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Business Plan Guideline for Small and Medium Scale Enterprises

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BUSINESS PLAN GUIDELINE FOR SMALL AND MEDIUM SCALE ENTERPRISES

by

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1. Introduction

This paper develops a framework or guideline for the preparation of business plans for small and medium enterprises (SMEs) to enable them take advantage of opportunities for local content development in the oil, gas and mining sector. It presents the essential elements and methodologies of writing business plans for SMEs aspiring to engage in industry participation in the oil and gas industry. The guide is for SMEs that have put in place basic organizational structures for the business. If they can develop a good business plan, it could assist them in raising the needed capital for implementing contracts and projects in the sector. The paper is divided into three parts including this introduction which forms part one. Part two considers the purpose of a business plan and the general principles for preparing it while part three presents the structure of the business plan to help the enterprises construct effective business plans.

2. The Objective and Principles for Preparing a Business Plan

2.1 The Objectives of a Business Plan

There are two primary purposes for preparing a business plan. The first is external, to secure funding that is very important for the growth and development of the enterprise. The second is internal, which is to support the strategic and corporate development of the business. In this regard, it is also useful for setting the strategic direction for the organization and its decision makers to achieve its objectives within the time frame of the plan which could be two to three years. A good business plan also provides the organization with an operational framework that could give it a competitive advantage in the industry by serving as:

a) **Action Plan** in the short term by breaking down the complex tasks of starting a business into many smaller and less cumbersome tasks, each of which is assigned a due date, person (s) responsible, and detailed action plans for achieving them. For existing businesses, it enables greater focus on dealing with issues in an organized, coherent and systematic manner.

b) **Roadmap** for the medium to long term because once the business has started, a business plan can be an invaluable tool to help managers keep on track and moving in the direction set for the organization. Without a plan, it is very easy to lose focus in running of day-to-day operations of the business and also help others to understand the vision of the enterprise. It serves as the roadmap to achieving the objectives of the organization.

c) **Performance Tool**, a business plan serves as a performance tool because it is an operational instrument which, when properly used, will help the management of the enterprise to set realistic goals and objectives for performance as well as providing a basis for evaluating and controlling the future performance of the organization.

d) **Business Promotion Tool**, a business plan is a business promotion and marketing tool which often assists the management of the enterprise to persuade investors and lenders to provide financial support for its activities. The business plan enables them to understand the current activities and future direction of the organization and the goals, objectives and strategies developed to achieve performance.

2.2 General Principles for Developing a Business Plan

There are some basic principles or guidelines that should be followed in the preparation of a business plan and it covers the basic elements of the plan. These will be useful in writing a business plan for any audience. These are:

1. **Easy to Read**: The business plan must be well prepared for easy understanding. The introductory statement is the most important part because it summarizes your business in one or two pages. The plan must be written in a very simple language so that it can be understood when people read it.
2. **Market Analysis**: The market to be served is more important than the product that will be offered because investors or customers are primarily interested in how the market will react and receive the products and services. The plan should demonstrate and substantiate research on how customers will benefit from the products and service or what is called "WIIFT" (What's In It For Them).
3. **Distribution Plan**: Be specific about the strategies that will be used to sell and distribute products or services, clearly outlining the methods and the cost of getting the products or services to the ultimate customers. This will include logistics, warehousing and delivery arrangements.
4. **Business Uniqueness and Competitive Advantages**: This should be highlighted and should explain what will give your business a competitive advantage in the marketplace. For example, you can state any special attributes, like patents, copyrights, strategic partners or new technologies of the company.
5. **Management**: The strength of the organization's management in terms of experience, professional qualifications and achievements should be emphasized in the business plan. It is also important to mention the policies put in place to keep them and that directors and management possess the necessary credibility to run the business.
6. **Projections**: Projections on future activities and performance indicators should be realistic, credible and substantiated with plausible assumptions that can be validated.
7. **End user in focus**: Business plans should be designed with the end user in mind. Banker's or financier's look for stability, security, cash flow coverage, and sound returns, whereas a Venture Capitalist is more interested in high leverage resulting in high returns. Therefore, the uses of funds should show that funds invested are adequately secured and cash flows will more than cover their interest and principal payments.

