ENT 801

BUSINESS PLANNING FOR ENTREPRENEURSHIP GROWTH

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1.0 INTRODUCTION

ENT 801: business planning for entrepreneurship growth is a two credit course for students offering MSc Entrepreneurship in the Faculty of Management Sciences.

The course consists of seventeen (17) units, that is, three (3) modules at five (5) units for first and second modules while, module three (3) consist of seven (7) units. The material has been developed to suit Postgraduate students in Entrepreneurship at the National Open University of Nigeria (NOUN) by using an approach that treats fundamental areas of business planning and growth.

A student who successfully completes the course will surely be in a better position to write and present business proposals for a new venture.

The course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through these materials. It suggests some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully. It also gives you some guidance on your tutor-marked assignments. Detailed information on tutor-marked assignment is found in the separate assignment file which will be available in due course.

2.0 **WHAT YOU WILL LEARN IN THIS COURSE**

This course deals with business plan within task groups from the concept to all elements of a professionally written business plan. This topic affords students high interaction with businesses and entrepreneurs to further refine and improve their plans and/or prepare for national business plan competitions. This component also consists in practical evaluation of students dream businesses and career life, exposition on how best to prepare feasibility report and appraisal of projects before investment; and project evaluation techniques: traditional methods such as accounting rate of return (ARP), payback period (PBP), net present value (NPV) internal rate of return (IRR) and profitability index (PI).

3.0 COURSE AIMS

The course aims, among others, are to give you an understanding of the intricacies of business proposals and how to write and present business plans for new ventures.

The Course will help you to appreciate Sources of Information for Feasibility and Evaluation of proposed business Studies, Generating Data for Feasibility Studies, Business Description, Technical Analysis, Market Analysis and Marketing Plan, Defining Marketing Strategies, Business Plan Implementation, Financial Analysis, Financing Plan, Preparing Business Proposals, and Writing a Loan Proposal.

The aims of the course will be achieved by:

- ✓ Explaining the Concept of feasibility study;
- ✓ Identifying sources of and generating data for feasibility study;
- ✓ Discussing the aspects of business proposals;
- ✓ Presenting the aspects of business plans;
- ✓ Highlighting and discussing technical and financial analyses;
- ✓ Describing marketing analysis and marketing strategies;
- ✓ Discussing implementation of business plans; and
- ✓ Explaining how to write and present loan proposals.
- ✓ Explaining the traditional investment Appraisal Methods

By the end of this course, you should be able to:

- ✓ Define the concept of Feasibility Study;
- ✓ Discuss the fundamental aspects of Business Proposals;
- ✓ Analyse the aspects of Technical and Analyses;
- ✓ Discuss the aspects of Marketing Analysis and Strategies;
- ✓ Analyse the Implementation of Business Plans;
- ✓ Explain preparation of Business Description; and
- ✓ Prepare and present Loan Proposals.

- ✓ Explain the traditional investment Appraisal Methods

5.0 WORKING THROUGH THIS COURSE

To complete this course, you are required to read all study units, attempt all the tutor- marked assignments and study the principles and approach to preparing business proposals in this material provided by the National Open University of Nigeria (NOUN). You will also need to undertake practical exercises for which you need access to a personal computer running the necessary software that can be used to prepare financial projections. Each unit contains self-assessment exercises, and at certain points during the course, you will be expected to submit assignments. At the end of the course is a final examination. The course should take you about a total 17 weeks to complete. Below are the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

6.0 COURSE MATERIALS

Major components of the course are:

- ✓ Course Guide
- ✓ Study Units
- ✓ Textbooks
- ✓ Assignment file

7.0 STUDY UNITS

The study units in this course are as follows:

MODULE 1:

Unit 1 Concepts of business plan

Unit 2 Task involve in individual and group business plan

Unit 3 Professionalism in written business plan

Unit 4 Interaction with businesses and entrepreneurs on preparing and improving business plan

Unit 5 Prepare for national business plan competitions.

MODULE 2

Unit 1 Component on practical evaluation of business plan

Unit 2 Businesses and career life, exposition on how best to design business plan

Unit 3 How best to prepare feasibility report and appraisal

Unit 4 Appraisal of projects before investment;

Unit 5 Project evaluation techniques

MODULE 3

Unit 1 Introduction to project evaluation

Unit 2 Accounting rate of return (ARP),

Unit 3 Payback period (PBP),

Unit 4 Net present value (NPV)

Unit 5 Internal rate of return (IRR) and

Unit 6 Profitability index (PI).

Unit 7 Contemporary issues on entrepreneurship business growth and development

8.0 ASSIGNMENT FILE

In this course, you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments will count towards the final mark you obtain for this course. Further information on assignments will be found in the assignment file itself and later in the section on assessment in this course guide. There are 12 tutor-marked assignments in this course; the student should attempt all the 12.

9.0 PRESENTATION SCHEDULE

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marked assignments (TMAs) and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

10.0 ASSESSMENTS

There are two aspects to the assessment of the course: first are the tutor marked assignments; and second is a written examination.

In tackling the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignment File. The work you submit to your tutor will count for 30% of your total course mark.

At the end of the course, you will need to sit for a final written examination of 'three hours' duration. This examination will also count for 70% of your total course mark.

11.0 TUTOR-MARKED ASSIGNMENT (TMAs)

There are twelve tutor-marked assignments in this course and you are advised to attempt all. Aside from the course material provided, you are advised to read and research widely using other references (under further reading) which will give you a broader viewpoint and may provide a deeper understanding of the subject. Ensure all completed assignments are submitted on schedule before set deadlines. If for any reasons, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Unless in exceptional circumstances extensions may not be granted after the due date for submission of Tutor-Marked Assignments.

12.0 FINAL EXAMINATION AND GRADING

The final examination for this course will be of ‘three hours’ duration and have a value of 70% of the total course grade. All areas of the course will be assessed and the examination will consist of questions, which reflect the type of self-testing, practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed.

Utilize the time between the conclusion of the last study unit and sitting for the examination to revise the entire course. You may find it useful to review your self- assessment tests, tutor-marked assignments and comments on them before the examination.

13.0 COURSE MARKING SCHEME

The work you submit will count for 30% of your total course mark. At the end of the course, you will be required to sit for a final examination, which will also count for 70% of your total mark.

14.0 TUTORS AND TUTORIALS

There are 14 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and phone numbers of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter as they would provide assistance to you during the course. You must submit your tutormarked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion group if you need help.

The following might be circumstances in which you would find help necessary, when:

- ✓ you do not understand any part of the study units or the assigned readings.
- ✓ you have difficulty with the self-tests or exercises.
- ✓ you have a question or problem with an assignment with your tutor's comment on an assignment or with the grading of an assignment.

You should try your possible best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study.

To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participations in discussions.

15.0 SUMMARY

ENT 801 This course deals with business plan within task groups from the concept to all elements of a professionally written business plan. This topic affords students high interaction with businesses and entrepreneurs to further refine and improve their plans and/or prepare for national business plan competitions. This component also consists in practical evaluation of students dream businesses and career life, exposition on how best to prepare feasibility report and appraisal of projects before investment; and project evaluation techniques: traditional methods such as accounting rate of return (ARP), payback period (PBP), net present value (NPV) internal rate of return (IRR) and profitability index (PI).

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN). We wish you every success in the Future.

