ogundele (2012:19) the failure on the part of an investor to have a good business plan can "result into a wholly perception of the business thereby making business success doomed. The paper therefore concludes that of the factors that are necessary for business success, none is to be stressed more often than business plan.

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