3. The Structure of a Business Plan

The business plan follows a similar structure whatever the size of the organization. The basic elements of a business plan are presented below:

3.1 Executive Summary

The executive summary gives an overview of the business plan. It should not be more than two pages and contains all the highlights of the plan that will provide a strong impact to readers because it may be the first thing investors or stakeholders see about the business. In the summary, the plan should be condensed, interesting and present the business in its best form because it could be used as an extract for those who are less interested in the details of the business or who want to analyse an aspect of the business. In preparing the summary, the following questions should be answered:

- What sort of business is it?

- What is the product/service and why is it special?
- Who are the managers? How much money do you need?
- When, and at what stage would it be required?
- What will you use it for?

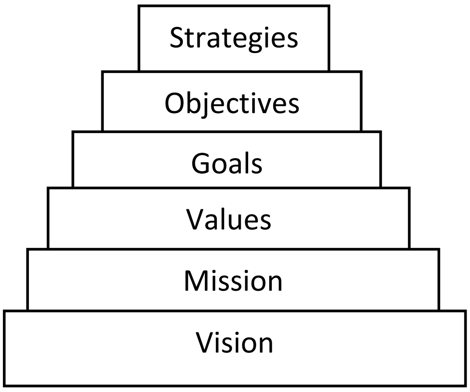
The summary should capture the readers' initial interest and encourage them to desire to know more about the business. Overall, the executive summary provides an assessment of: a) The Business, b) Products/Services, c) Industry Analysis and Trends, d) Competition, e) Strategic Position, f) Marketing Plan, g) Income and Assets summary and h) Use of Proceeds Summary (where funds are borrowed).

3.2 The Business

3.2.1 Business Overview

This part of the plan describes the business, its vision, mission, values, goals, objectives and corporate strategies. It will also highlight the strategic initiatives and milestones of the business as well as the competitive advantage it has over existing competitors. It is here that you build a picture of the business as follows:

Figure 1: Building blocks of a good business.



3.2.1.1 The Vision Statement

The vision statement is a precise, well-drafted statement indicating the direction of the business. It is an inspiring short and succinct statement of what the business intends to become and to achieve in the future often stated in competitive terms. It describes the aspirations for the future, without specifying the means that will be used to achieve those desired outcomes and serves as the core ideals that remains steady and provide guidance in decision making. Examples of vision statement are:

- General Electric (GE): "***We bring good things to life***"
- Apple: "***To change the world through technology***"
- Ford Motor Company: "***To become the world's leading consumer company for automotive products and services***"

3.2.1.2 The Mission Statement

This is a broad statement of the purpose of the business, specifying its fundamental raison d'être. It presents the purpose and long-term aspirations and gives a justification for the business as well as defines the core activities and the strategic goals, objectives and priorities of the business in a very concise manner. The purpose of the mission statement is to affirm the long-term commitment to achieving its vision, and serves as reminder to the top management about the purpose of the business, where it is going and what it needs to get there as well as giving the employees a clear direction and challenge to achieve the mission and motivates them by giving them a sense of purpose in being part of the business. The mission statement enables the business to communicate its purpose to both insiders and outsiders. For example, the mission statement of Shell Petroleum Company is: "***Our mission is to search for oil and produce, refine and market petroleum and petroleum products throughout the world***". The statement captures the company's core business activities, including its target market and the products and services it offers.

3.2.1.3 Corporate Values

These are values that reflect the core ideology of a business entity and are independent of current industry environment, product life cycle and management trends. They are immutable event if the industry changes. The following are examples of values that some businesses have adopted: • **Excellent customer service • Continuous improvement • Pioneering technology • Creativity and innovation • Human resource development • Integrity • Empathy**. An example of vision, mission and value statement is presented below:

Vision, Mission and shared Value Statements of Nigerian National Petroleum Company (NNPC).

Vision: "NNPC will be a world-class oil and gas company driven by shared commitment to excellence".