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UNIT 1 CONCEPTS OF BUSINESS PLAN

CONTENT

1.0 INTRODUCTION

Regardless whether you are a new of experiences business owner, business plan can be of immense benefit to the business. If the entrepreneur is in production, the business plan can aid in transiting from a local production to a more mechanized form of production. It can also aid in expand your operation; incorporate more family members or partners into your business; transfer or sell the business; add value to your existing operation through product processing, direct sales or cooperative marketing. There is no best time to start planning, and it's never too late to start planning, however business plan are very essential to the growth and development of Micro, Small and Medium enterprises all over the globe. This is because business plan can help to identify management tasks and financing options that are compatible with your long-term personal, environmental, economic, and community values.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Explain the meaning of business plan and its benefits.
- Discuss the main purpose of designing a business plan.
- Discuss the business planning process.

3.0 MAIN CONTENT

3.1 DEFINITION OF BUSINESS PLAN

A business plan is a detailed information usually in a written form that describes or analyses any business. It also contains information on the future of the business by projecting revenue and other important aspects of the business.

A business plan is a road map that provides directions to a business, it aid in planning its future and helps it avoid challenges in the road. The effort and time you put in designing your business plan and keeping it up-to-date, is an investment that pays big dividends in the long term.

Business plan can also be defined as a problem solving and ongoing process that aid in spotting opportunities and challenges which will make the business use the information in their operations, marketing, finances and human resources by developing strategic action plans to move the business from its current position to a future vision.

Business plan therefore could be referred to as the activities and aims of any entity, individual, group or organization with the purpose of converting efforts to results. It is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

Self-Assessment Exercise

What is a business plan and of what benefit is a plan to the business?

3.2 PURPOSE OF BUSINESS PLAN

There are mainly two main purpose for any entrepreneur to write down his plans. The main purpose is to serve as guide to the entrepreneur so as not to derail from the main thrust of activities the entrepreneur is involved. Similarly it serves as the blueprint so as to keep the business on the right track. Moreover, for the business plan to serve this purpose, it must be current and it will guide against pitfalls. Secondly, the other purpose of a business plan is that it serve as a document that is presented when seeking for a loan or investments. It will provide potential lenders/investors with detailed information on all aspects of the company's past and current operations and provide future projections.

Perhaps the most important reason to write a business plan is that it requires you to engage in a rigorous, thoughtful and painful process that is essential before you start is a rigorous process before you start a viable venture. It requires you to answer hard questions about your venture – why is there a need for your product service? Who is you target market? How is your product/service different than your competitor's? What is your competitive advantage? How profitable is the business and what are the cash flows? How should you fund the business?

There are other key reasons of writing up a business plan, another purpose of a business plan is that it helps in the entrepreneur knowing his business concept better, by highlighting the strategy, cash flow, the strength and weaknesses of the business and the realistic chance that the business will be successful. As an entrepreneur, if the business plan uncovers issues, it aid in making the business strategy air tight and makes it less fallible.

Writing a plan allows you to see how changing parts of the plan increases profits or accomplishes other goals. You can tinker with individual parts of your business with no cash outlay. If you're using a computer spreadsheet to make financial projections, you can try out different alternatives even more quickly. This ability to fine-tune your plans and business design increases your chances of success.

In Summary, the key purpose is that once developed, your business plan can be used as a long-term, internal organizing tool that helps to communicate your plans to others outside your business. Other key purpose include the use of your business plan to make regular or seasonal marketing, operations, human resources and finance decisions, pursue long-term personal, economic, environmental and community goals and develop a business profile for communicating within or outside your organization to potential business partners, lenders and customers.

Self-Assessment Exercise

Discuss the importance of documenting a business.

3.3 BUSINESS PLANNING PROCESS

There are five required steps to create a new business plan. It is a detailed process here referred to as business planning process. These steps are:

Research: Business planning process starts with a detailed research into the industry, its customers, competitors, and costs of the business.

Strategize: A good major source of strategizing is to watch the current practices in that business environment to have a foundation to build the necessary competitive distinctiveness.

Calculate: It is essential to calculate and have a rough draft of the financial implications in terms of the expected expenditure and revenues to ascertain a possible profitability at the end of the day.

Draft: The fourth step of a business planning process is to begin to draft and flesh up the background work made in the decided strategy and the financial calculations for the actual business plan detailed content.

Revisitation and Proof-reading to finalize: The fifth step is to revisit the entire business plan details and reconsider any ambiguity or inappropriate wordings and ideas featuring in the plan.

Self-Assessment Exercise

What are the five steps required to create a new business plan?

4.0 CONCLUSION

The importance of documenting a business plan cannot be overemphasized, as discuss in this unit, business plan are essential document that aid the organization in achieving its desired goals and objective. Business plans serves as a road map that guide organizational decisions. Moreover, without business plans the organization will not be in a good position in any collaboration or seeking of funds.

5.0 SUMMARY

In this study unit, we covered the following topics as they relate to the concepts of business plan, they include;

- Definition of a business plan
- Purpose of a business plan
- Business planning process

In the next unit, we shall discuss the Task involve in individual and group business plan.

6.0 TUTORED MARKED ASSIGNMENT

Solution to Self-Assessment Exercises.

SAE 1 What is a business plan and of what benefit is a plan to the business?

Business plan can also be defined as a problem solving and ongoing process that aid in spotting opportunities and challenges which will make the business use the information in their operations, marketing, finances and human resources by developing strategic action plans to move the business from its current position to a future vision.

Business plan therefore could be referred to as the activities and aims of any entity, individual, group or organization with the purpose of converting efforts to results. It is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

SAE 2 Discuss the importance of documenting a business.

There are mainly two main purpose for any entrepreneur to write down his plans. The main purpose is to serve as guide to the entrepreneur so as not to derail from the main thrust of activities the entrepreneur is involved. Similarly it serves as the blueprint so as to keep the business on the right track. Moreover, for the business plan to serve this purpose, it must be current and it will guide against pitfalls. Secondly, the other purpose of a business plan is that it serve as a document that is presented when seeking for a loan or investments. It will provide potential lenders/investors with detailed information on all aspects of the company's past and current operations and provide future projections.

SAE 3 What are the five steps required to create a new business plan?

There are five required steps to create a new business plan. It is a detailed process here referred to as business planning process. These steps are:

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7.0 REFERENCES AND FURTHER READING

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UNIT 2 TASKS INVOLVED IN INDIVIDUAL AND GROUP BUSINESS PLAN

CONTENT

1.0 INTRODUCTION

Documenting a business plan requires a lot of tasks that the entrepreneurs face either as an individual or a group. This tasks help shape the plan that can be used to achieve the vision of the organization as well as achieve competitive advantage. This tasks also help the organization in providing a road map towards the achievement of the overall goals of the entrepreneur. As you start completing the tasks, you'll identify subtasks that complement the major tasks outlined in documenting an excellent business plan.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Discuss the tasks involved in setting up an individual or group business plan

3.0 MAIN CONTENT

3.1 TASKS INVOLVED IN INDIVIDUAL AND GROUP BUSINESS PLAN

Business Environment Analysis: This task is aimed at explaining the detailed strategy and tactics to be employed for bringing the product or service to the market. Strategy is the broad approach to the achievement of objectives while tactics refer to the details of the strategy. This includes the business name, the image and how they will be protected.

- Determines how to get to the market?
- Summarizes how to fulfil the entrepreneur's objectives.
- The detail will be contained in programmes and budgets.
- The pricing structure to be established.
- The estimated sales projections.

Market Analysis: This should thoroughly describe the customers, your competitors, the need for your product or service, and the health and vitality of the market place. This cannot be guess work. It must be based on a careful and reliable research. Other key questions it must answer are:

- What is the size and growth rate of the market?

- How is the market segmented?
- What is special about the product or service?
- What are the competitive advantages?
- What is the marketing strategy?