Mission: "NNPC is an integrated Oil and Gas Company, engaged in adding value to the nation's hydrocarbon resources for the benefit of all Nigerians and other stakeholders".

Core values:

- Respect for the individual
- Staff development and growth
- Integrity, transparency and accountability
- Professional Excellence

3.2.2 Business Goals and Objectives

3.2.2.1 Goals

These are broad business results that the business is absolutely committed to achieving and are typically stated in terms of general business intentions such as "*becoming the market leader*" or "*being a low-cost provider of choice*". Goals provide the link between the mission of the business and its actions and it will ultimately dictate the choices made by the organization.

3.2.2.2 Objectives

These are specific steps, milestones, which enable the business to accomplish its goals. The objectives must be result-driven and not action-driven. It should be SMART: Specific, Measurable, Attainable, Reasonable and Timely. Setting objectives inculcate a sense of direction among employees and facilitate coordinated growth across the business entity. They also act as a benchmark against which actual performance can be evaluated and guide decision-making and action by the management. Objectives are different from goals because they are quantifiable unlike goals that are generalized open-ended statements of desired outcomes without quantification or time specific.

3.2.3 Business Strategy and Key Success Factors.

3.2.3.1 Business Strategy

This relates to the strategic initiatives the business plan to undertake in order to achieve its vision, mission, goals and objectives. It involves the entire organization and covers the range and depth of its core activities and the relationship with its environment. It addresses a business's basic direction for the future: its purpose, its ambitions, its resources, and how it interacts with the industry and, more importantly, towards other competing businesses in the marketplace. Business strategy is an instrument by the organization to gain a sustainable advantage over its competitors and concerns itself with the survival of the business as a minimum objective and added value as a maximum objective.

3.2.3.2 Key Success Factors (KSFs)

These are the fundamental issues that must be available for the business to compete effectively in the market place. The factors should specific and they include the followings:

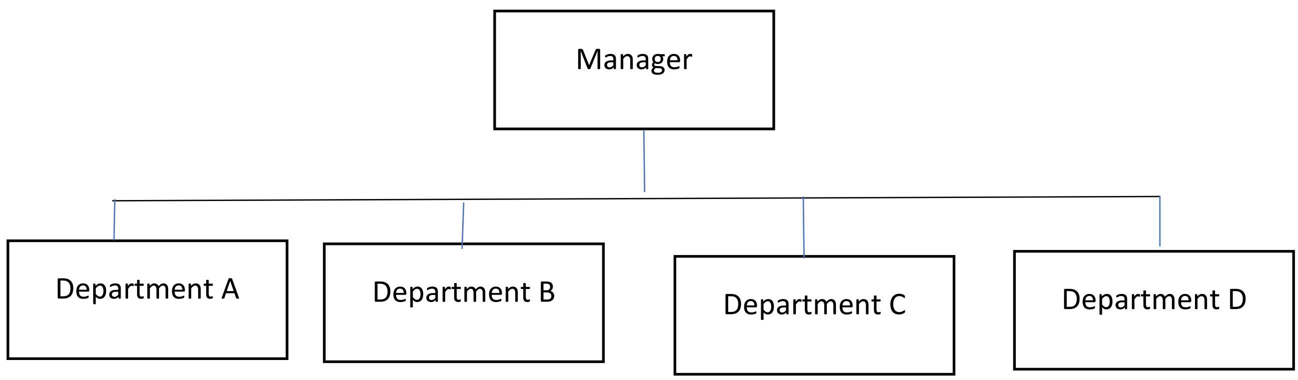
(i) Adopting new technologies
(ii) Hiring human resources
(iii) Strategic location
(iv) Distribution channels and marketing strategies
(v) Government regulation
(vi) Improving services or customer focus
(vii) Enhancing operations towards best practice

3.2.4 Organization, Ownership and Management

3.2.4.1 Organizational Structure:

The organization of the business around its activities is very important because it is essentially developed to deliver the vision and mission of the business. It is represented by the organizational chart which helps to explain the communicate, operational processes, reporting lines, and the linking mechanisms between the roles and responsibilities. It illustrates to all the communication lines, how the control system operates and who is in control, who has authority and finally, who is responsible. organizational structure may be hierarchical reflecting communication flowing from top management to the units down the entity. Modern organizations tend to be horizontal, between individuals and departments, rather than the upwards or downwards flow used by conventional structures which tends to be bureaucratic. A simplified organizational chart is presented below:

Figure 2: A Model Matrix Organizational Chart



This type of structure is often referred to as the matrix structure and it has the advantage of being cross-functional while maintaining functions and the commitment and specialization of individual departments. It also allows for flexibility for change, encourages commitment to the business as a whole, improves the communication among its different units.

3.2.4.2 Ownership and Management

The business plan must indicate the ownership and management structure of the business. The information that should be incorporated into the plan includes the names of owners, percentage ownership, relationship with the business, forms of ownership. The top management cadre of the business must also be presented in the business plan because it constitutes one of the key success factors in any business. The names, position, primary responsibilities, education, experience and skills, past employment and track records, industry recognition and compensation levels and basis must be indicated in the management sector of the business plan.

3.3 Operational Plan

The operational plan provides guidance to employees and ensures smooth process flow in the business. It describes the role of each department in the organization and has the benefit of improving the overall morale and commitment among all employees involved in the plan because it gives them a clearer understanding of their roles and functions. It also allows the lower level employees to highlight the daily operational inefficiencies and bottlenecks that top management may not be able to see and it provides a basis for control and performance appraisal and enables junior employees to gain valuable experience that will help them to assume higher future responsibilities in the organization.

3.4. Industry and Market Analysis

3.4.1 Industry analysis

This involves analyzing the environment in which the business operates in order to identify the forces in the industry that must be recognized, plan for and deal with in order to be successful. An industry analysis questionnaire is usual prepared as a guide to an effective and result-oriented analysis of the industry. A sample of the questionnaire is presented below:

Table 1: An example of Industry analysis questionnaire.

Number of competitors are:	**Many**	**Moderate**	**Few**	**?**
Are the numbers of competitors increasing?	Yes	No	-	?
Is your industry dominated by a few players?	Yes	No	-	?
Do new technologies affect your products and services?	Yes	No	-	?
Is there a large and untapped market that your industry can expand to?	Yes	No	-	?
Does price play an important role?	Yes	No	-	?
Do consumers' tastes change frequently?	Yes	No	-	?
Are there substitutes for your products and services?	Yes	No	-	?
Barriers of entry to your business are...	High	Moderate	Low	?
Powers of distributors are...	High	Moderate	Low	?
Bargaining power of customers are...	High	Moderate	Low	?
Powers of suppliers are...	High	Moderate	Low	?

Number of competitors are:	**Many**	**Moderate**	**Few**	**?**
Is your revenue...	Growing	Stable	Declining	?
Profit margins are...	Growing	Stable	Declining	?
Costs within your industry are...	Growing	Stable	Declining	?

Source: IFAC, 2006.

The technique that is frequently used in presenting industry analysis is known as SWOT analysis. It involves the process of scanning the internal and external environment of the organization, which is an important part of the planning process. Environmental factors internal to the entity are usually classified as Strengths or Weaknesses and those external to the organization are classified as Opportunities or Threats. A SWOT analysis is a useful way of looking at the current and future status of the business. It provides information that is helpful in matching the resources of the business and capabilities to the competitive environment. The chart 1 below illustrates how SWOT analysis fits into an industry analysis:

Chart 1: Components of SWOT analysis

STRENGTHS • Economies of scale • Specialist marketing expertise • Exclusive access to natural resources • Patents • New, innovative product or service • Strategic location • Cost advantages through proprietary know-how • Strong distribution networks • Strong brand names with solid reputation	**WEAKNESSES** • Lack of marketing expertise • Undifferentiated products and service (i.e. in relation to your competitors) • Poor location of your business • Weak distribution channels • Poor quality goods or services • Weak brand name and reputation in market • Lack of patent protection • High cost structure
OPPORTUNITIES • Developing and expanding your market • Mergers, joint ventures or strategic alliances • Moving into new attractive market segments • A new-found market • Loosening of rules and regulations • Removal of international trade barriers • A market led by a weak competitor • Unfulfilled needs and wants • New technologies	**THREATS** • A new competitor in your home market • Price war • Competitor has a new, innovative substitute product or service • New regulations • Increased trade barriers • Taxation may be introduced on your product or service

Source: Ibid, op.cit.