Marketing Plan: The marketing has to be adequately planned for and must include the:

- Market research
- Segmentation and targeting
- Detailed outline of the product or service
- Unique selling points
- Chosen pricing strategy
- Promotional plans
- Distribution strategy
- Customer service strategy

Operations Plan: Operations plan include the production process which must be explicitly explained. The process of bringing your product or service to the market, office space, production schedules, inventories, suppliers, supplies, official licenses, and insurance, meeting and existing business regulations must all be thoroughly discussed. The following may also be included depending on the type of business.

- Physical location
- Facilities
- Equipment
- Scale & location of operations
- Capacity - potential and effective
- ICT strategy
- Engineering and design support
- Materials required

- Inventory levels and stock control plans
- Purchasing arrangements
- Sources of supply of key resources
- Quality control plans
- Staffing requirements

Financial Plan: This offers the idea about the finances to be involved. The available amount, the required amount and how and where you will secure the difference. It should also be able to give the investment appraisal – payback and discounted cash flow as well as break even analysis. Other expectations from the plan are:

- Details of capital required and uses.
- The plan must include details of the external finance required. This will be equal to the finance required, less the finance raised internally from existing owners and from operations.
- The plan will outline how it is proposed to raise the finance.
- Sources of finance: Short, medium and long term; Debt vs. equity.
- Evaluation criteria for performance review.
- Ratio analysis: net profit margin, Gross profit margin, return on capital employed, liquidity and solvency analysis.

Self-Assessment Exercise

What are the task are that are required in an individual and group business plan?

4.0 CONCLUSION

Business environmental analysis is key as it aid in achieving a detailed strategy and tactics to be employed for bringing the product or service to the market. Similarly, as part of the environmental analysis is the market analysis that is aimed at describe the customers, your competitors, the need for your product or service, and the health and vitality of the market place. All this analysis and other tasks as opined in the main section are necessary in achieving a very good business plan.

5.0 SUMMARY

In this study unit, we covered the main task involved in setting up an individual or group business plan. Some of the tasks include they include;

- Business Environmental analysis
- Marketing Analysis
- Financial Analysis

In the next unit, we shall discuss the Professionalism in written business plan.

6.0 TUTORED MARKED ASSIGNMENT

Solution to Self-Assessment Exercises.

SAE What are the task are that are required in an individual and group business plan?

Business Environment Analysis: This task is aimed at explaining the detailed strategy and tactics to be employed for bringing the product or service to the market. Strategy is the broad approach to the achievement of objectives while tactics refer to the details of the strategy. This includes the business name, the image and how they will be protected.

Market Analysis: This should thoroughly describe the customers, your competitors, the need for your product or service, and the health and vitality of the market place. This cannot be guess work. It must be based on a careful and reliable research.

Operations Plan: Operations plan include the production process which must be explicitly explained. The process of bringing your product or service to the market, office space, production schedules, inventories, suppliers, supplies, official licenses, and insurance, meeting and existing business regulations must all be thoroughly discussed.

Financial Plan: This offers the idea about the finances to be involved. The available amount, the required amount and how and where you will secure the difference. It should also be able to give the investment appraisal – payback and discounted cash flow as well as break even analysis.

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UNIT 3 PROFESSIONALISM IN WRITTEN BUSINESS PLAN

CONTENT

1.0 INTRODUCTION

Professionalism in writing the business plan is very pertinent to how the business plan will be perceived by readers. The business plan should be able to develop and mature with your business idea. Documenting the business plan will start with a few topics but more will join them as time goes by. Some aspects will have to be changed and updated as you learn more. The more foresight you deploy at the beginning, the less you will have to change later on. But you will still have to check the overall coherence of your Business Plan regularly.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Explain few pointers in writing a professional business plan.

3.0 MAIN CONTENT

3.1 PROFESSIONALISM IN WRITTEN BUSINESS PLAN

In writing up a business plan it should be a point of priority that the plan must be written in a professional manner. The following are some of the key things to consider:

a. A clear Business Plan should make a good impression. Business Plan should provide suitable answers to all the questions the different readers might ask. It should be convincing by prioritizing the different statements it contains and by concentrating on the essential facts. All relevant topics should be treated briefly but thoroughly.

b. The business plan should be convincing, even if you get a bit carried away by your great idea it makes sense to write in an objective and factual manner. Don't let over-enthusiasm get in the way. Neither is it a good idea to be too critical or refer to possible mistakes you have made in the past. Everything in the Business Plan should be factually correct and be included according to the best of your knowledge. Any weak points you mention should always be described together with planned or already initiated corrective procedures.

c. The Business plan should be in a clear manner. It is important to explain the idea understandably in as simple a way as possible. It is often useful to describe a customer's problem and then to present your solution for that customer. This makes a competent impression on the reader. Technical details about the project or manufacturing process can be added in the appendix.

d. Business Plan should have a consistent style. Teams often create their Business Plans with one member working on each different chapter. This leads to different styles, language and levels of detail in the plan. Once this work is finished it is definitely a good idea for one person to take care of the whole thing and ensure a uniform look and feel in a final version. Getting someone outside the group to proofread it also makes sense.

e. Your Business Plan is also a visual advertisement for your idea. Your Business Plan should also make a good visual impression. This can mean linking structures and content to different fonts which are easy to read, and including useful graphs and tables with suitable captions and descriptions. Perhaps you should include a header and footer with page numbers, your name – and if it already exists – your company logo. Add the date every time you update your Business Plan.

f. While working on your Business Plan it is always easy to get bogged down in detail. This means it is a good idea to sit back now and then and check whether the information you have entered is already sufficient and what added value further analyses might provide. It is vital for the success of your Business Plan that it is comprehensible and coherent. Your complete Business Plan should not be more than 35 pages long, with an additional appendix if required.

Self-Assessment Exercise

Discuss professional issues to consider in writing a business plan.

4.0 CONCLUSION

Although the purpose of writing up a business plan is for both internal and external purposes. Moreover the external need for a business plan is more pertinent than the internal need, this is clearly why in documenting the business plan, it is important that the write up is in a professional manner which include writing in a consistent style, good impression and a convincing manner.

5.0 SUMMARY

In this study unit, professional issues to consider while writing a business plan was discussed, some of these issues include;

- Business plan should be convincing
- Business plan should make a good impression
- Business plan should have a consistent style

In the next unit, we shall discuss the interaction with businesses and entrepreneurs on preparing and improving business plan.

6.0 TUTORED MARKED ASSIGNMENT

Solution to Self-Assessment Exercises.

SAE 1 Discuss professional issues to consider in writing a business plan.

In writing up a business plan it should be a point of priority that the plan must be written in a professional manner. The following are some of the key things to consider:

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UNIT 4 INTERACTION WITH BUSINESSES AND ENTREPRENEURS ON PREPARING AND IMPROVING BUSINESS PLAN

CONTENT

1.0 INTRODUCTION

Before jumping into a summary of the organization's current situation and preparing and improving the business plan, it's important to look back to important events, interactions and decisions from various businesses and entrepreneurs that are in the same industry or even the same business type. This review of your business and personal history, as well as market and industry trends, will be valuable as you develop a business plan, particularly as you begin to consider alternative strategies. The circumstances and ultimate decisions leading up to previous business successes and failures will provide insights as you choose between future strategic business options. Keep your history, as well as the values driving previous decisions, in mind as you continue to plan. Doing this will be a source of information to the entrepreneur while using the information to prepare or improve the business plan.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Discuss activities to undertake while preparing and improving the business plan.