The strength of the business are its resources and capabilities that can serve as a basis for developing a competitive advantage and the plan must be based on the strengths. Weaknesses are issues that can weaken the ability of the business to compete in the market and they must be identified, studied and rectified to ensure that they did not occur in the future. Opportunities are the avenues in the external environment for business and profit making while threats are factors that can hinder the business of the organization.

3.4.2 Market Analysis

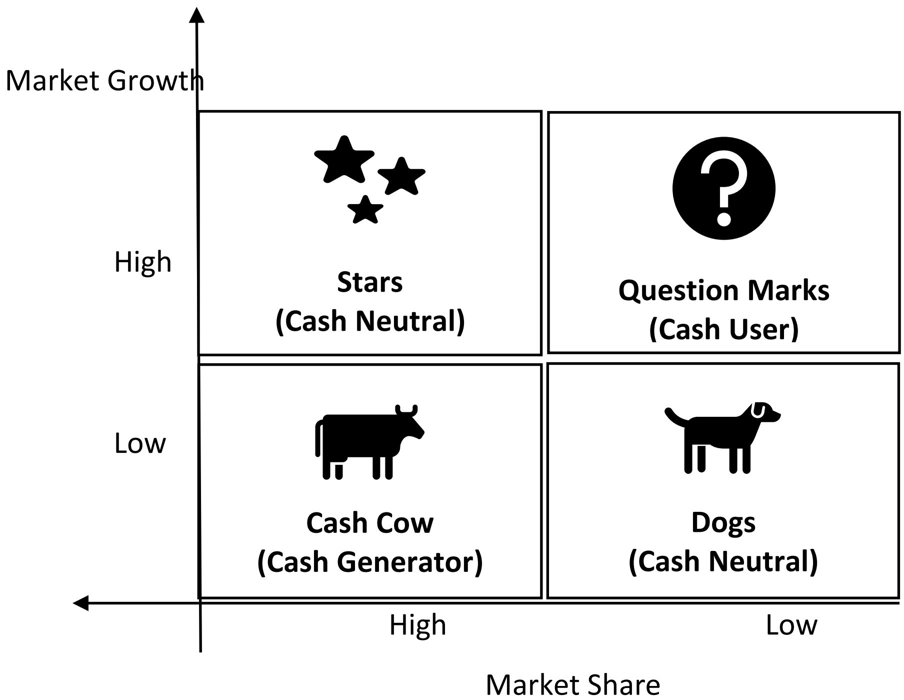
This involves the analysis of the group of customers that the business is targeting to serve with its products or services and the identification of the specific target market. One method of market analysis is market segmentation which is the identification of specific groups of customers who respond differently from other groups to competitive strategies because could be more profitable and attractive, have more competition, growing faster and offer more development opportunities than others. A careful analysis of segments and their characteristics is therefore very important in identifying who buys the products or services, what they buy, where they buy and when they buy.

3.4.3 Marketing Strategy

In the business plan, the marketing strategy to get the products or services should be well outlined. The approach that is usually employed is the 4Ps of marketing strategy which provides information about 1) Product – anything that is offered to a market to satisfy a want or need. 2) Price – how much is charged for your products or services. 3) Promotion – a means of bringing the product to the marketplace. 4) Place (distribution) – a means of bringing the product to the marketplace.

3.4.3 Product Analysis

There is also the need to analyze the products of the business to determine market share and market growth rate. The tool employed for this analysis is the Boston Consulting Group (BCG) Growth-Share Matrix which is made up of four quadrants that describe the products in relation to market share and market growth rate. The matrix illustrates the product's life cycle and position in the market by charting each product in one of the four quadrants as shown below:



Source: Philip Kotler (2003).

The Matrix serves as a decision-making framework for allocating resources between the various business units and allows the comparison of each product performance. Resources are allocated to business units in relation to their position on the grid as follows: a) Cash cow – a business unit or product with a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash for investment in other business units. b) Star – a unit or product that has large market share in a fast-growing industry. Though stars could generate cash, but it needs investment to sustain the lead, and could eventually become a cash cow when the industry reaches maturity. c) Question mark is a business unit that has a small market share in a high growth market and they require resources to grow market share, but the success of investment is not predictable or potentially unlikely and d) Dog – a business unit that has a small market share in a mature industry, though not requiring large amounts of investment, it could tie down capital that could be better used in other units or products.

3.5 Financial Statements and Projections

This is the part of the business plan that determines whether the business idea is viable and is a key component in determining whether the plan is going be attractive to investors and financiers. It represents the future of the business based on a set of assumptions about the economy, market growth and other factors captured in the swot analysis carried out in the previous section. The financial projections must be substantiated and not to make the figures look attractive. It consists of three financial statements – the income statement, cash flow statement, and the balance sheet, and a brief explanation/analysis of these statements.

3.5.1 Income Statement

The income statement shows the revenues, expenses and profits for a particular period. It is a snapshot of your business that shows whether the business is profitable at that point in time; revenue – expenses = profit or loss. An example of an income statement is presented in table 2.

Table 2: Hypothetical Projected Income Statement for XYZ Company.

	2017 FORECAST $	2018 PROJECTION $	2019 PROJECTION $
Revenue			
Gross sales	3,612,000	4,695,600	6,573,840
Sales returns and allowances	(12,000)	(13,800)	(15,870)
Net Revenue	**3,600,000**	**4,681,800**	**6,557,970**
Less Cost of Goods Sold			
Opening Inventory – Finished Goods	-	342,100	422,558
Cost of materials Consumed			
Opening Inventory – Raw Materials	-	298,187	372,331
Purchases	2,400,000	2,700,000	3,900,000
Freight	12,000	13,559	15,595
	2,412,000	3,011,746	4,287,926
Closing Inventory – Raw Materials	(298,187)	(372,331)	(530,101)
Cost of Materials Consumed	2,113,813	2,639,415	4,319,425
Direct Labour	270,000	324,000	388,800
Utilities & other direct costs	120,000	144,000	172,800
Factory overhead cost	180,000	216,000	259,200
Depreciation	91,000	104,000	119,000
Cost of Goods Manufactured for sale	2,774,813	3,427,415	4,697,625
Closing inventory – finished goods	(342,100)	(422,557)	(579,159)
Cost of goods sold	2,432,713	3,346,958	4,541,024
Gross Profit	**1,167,287**	**1,334,842**	**2,016,946**
Gross profit margin	*32%*	*29%*	*31%*

	2017 FORECAST $	**2018 PROJECTION $**	**2019 PROJECTION $**
Expenses			
Selling and distribution			
Advertising	60,000	61,200	62,424
Commissions	12,530	16,295	22,825
Shipping and Transportation	36,000	43,200	51,840
Salaries and benefits	150,000	157,500	165,375
Total Selling and Distribution Expenses	*258,539*	*278,195*	*302,464*
Administrative & General			
Depreciation	32,000	33,000	37,400
Salaries and benefits	210,000	220,500	231,525
Bad debts	-	70,227	98,370
Telephone, telecommunications and internet	36,000	36,000	37,800
Vehicle expenses	8,800	8,976	9,156
Insurance	13,000	13,650	14,333
Charitable contributions	-	2,000	3,000
Office utilities	14,000	14,280	14,566
Office maintenance and repairs	4,500	4,725	4,961
General expenses	5,500	5,610	5,722
Courier expenses	2,800	2,856	2,912
Total Administrative & General Expenses	**326,600**	**411,824**	**459,745**
Research & Development Costs	90,000	94,500	99,225
Finance costs			
Interest expenses	51,000	45,500	40,000
Bank charges	3,000	3,600	4,420
Total finance costs	54,000	49,100	44,320
Total Expenses	729,130	833,619	905,754
Other income	-	2,000	3,000
Profit Before Taxation	**438,157**	**503,223**	**1,114,192**
Less Taxation	(92,431)	(105,541)	(227,832)
Profit After Taxation	**345,726**	**397,682**	**886,360**
Retained Profit b/f	**49,800**	**395,526**	**793,208**
Retained Profit c/f	**395,526**	**793,208**	**1,679,568**