3.0 MAIN CONTENT

3.1 INTERACTION WITH BUSINESSES AND ENTREPRENEURS ON PREPARING AND IMPROVING BUSINESS PLAN

In preparation of your business plan, there is a need to consider a number of things so as to make sure the idea is well written and nothing is left out. In doing that fundamentally there a number of activities that is required to ensure the preparation and improvement goes smoothly. An effective business plan requires a high data quality. In an overall company-wide action, all relevant data should be collected into one data pool.

Whenever analysts and investors encounter essential information about your industry, your market or your technology, which has not been included in your business plan, you can be certain that they will doubt the reliability of the complete plan. The entire business plan project will run more effectively and faster, if data is collected in a structured way across all business areas. This approach would have the advantage that intermittent data completion during the subsequent project phases could be almost completely avoided.

After the data collection, another important activity is to analyse the data so as illuminate an overall portrait of your company and the current state of your business. The data raised in the different areas should be reviewed, structured and top-down analysed by the management team. Particular attention should be paid to the analysis of the current situation; this is the initial situation, which, of course, determines the future development of the company. This analysis should allow the management to found the business idea and plan the strategic goals at a pretentious level.

The data analysis should also provide an estimate, whether the capacities and general resources for the realization of the business idea already exist or still have to be planned and developed. If the company does not exist yet, the initial data have to be partially gathered by external research, e.g. benchmarks etc. On the basis of the collected data, the business idea, the planning of the strategic goals, as well as the content structure of the business plan, you would be able to draft your executive summary.

While looking at the external environment in preparing the business plan, it is pertinent to also view the internal environment. This include the current circumstances surrounding your life and business can create unique opportunities as well as obstacles. This is a chance to inventory your resources and assess how well you are using them. In each management area, you'll collect facts and figures that will help you evaluate your operation in terms of Strengths, Weaknesses, Opportunities and Threats (SWOT).

The SWOT analysis is a planning tool used by businesses and organizations of all sizes and types. Strengths and weaknesses refer to factors that are internal to your business. Opportunities and threats refer to your business' external environment. Ultimately, your plans for the future should help you build on your strengths and overcome your weaknesses. Your plan should help you take advantage of opportunities or ward off threats offered by your environment.

Self-Assessment Exercise

Discuss activities to undertake while preparing and improving the business plan.

4.0 CONCLUSION

In preparing and improving the business plan, it is necessary to consider the external interaction between other business and entrepreneurs that are in the same industry. This will aid in the preparation and make up of a very good business plan. One of the things to consider is the current circumstances surrounding the business which can create unique opportunities as well as obstacles.

5.0 SUMMARY

In this study unit, activities to undertake while preparing and improving the business plan are discussed.

In the next unit, we shall discuss prepare for national business plan competitions.

6.0 TUTORED MARKED ASSIGNMENT

Solution to Self-Assessment Exercises.

SAE 1 Discuss activities to undertake while preparing and improving the business plan.

In preparation of your business plan, there is a need to consider a number of things so as to make sure the idea is well written and nothing is left out. In doing that fundamentally there a number of activities that is required to ensure the preparation and improvement goes smoothly. An effective business plan requires a high data quality. In an overall company-wide action, all relevant data should be collected into one data pool.

Whenever analysts and investors encounter essential information about your industry, your market or your technology, which has not been included in your business plan, you can be certain that they will doubt the reliability of the complete plan. The entire business plan project will run more effectively and faster, if data is collected in a structured way across all business areas. This approach would have the advantage that intermittent data completion during the subsequent project phases could be almost completely avoided.

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UNIT 5 PREPARE FOR NATIONAL BUSINESS PLAN COMPETITIONS

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Interaction with businesses and entrepreneurs on preparing and improving business plan

4.0 Conclusion

5.0 Summary

6.0 Tutored Marked Assignments

7.0 References and Further Reading

1.0 INTRODUCTION

Even if everything else is perfect – if you want to win, you must begin with a well-thought out, perfectly articulated and investor-ready business plan that tells your start-up's story in an effective manner. There are many factors to consider when writing a business plan from proper market analysis to financial projections – and any weak point in your plan will decrease your chances of winning.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Explain the dos and don’ts while preparing for business plan competitions.

3.0 MAIN CONTENT

3.1 PREPARE FOR NATIONAL BUSINESS PLAN COMPETITIONS

Success at these events are often linked to how well an entrepreneur has prepared themselves beforehand. One thing is certain – your competitors will be prepared; and if you aren’t, it will be embarrassingly noticeable. Unfortunately, in a business plan contest, there is no way to mask unpreparedness, especially among an audience of experienced entrepreneurs and investors. To best prepare for an upcoming business plan competition, consider the following tips:

1. Show Traction: What distinguishes your business, from winning and losing, is the fact that you have actual customers paying for your innovative solution. If you are not currently collecting payment, then provide solid, irrefutable evidence that many people will pay for your solution
2. Show Market Potential: Market research reports to show that the market is really large. Although these figures are important, what matters most to winning the contest is that your solution can address the need in the market, and that the market is growing.
3. Make sure you cover the information investors want: Tell a convincing story about the problem you solve and the solution you offer, in a way that will interest the investors and let them believe your market story. Show whatever traction you have, and as much start-up experience in the management team as you can. Show how your business will defend itself (proprietary technology, trade secrets, whatever secret sauce you have) from competitors entering the market. Show how you can scale up for high growth. Show that you understand how exits might work in 3-5 years.

4. Keep it brief: Be concise. Don't show off your knowledge, push your main points forward. Bullet points are appreciated.
5. Show your numbers and your key assumptions: Numbers without assumptions and underlying story are useless. Forget present value and IRR games that depend on future assumptions. Show unit economics and build forecasts bottom up, from assumptions, not ever as some small percentage of a big market.
6. Use illustrations that simplify and explain: Have the detailed numbers to back them up, of course, but use bar charts and line charts and pie charts to help readers get the idea quickly.
7. Check your numbers against real world benchmarks: Investors will react negatively, not positively, to unrealistic profitability projections.
8. Maintain alignment between the key points you emphasize in the business plan, the pitch presentation, and the elevator speech. Ideally your business plan is like the screenplay for the pitch presentation and the elevator speech.
9. Don't be afraid to revise numbers constantly, and don't apologize if the numbers you show today are different from what you showed yesterday. Plans are supposed to evolve constantly.
10. Strictly adhere to the guidelines: Read the directions and be certain that you are clear about formatting requirements (e.g., font size and line spacing), page limits and required attachments.

Self-Assessment Exercise

List and explain the dos and don'ts in business plan competitions

4.0 CONCLUSION

There are many factors to consider when writing a business plan from proper market analysis to financial projections – and any weak point in your plan will decrease your chances of winning. In preparation to the business plan competition, it is important to consider a number of things such as adhering to the competition guidelines, show traction, show market potential, while showing your numbers and your key assumptions.

5.0 SUMMARY

In this study unit, the dos and don'ts while preparing for business plan competitions are discussed.

6.0 TUTORED MARKED ASSIGNMENT

Solution to Self-Assessment Exercises.

SAE 1 List and explain the dos and don'ts in business plan competitions

To best prepare for an upcoming business plan competition, consider the following tips:

1. Show Traction: What distinguishes your business, from winning and losing, is the fact that you have actual customers paying for your innovative solution. If you are not currently collecting payment, then provide solid, irrefutable evidence that many people will pay for your solution
2. Show Market Potential: Market research reports to show that the market is really large. Although these figures are important, what matters most to winning the contest is that your solution can address the need in the market, and that the market is growing.
3. Make sure you cover the information investors want: Tell a convincing story about the problem you solve and the solution you offer, in a way that will interest the investors and

let them believe your market story. Show whatever traction you have, and as much start-up experience in the management team as you can. Show how your business will defend itself (proprietary technology, trade secrets, whatever secret sauce you have) from competitors entering the market. Show how you can scale up for high growth. Show that you understand how exits might work in 3-5 years.