Table 3: Hypothetical Cash Flow for XYZ Company.

	2017 FORECAST $	2018 PROJECTION $	2019 PROJECTION $
Cash Flows from Operating Activities			
Profit before taxation	438,157	503,223	1,114.192
Adjustment for:			
Provision for bad debts	-	70,227	98,370
Depreciation	123,000	137,000	156,400
Operating profit before working capital changes	561,157	710,450	1,368,962
Increase in inventories	(640,287)	(154,602)	(314,370)
Increase in receivables	(446,315)	(203,822)	(329,933)
Increase in liabilities	401,898	150,287	196,284
Cash(used in/generated from operations	(123,547)	502,313	920,943
Taxes paid	(92,431)	(105,541)	(227,832)
Net cash used in/generated from operations	(215,978)	396,772	693,111
Cash Flows from Investing Activities			
Purchase of fixed assets	(1,710,000)	(135,000)	(172,000)
Net cash used in investing activities	(1,710,000)	(135,000)	(172,000)
Cash Flows from Financing Activities			
Proceeds from issuance of ordinary shares	900,000	-	-
Drawdown of long-term debt	350,000	-	-
Repayment of long-term debt	-	(25,000)	(25,000)
Drawdown on mortgages	600,000	-	-
Repayment of mortgages	-	(80,000)	(80,000)
Net cash generated from/used in financing activities	1,850,000	(105,000)	(105,000)
Net increase in cash & cash equivalents	(75,978)	156,772	416,111
Cash & cash equivalents at beginning of period	149,800	73,822	230,594
Cash & cash equivalents at end of period	73,822	230,594	646,705
Cash & cash equivalents comprise			
Cash & bank balance	73,822	251,094	664,705
Bank overdrafts	-	(20,500)	(18,000)
	73,822	230,594	646,705

Table 4: Hypothetical Balance Sheet XYZ Company.

	2017 FORECAST $	2018 PROJECTION $	2019 PROJECTION $
Assets			
Non-Current Assets			
Property, Plant & Machinery	1,587,000	1,585,000	1,600,600
Current Assets			
Inventories	640,287	794,889	1,109,261
Accounts receivables	445,315	578,910	810,472
Deposits & payments	1,000	1,000	1,000
Cash & bank balances	73,822	251,094	664,705
	1,160,424	1,625,893	2,585,438
Total Assets	**2,747,424**	**3,210,893**	**4,186,038**
Equity & Liabilities			
Capital & Reserves			
Share capital	1,000,000	1,000,000	1,000,000
Reserves	395,526	793,208	1,679,568
	1,395,526	1,793,208	2,679,568
Non-current Liabilities			
Term Loan	350,000	300,000	275,000
Mortgages	600,000	440,000	360,000
Current Liabilities			
Accounts payable	399,898	550,185	746,470
Other Liabilities	2,000	2,000	2,000
Borrowings	-	105,000	105,000
Bank Overdrafts	-	20,500	18,000
	401,898	677,685	871,470
Total Equity & Liabilities	**2,747,424**	**3,210,893**	**4,186,038**

3.5.2 Assumptions for financial projections

It is very important that the assumptions used to arrive at the projected figures be clearly stated and it should be realistic and verifiable. Inconsistent or unrealistic figures will affect the credibility of the entire business plan. Conversely, a realistic and well thought-out financial assumptions and projections show the operational experience and business credibility. The projected profit and loss and cash flows for XYZ Company are based on the following assumptions:

1. Revenue growth is assumed at:

2017	2018	2019
30%	40%	60%

2. Annual Depreciation rates are as follows:

Land and building	2%
Plant and Machinery	10%
Motor vehicles	20%
Office, furniture & fittings	20%

3. Inventory turnover is assumed at 45 days, trade debtor turnover at 45 days, and trade payable turnover at 60 days.

3.5.3 Financial Ratios

Financial ratios are key performance indicators for evaluating the operations of the business. The ratios are best understood when they are compared with another ratio, either the similar ratio of a competitor of the business over a period and they are only as reliable as the underlying numbers used to calculate them. The following are the commonly used ratios:

1) *Profitability Ratios*: as the name suggests, they are used to evaluate the profitability and extent of costs incurred in generating sales. To measure profitability, gross margin or net profit margin are commonly used and they are calculated as follows:
    a. **Gross Profit Margin = Gross Profit/Net Revenue**. It shows how much is generated after deducting cost of goods sold from net sales. It measures the efficiency of pricing, sales and marketing strategies. For example, a ratio of 30% suggests that for every dollar of revenue earned, 30 cents is gross profit before indirect costs are deducted.
    b. **Net Profit Margin = Net Profit Before Taxation/Net Revenue**. It measures the overall performance of business operations and the net profit margin earned on every dollar of sales. For instance, if the ratio is 20%, it shows that for every dollar of revenue, 20 cents is profit after deducting all expensed.
2) Operational Efficiency Ratios: These are designed to evaluate the performance of management in the use of assets to generate returns for the company and it is usually calculated as return on investment or assets.
    i. **Return on Assets = Net Profit After Interest and Tax/Total Assets**. A ratio of 40% indicates the level of return on the assets employed by the business during the period.

ii. **Liquidity Ratios** measure the ability of the business to meet short term financial obligations usually debts. There is the **Current Ratio** which is calculated as Current Assets/Current Liabilities and a ratio of 1.7 indicates that the company is able to use its current assets to pay its current liabilities 1.7 times, indicating that the company can meet its debts as when due from current or expected cash in the business.

iii. **Debt-to-Equity Ratio** = Non-current Liabilities/Total Equity measures the solvency or risk of the company or the extent of funding by the owners of the business or borrowings which must be repaid and serviced. A ratio of 0.3 indicates that the business is not highly geared and therefore is not risky.

3.5.4 Financing method

There are broadly two types of financing that a business employ in its activities. These are debt financing and equity financing. Usually, business enterprises started with equity financing to fund their activities because they have little or no real assets to use as collateral. As the business grows and have proven cash flows and assets, it has the capacity to raise debts to finance its operations.

Debt financing by banks and financial institutions is predicated on the ability to repay the funds advanced and the collaterals to guarantee the loans. Debt financing could also be through venture capitalists when the business shows great potential for returns and growth and are usually attracted by the quality of leadership and management of the company.

Equity financing is the financial contributions of the owners of the business. The equity value of the business is the value of all the assets less all liabilities plus the future value that will be generated by the business. As the business expands and generates profits, the owners could decide to raise more funds to finance expansion or modernization by selling part of the equity to interested investors or decided to be quoted on the stock exchange where the equity of the company can be traded. Any decision made will definitely affect the management of the business as some investors would like to be involved in the decision-making process to ensure the security of their investment in the business.

Concluding remarks

Developing a business plan by Small and Medium Enterprises is very important because it serve two purposes. First and foremost, it will assist in running the organization with a clear vision, mission and objectives, thereby serving as the roadmap. It will enable the stakeholders, shareholders, management, staff and even customers to understand the business and serves as the instrument for performance evaluation of the various units of the business which will greatly enhance the chances of success. Secondly, financial institutions or other lenders will not be willing to invest in the organization without the ability to demonstrate a business plan that shows the pathway to successful operations. Banks look out for ways of mitigating their risks while equity investors want a realistic forecast on how they can achieve a reasonable return on their capital. Any SME that wants to attract financing for its operations must develop a credible and realistic business plan that will enable stakeholders make informed decision about the current and future direction of the organization.

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