4. Keep it brief: Be concise. Don't show off your knowledge, push your main points forward. Bullet points are appreciated.
5. Show your numbers and your key assumptions: Numbers without assumptions and underlying story are useless. Forget present value and IRR games that depend on future assumptions. Show unit economics and build forecasts bottom up, from assumptions, not ever as some small percentage of a big market.
6. Use illustrations that simplify and explain: Have the detailed numbers to back them up, of course, but use bar charts and line charts and pie charts to help readers get the idea quickly.
7. Check your numbers against real world benchmarks: Investors will react negatively, not positively, to unrealistic profitability projections.
8. Maintain alignment between the key points you emphasize in the business plan, the pitch presentation, and the elevator speech. Ideally your business plan is like the screenplay for the pitch presentation and the elevator speech.
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MODULE 2:

Unit 1: Component on practical evaluation of business plan

Unit 2: Businesses and career life, exposition on how best to design business plan

Unit 3: How best to prepare feasibility report and appraisal

Unit 4: Appraisal of projects before investment;

Unit 5: Project evaluation techniques

UNIT 1: COMPONENT ON PRACTICAL EVALUATION OF BUSINESS PLAN

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Reading

1.0 INTRODUCTION

Business plan is a detailed study of the organization's activities, which highlights where the organization has been, where it is owe and where it might get to in the future, and incorporates an action program to achieve these result (Coulthard, Howell, & Clarke, 1999). The business plan is a written document prepared by the entrepreneur that describe all the relevant external and internal elements involved in starting a new venture. It is often an integration of functional plans such as marketing, finance, manufacturing and human resources. Based on Business Directory, business plan is a set of documents prepared by a firm's management to summarize its operational and financial objectives for the near future (usually one to three years) and to show how they will be achieved. It serves as a blueprint to guide the firm's policies and strategies, and is continually modified as conditions change and new opportunities and/or threats emerge. The important things that must be considered in making of business plans is implementation details are what make things happen. Your brilliant strategies and beautifully formatted planning documents are just theory unless you assign responsibilities, with dates and budgets, follow up with those responsible, and track results. Business plans are really about getting results and improving your company.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Know the meaning of Evaluation
- Define Evaluation plan
- Evaluation of Business Plan
- Identify generic Outline of evaluating business plan.

3.0 MAIN CONTENT

3.1 Meaning of Evaluation

Evaluation is the systematic application of scientific methods to assess the design, implementation, improvement or outcomes of a program (Rossi & Freeman, 1993). Business plan evaluation is a systematic method for collecting, analysing, and using information to answer questions about projects, policies and programs of business plan approach particularly about their effectiveness and efficiency.

3.1.1 Evaluation Plan

An evaluation plan is a written document that describes how you will monitor and evaluate your program, as well as how you intend to use evaluation results for program improvement and decision making. The evaluation plan clarifies how you will describe the "What," the "How" and the "Why It Matters" for your business plan. The "What" reflects the description of your program and how its activities are linked with the intended effects. It serves to clarify the program's purpose and anticipated outcomes. The "How" addresses the process for implementing a program and provides information about whether the program is operating with fidelity to the program's design. Additionally, the "How" (or process evaluation), along with output and/or short-term outcome information, helps clarify if changes should be made during implementation. The "Why It Matters" provides the rationale for your program and the impact it has. This is also sometimes referred to as the “so what” question. Being able to demonstrate that your program has made a difference is critical to program sustainability.

An evaluation plan is similar to a roadmap. It clarifies the steps needed to assess the processes and outcomes of a program. An effective evaluation plan is more than a column of indicators added to your program’s work plan. It is a dynamic tool (i.e., a “living document”) that should be updated on an ongoing basis to reflect program changes and priorities over time. An evaluation plan serves as a bridge between evaluation and program planning by highlighting program goals, clarifying measurable program objectives, and linking program activities with intended outcomes.

3.2 Meaning of Evaluation of Business plan

3.2.1 Generic Outline of Evaluating Business Plan

When you evaluate a business plan there are some primary questions you need to ask after you have thoroughly read the plan. The following provides a generic outline of what you need to look at when you are evaluating your client’s business plan.

1. Is the business plan readable?
2. Is the business plan well thought out?
3. What is the legal structure of the business?
4. What are the strengths of this business plan?
5. What are the weaknesses?
6. Has your client accurately estimated the difficulties in growing a business?
7. Are there any vague or unsubstantiated statements in the business plan? (i.e. sales will double in two years)
8. Is your client being realistic?
9. Is there data to support your client’s statements?
10. Has your client demonstrated a how they are going to measure their objectives?
11. Does the plan demonstrate how your client intends for this business to become profitable?
12. Does the business plan demonstrate that there is sufficient demand for the products/services?
13. Does the client have a sustainable competitive advantage?

14. Does the plan adequately describe the business?
15. Does it adequately describe the products/services?
16. Is there a solid management team?
17. What is the historical profile of your client's business?
18. Are the projections backed up with reliable data?
19. What analysis of the market has your client conducted?
20. What is your client's market share?
21. Is the business feasible?
22. What are the risks associated with the business?
23. What are the opportunities associated with this business?
24. What are the challenges associated with this business?
25. Is your client in a position to overcome these challenges?
26. Has your client included historical financial information on their business?
27. Has your client included all the necessary financial statements?
28. Are the financial statements realistic?
29. What happens if you run different scenarios using the generic financial statements that have been provided?
30. How much financing is requested? Is it reasonable?
31. What are the financial ratios telling you about this business? Have you compared the ratios to the industry averages?
32. Does the business plan need more research?

4.0 CONCLUSION

You will appreciate the fact that evaluation is the systematic application of scientific methods to assess the design, implementation, improvement or outcomes of a program. The discussion above is indicative of the fact that when you evaluate a business plan there are some primary questions you need to ask after you have thoroughly read the plan.

5.0 SUMMARY

In this study unit, we have discussed the following topics as they relate to business plan.

- Know the meaning of Evaluation

- Define Evaluation plan
- Evaluation of Business Plan
- Identify generic Outline of evaluating business plan.

In the next study unit, we shall discuss the issue of exposition on how best to design business plan.

6.0 TUTOR MARKED ASSIGNMENT

Discuss evaluation plan

Solution to Self-Assessment Exercises

An evaluation plan is a written document that describes how you will monitor and evaluate your program, as well as how you intend to use evaluation results for program improvement and decision making. The evaluation plan clarifies how you will describe the "What," the "How" and the "Why It Matters" for your business plan.

The "What" reflects the description of your program and how its activities are linked with the intended effects. It serves to clarify the program's purpose and anticipated outcomes. The "How" addresses the process for implementing a program and provides information about whether the program is operating with fidelity to the program's design. Additionally, the "How" (or process evaluation), along with output and/or short-term outcome information, helps clarify if changes should be made during implementation.

An evaluation plan is similar to a roadmap. It clarifies the steps needed to assess the processes and outcomes of a program. An effective evaluation plan is more than a column of indicators added to your program's work plan. It is a dynamic tool (i.e., a "living document") that should be updated on an ongoing basis to reflect program changes and priorities over time. An evaluation plan serves as a bridge between evaluation and program planning by highlighting program goals, clarifying measurable program objectives, and linking program activities with intended outcomes.

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UNIT 2: BUSINESSES AND CAREER LIFE, EXPOSITION ON HOW BEST TO DESIGN BUSINESS PLAN

CONTENT

2.0 INTRODUCTION

This study session introduces you to how best to write a business plan. The business plan is like the life plan for an individual. Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a product or provide a service. You also need to assess your competitive environment and understand how much money you need to start your business and keep it running until it is established.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Define Business Plan
- Explain the importance of Business Plan
- Explain why we have a business plan?
- Discuss components of Business Plan
- Highlight basic types of business plans
- Implementation of Business Plan

3.1 meaning of Business plan

The term "business plan" has different meanings to different people. Banks that release their own planning guidelines consider formal business loan applications to be synonymous with business plans. Venture capitalists see them as investment proposals, purely fund raising documents. Corporate managers think of them in terms of departmental budgets and financial forecasts (Touchie, 2005).

According to Kuratko and Hodgetts (1998), the business plan describes to investors and financial sources all of the events that are likely to affect the proposed venture. Details are required for various projected actions of the venture, with associated revenues and costs outlined. A Business Plan describes a business opportunity. It is like a road map because it tells you what to expect and what alternative routes you can take to arrive at your destination. Planning helps you to work smarter rather than harder. It keeps you future oriented and motivates you to achieve the results you want. Perhaps most importantly, the process of completing a Business Plan enables you to determine what commitment you need to make to the venture (Department of Trade and Economic Development, 2010)

3.2 Importance of Business Plan

When you think about what a business plan is your mind probably goes right to the bank and the process of applying for business financing, as that is the most common use for business plans. But if you are creating this valuable tool only as a part of a required financing package, you are overlooking its most important function: planning (Cagan, 2006). Whether you are new to the world of entrepreneurship or a seasoned veteran, a properly crafted business plan can help solidify your vision. And when you are remaking an on-going venture, a written strategy (business plan) can help ensure its success. Taking cognizance of that, there are particular events that spur the need for a full-scale business plan. According to Cagan (2006), they include the following:

- You plan to launch a new business.
- Your business has grown substantially.
- You want to expand your existing business into new markets.
- You want to add a new product or product line.
- You are thinking about buying a business.

Other reasons why business plan is necessary according to Department of Trade and Economic Development (2010) are to:

- Control future risks
- Prepare for future uncertainty
- Control business environment
- Control business growth
- Avoid sales crises
- Avoid liquidity crises
- Avoid succession crises
- Ensure people development
- Ensure work space available
- Avoid stock buying crises

According to Timmons and Spinelli (2004), developing the business plan is one of the best ways to define the blueprint, strategy, resource, and individual requirements for a new venture. A good business plan must be developed with a view to exploiting the defined opportunity, developing the opportunity and determining the resources required, obtaining those resources and successfully managing the resulting venture (Hisrich, Peters & Shepherd, 2008).

3.3 Why we have a business plan?

The business plan is a roadmap which help us to get through the scheduled and unscheduled actions while starting a business. The main function is to predict the profitability and potential of our business idea. Writing a business plan is a project where we need to collect all the influencing facts and relevant information to define the purpose of the business. It is an important part of the process of preparing for a business. Business plan help us to reveal the business concept, the targeted consumer group and the competition on the market. It gives us the possibility to make mistakes on paper rather than in the real life marketplace. Business plan makes us confident, show how much money we need, what it is needed for and how long it is required. Plan writing gives us an insight in the analysing and planning processes. Studies confirm that companies with a strong planning skill outperform their competitors who neglect this method. In the business plan we deal with the long and short term goals, products or services we would like to market and we get an idea of the operation of our future business. This written document explains every aspects of the new business venture. To make an effective business plan we need to clarify the idea, screen the idea to get information about feasibility and prepare qualitative analysis. The three most common business idea based on changes in environmental trends, unsolved problems and on the unsupplied demands in the marketplace. (Harvard Business School Press 2007; Barrow & Brown 2008).

3.3.1 Components of Business Plan

Whether you're planning to open a shop you will need to explain why your business is necessary and how it'll differ from its competitors. That's where your business plan comes in. It provides investors, lenders and potential partners with an understanding of your company's structure and its goals. If you're trying to create one, below are the key components of a business plan:

1. Executive Summary

Your executive summary should appear first in your business plan. It should summarize what you expect your business to accomplish. Since it's meant to highlight what you intend to discuss in the rest of the plan, the Small Business Administration suggests that you write this section last.

A good executive summary is compelling. It reveals the company's mission statement, along with a short description of its products and services. It might also be a good idea to briefly explain why you're starting your company and include details about your experience in the industry you're entering. In other word, this section is written for the busy readers who would like to get a comprehensive overview to make quick decision on the proposal. (Barringer, 2015; Harvard Business School Press, 2007).

2. Company Description

The next section that should appear in your business plan is a company description. It's best to include key information about your business, your goals and the customers you plan to serve.

Your company description should also discuss how your business will stand out from others in the industry and how the products and services you're providing will be helpful to your target audience. Here, we need to mention the customer needs, laws and changes in the business environment. (Harvard Business School Press, 2007).

It’s recommended to take into consideration the most important environmental trends:

- Economic Trends
- Social Trends
- Technological Advances
- Political and Regulatory Changes

3. Market Analysis

Ideally, your market analysis will show that you know the ins and outs of the industry and the specific market you’re planning to enter. In that section, you’ll need to use data and statistics to talk about where the market has been, where it’s expected to go and how your company will fit into it. In addition, you’ll have to provide details about the consumers you’ll be marketing to, such as their income levels.

4. Competitive Analysis

A good business plan will present a clear comparison of your business to your direct and indirect competitors. You’ll need to show that you know their strengths and weaknesses and you know how your business will stack up. If there are any issues that could prevent you from jumping into the market, like high upfront costs, it’s best to say so. This information will go in your market analysis section.

5. Description of Management and Organization

Following your market analysis, your business plan will outline the way that your organization will be set up. You’ll introduce your company managers and summarize their skills and primary job responsibilities. If you want to, you can create a diagram that maps out your chain of command.

Don’t forget to indicate whether your business will operate as a partnership, a sole proprietorship or a business with a different ownership structure. If you have a board of directors, you’ll need to identify the members.

6. Breakdown of Your Products and Services

If you didn't incorporate enough facts about your products and services into your company description (since that section is meant to be an overview), It might be a good idea to include extra information about them in a separate section. Whoever's reading this portion of your business plan should know exactly what you're planning to create and sell, how long your products are supposed to last and how they'll meet an existing need.

It's a good idea to mention your suppliers, too. If you know how much it'll cost to make your products and how much money you're hoping to bring in, those are great details to add. You'll need to list anything related to patents and copyright concerns as well.

Furthermore, we need to give a clear and catchy explanation of our idea without revealing the secrets which make our products or services inimitable. It is good to mention how we create an image of product (brand) quality in the consumers mind. It is indispensable to make a detailed comparison with competitive products and services. (Barrow, Barrow & Brown 2008).

7. Marketing Plan

In your business plan, it's important to describe how you intend to get your products and services in front of potential clients. That's what marketing is all about. As you pinpoint the steps you're going to take to promote your products, you'll need to mention the budget you'll need to implement your strategies.

8. Sales Strategy

How will you sell the products you're building? That's the most important question you'll answer when you discuss your sales strategy. It's best to be as specific as possible. It's a good idea to throw in the number of sales reps you're planning to hire and how you'll go about finding them and bringing them on board. You can also include sales targets.

9. Request for Funding

If you need funding, you can devote an entire section to talking about the amount of money you need and how you plan to use the capital you are planning to raise. If you'll need extra cash in a year or two to complete a certain project, that's something that's important to disclose

10. Financial Projections

In the final section of your business plan, you'll reveal the financial goals and expectations that you've set based on market research. You'll report your anticipated revenue for the first 12 months and your annual projected earnings for the second, third, fourth and fifth years of business.

If you're trying to apply for a personal loan or a small business loan, you can always add an appendix or another section that provides additional financial or background information.

3.3.2 Basic types of business plans

For the majority of people writing their first business plan, the question arises "How detailed should the business plan be?" To this question there is, unfortunately, no standard answer and no formula.

It is entirely up to you how detailed your business plan should be, and depends solely on the purpose and necessity behind it, as well as on the complexity of your specific business. In general, one distinguishes between three basic types of business plans (Gerald & Sam, 2007):

- the short business plan,
- the extended business plan and
- the operational business plan.

In the following these three types are described.

3.3.2.1 Short business plan

A short business plan is usually about 10 to 15 pages long. It is most suitable for young companies in an early stage of their development when, there still do not exist complex interrelations (Gerald & Sam, 2007).

For a well-established company, a short business plan only makes sense if certain investment opportunities are to be roughly approved in advance, in order to prepare an extended business plan on the base of the short version later on. Even if it is a "short" business plan, the required information should be conveyed in a complete and appropriate manner. The final goal is to convince potential investors that you understand your entrepreneurial business and the market extremely well.

3.3.2.2 Extended business plan

The extended business plan is usually about 20 to 40 pages long. This type of business plan describes the business issues of the company much more profoundly and more detailed than a short business plan would do. The higher the required capital, the more interesting this type of business plan becomes. If, for example, you require 5 million Euros outside capital for the construction of a new and innovative industrial plant, i.e. you are striving for long-term credits, the preparation of an extended business plan would be advisable. Such a business plan should contain a thorough market analysis and a revenue, cost and financial planning for a 5-year period (Gerald & Sam, 2007).

3.3.2.3 Operational business plan

For well-established companies a business plan can serve the management team as an important operative tool, say a business guideline. Such a plan not only serves as a draft for the entire business organization, but also ensures a consistent appreciation on the part of the entire management with respect to the strategic objectives. Indeed, operational business plans are very long and detailed, usually comprising over 40 pages, in some cases even exceeding 100 pages.

3.4 Implementation of Business Plan

The business plan is meant to guide the entrepreneur through the initial years of operations. It is important that the implementation of the strategy incorporates control points to ascertain progress and to initiate contingency plans if necessary. Ample evidence abounds to suggest that there has been a tendency among entrepreneurs to avoid engaging in planning. The usual reason adduced for such oversight is that planning is dull or boring and is an issue reserved only for the large companies. This sounds a convincing excuse but some entrepreneurs do not actually appreciate the strategic importance of business planning.

Planning as it were is an important part of any business operation. In the absence of good planning, the entrepreneur is likely to pay an enormous price. All the entrepreneur has to do is consider the fact that planning is done by all those in business such as suppliers, customers, competitors, and bankers etc. Hence business planning is important for the entrepreneur. It is also important to realize that good planning enables the employees to appreciate and understand the company's goals and how they are expected to perform in their jobs, so that the implementation of operational plans becomes very seamless.

Bright planning is not a complicated or unattainable exercise for the inexperienced entrepreneur. A proper commitment and support from many other people such as outside resources and consultants can enable the entrepreneur to prepare an effective business plan. Furthermore, the entrepreneur can augment effective implementation of the business plan by developing a schedule to measure progress and to institute contingency plans.

4.0 CONCLUSION

Business plans play a fundamental role for those companies that turn to public institutions looking for help in launching a new venture. Generally, in the case of financial support programs, the business plan stands as a key element in order to be eligible for cheap or free financing, under the premise that a good business plan is a guarantee for the survival of start-ups and that, therefore, public funds are put to good use.

5.0 SUMMARY

In this study unit, we have discussed the following topics as they relate to creation of business plan.

- Definition of Business Plan
- Explanation on the need for and benefits of business plan.
- How to best write Business Plan
- Implementation of Business Plan

In the next study unit, we shall discuss the issue relating to feasibility report and appraisal.

6.0 TUTOR MARKED ASSIGNMENT

Discuss what necessitate business plan

Solution to Self-Assessment Exercises

It is very important to clarify beforehand what purpose a business plan will serve and what it aims at. In general business plans are compiled either for an external or internal reason. In the following chapter we will describe these facts in more detail.

External use of a business plan

From an external point of view the business plan represents the main financing tool of your company. In addition, it serves to secure existing or planned business relations between your company and your stakeholders. Depending on the type of financing and stakeholder relations, various aspects are weighed up and dealt with in different ways in a business plan.

Venture-capital financing

As a rule, venture-capital and private-equity investors nowadays only consider business cases which are well represented by a business plan. When reading a business plan, the investors are primarily interested in good and relevant arguments that promise business growth. Furthermore, investors attach great importance to how and in which period of time a return on investment will be realized, for instance:

- through operating profit or
- by going public or
- by merger and acquisition or
- through a repurchase by the management.

In order to guarantee a high return on investment, investors pay great attention to:

- the company's success on the market,
- the feasibility of the plan in order to achieve its business objectives,
- the unique selling proposition of the products and services and
- the quality and experience of the management team.

Financing by bank credits

When granting credits, investment banks focus on one main question: when and how the repayment of the credits and interests will be made. In order to minimize risks, banks usually ask for securities. That is why credit applications addressed to banks should provide more than a list of current and past annual accounts. Moreover, banks will also ask to what extent the companies are prepared for possible setbacks, and how they will be able to overcome such critical situations.

For these reasons banks more and more often demand professional business plans when considering applications for credits. Banks expect business plans to give qualified insight into: the enterprise strategy, the management, the organization, the market, the competitors, the products and the current and future financial and profit situation of the enterprise.

Strategic alliances

The formation of strategic alliances by young and growing companies within the framework of research projects, product design, marketing, etc. is gaining increasingly in importance. A strategic alliance is usually the consequence of:

- financial backing or
- access to well-established distribution channels.

Such an alliance may well succeed over several years for the benefit of all parties. The majority of companies, however, request a business plan before consenting to any long-term business relations or obligations within the framework of a strategic alliance.

Mergers and acquisitions

Acquisitions present an alternative for company expansion, while selling acompany may be seen as the way out of a solvency crisis.

Companies that are looking for acquisition candidates usually request a detailed business plan that will support their evaluation and selection of the candidates.

Internal use of the business plan

A business plan also serves as a valuable management tool from an internal viewpoint of the company. A systematically elaborated and regularly updated business plan, with a profound insight into all business matters, helps the management to efficiently plan the company's development and prepare the necessary modification measures in a structured way. Such a business plan can serve as a guide to the daily decision-making and as a control tool in managing the current business.

The joint realization of the business plan by the management team ensures an overall commitment to the company goals and controls. Achieving this commitment on the management level is most significant for the successful implementation of the plan.

Business plans make a significant contribution to the development of companies which have branches in different locations. By using business plans for each branch, the top management can on the one hand guarantee site-related business planning and on the other hand, continually control performance as well as the attainment of the business objectives. Furthermore, the long-term objectives of the entire company can be balanced by these indicators.

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UNIT 3 HOW BEST TO PREPARE FEASIBILITY REPORT AND APPRAISAL

CONTENT

1.0 INTRODUCTION

Any business to be established starts with an ideas. In order to make sure that these ideas are applicable in the market and enable the entrepreneur to make profits and thus give the possibility of development and continuity, studies must be conducted. Statistics, surveys and scientific basis show the right decision of implementing or cancelling the idea of that business. The totality of these actions and studies undertaken by the entrepreneur to ensure the applicability of his/her idea is called feasibility study (Diane, 2019).

However, conducting this feasibility study is one of the key activities within the project initiation phase. It aims to analyse and justify the project in terms of technical feasibility, business viability and cost-effectiveness. The study serves as a way to prove the project's reasonability and justify the need for launch. Once the study is done, a feasibility study report (FSR) should be developed to summarize the activity and state if the particular project is realistic and practical.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Define feasibility report
- Outlines some importance of feasibility report
- Steps to Writing a feasibility report

3.0 MAIN CONTENT

3.1 Definition of feasibility report

In simple terms, it's just a document that aims to identify, explore, and evaluate a project's solutions to save time and money. The following definition gives a broader understanding of the document:

A Feasibility Study Report (FSR) is a formally documented output of feasibility study that summarizes results of the analysis and evaluations conducted to review the proposed solution and investigate project alternatives for the purpose of identifying if the project is really feasible, cost-effective and profitable. It describes and supports the most feasible solution applicable to the project.

In other word, is written to report the methods and findings of a feasibility study. A feasibility study is done to determine if an existing program is efficient; in addition, a feasibility study can be done to examine a potential program. Usually, the study's ultimate goal is to determine the success of a project based upon two important criteria: the cost of the project and the future value of the project.

Most feasibility reports are done collaboratively with various participants providing the research for their various interests or skills. The information is then brought together, and one person will work on the organization of the report. Each member of the team should have written a small report on his or her specific task so that the person writing the report will only need to compile the information in an organized manner, provide transitions between each section, and, after the report is written, organize the front and back matter.

Once the report is written, it is the responsibility of the entire group to revise and edit the draft.

1. Steps:

A. Analyze the needs of your audience.

B. Examine the context and purpose of the study.

C. Organize the information into content sections.

D. Determine the order of the information.

2. Organization: (Refer to the Formal Report resource.)

A. Front Matter—executive summary, title page, table of contents, abstract, preface, brief and summary.

B. Body—introduction, body, conclusion, and recommendations.

C. Back Matter—appendices, glossary, index, and bibliography.

3.1.1 Feasibility report and appraisal

Two Senior Economic Advisers at the ODA have defined appraisal as, "The process of examining the attractiveness of a project, from economic, technical, social and other viewpoints, before the investment is made." (Bridger & Winpenny, 1983). According to a well-kwon UK consultant Martin Barnes, Appraisal or feasibility study represents the same thing. According to them, their purpose is to evaluate a proposed capital investment which is irreversible and involves risk." Furthermore, According to the Head of the School of Civil Engineering at The University of Birmingham, Prof. J.G. Perry, "Feasibility study and project appraisal are interchangeable."

3.2 Importance of feasibility report

The report gives a brief description of the project and some background information. Formally this document is the starting point for running the Pre-Charter Sub-Phase. In practice, it signifies that the sponsor can proceed with deciding on project investment and make necessary assignments to the project manager.

Some of the importance is that a feasibility report identifies the merits and demerits of a projects (Masanja, 2020). In reality, it provides a cost benefit analysis of undertaking a specific activity, project or business. Therefore, someone can make an informed decision about a specific activity or project. At the same time, a feasibility report also minimized risks by taking actions without understanding and comprehending their financial, legal or reputational ramification to an organization or a business. For this reason, a feasibility report provides a comprehensive understanding about a project or plan. Furthermore, a feasibility study identifies potential challenges and problems while executing the plan or project. Others are:

i) To avoid some operational problems in carrying out the business;

ii) It is a requirement for accessing loan or credit facilities;

iii) It serves as a blueprint for implementation of business plan;

iv) It is used to assess the potential business risks and meditative measures;

v) Portrays the financing requirements for the new business;

vi) To assess the potential demand and markets for the products/services of the new business;

vii) Identifies requirements in areas of personnel and facilities for the business;

viii) Identifies operational costs/expenses in areas of preliminary expenses, working capital, machineries and equipment, sundry facilities; and

ix) Identifies potential sources of finance and repayments schedule.

3.3 Steps to Writing a feasibility report

There are several key steps to writing such an important document, feasibility report. Let's view the steps in detail.

Write Project Description

At this step, you need to collect background information on your project to write the description. For example, your company needs to increase online sales and promote your products/services on the Web. Then in the first part of your report you could write the next description: "This project is website development to promote the products/services in Internet and increase online sales through encouraging customers to visit the website and make online bargains."

Describe Possible Solutions

In order to take this step to write a feasibility study report template, you'll need to perform an alternatives analysis and make a description of possible solutions for your project. For example, in your feasibility report template your e-commence project might have the following solutions description: "This project can be undertaken by the implementation of the two possible solutions: 1) Online Shop; 2) Corporate Website. Each of the solutions is carefully analyzed, and necessary information required for making the final decision is available for the management team."

List Evaluation Criteria

Now it's time to set and define evaluation criteria for possible solutions. This step of feasibility study report writing requires you to investigate the solutions and put them against a set of evaluation criteria. For example, you could add the following criteria to your report: “The possible solutions of this project are evaluated and compared by the following criteria: 1) Concept Spec.; 2) Content Audit; 3) Technical Design Spec.; 4) Launch Schedule & Time-frames.”

Propose the Most Feasible Solution

Once the criteria are used to evaluate the solutions, your next step for writing a feasibility study report is to determine the most economically reasonable and technically feasible solution which lets the company 1) keep to optimal use of project resources and 2) gain the best possible benefit. For example, your report might include: “After the evaluation of the possible solutions, the most feasible solution for this project is identified and selected, so the project turns to be cost-effective, vital and practical.”

Write Conclusion

The final step of the feasibility study reporting process requires you to make a conclusion by summarizing the project’s aim and stating the most feasible solution. For example, the conclusion of your feasibility report might be: This project’s purpose is to develop a sophisticated and original design of the website that will contribute to online sales increasing, attract the target customer’s attention, and be cost-effective. The most feasible solution for the project has been chosen and approved and now is ready for further elaboration.

4.0 CONCLUSION

You will appreciate the fact that feasibility study r report is very imperative in assessing the viability of a new business. The discussion above is indicative of the fact that feasibility study is required for a new business because it is needed to put such in a good stead for effective and profitable operations. Nevertheless, a feasibility report cannot be carried out without the necessary pieces of information. Such forms of information are required for determining aspects of business operations in areas of financial requirement, production requirement, personnel requirement, demand and supply of product/services, and financial projections.

Most feasibility reports are done collaboratively with various participants providing the research for their various interests or skills. The information is then brought together, and one person will work on the organization of the report. Each member of the team should have written a small report on his or her specific task so that the person writing the report will only need to compile the information in an organized manner, provide transitions between each section, and, after the report is written, organize the front and back matter.

5.0 SUMMARY

In this study unit, we have discussed the following topics as they relate to feasibility report and appraisal.

- Definition of feasibility report
- Importance of feasibility report
- Steps to Writing a feasibility report

In the next study unit, we shall discuss the issue related to appraisal of projects before investment.

6.0 TUTOR MARKED ASSIGNMENT

Enumerate all the Steps to Writing a feasibility report

Solution to Self-Assessment Exercises

Write Project Description

At this step, you need to collect background information on your project to write the description. For example, your company needs to increase online sales and promote your products/services on the Web. Then in the first part of your report you could write the next description: “This project is website development to promote the products/services in Internet and increase online sales through encouraging customers to visit the website and make online bargains.”

Describe Possible Solutions

In order to take this step to write a feasibility study report template, you’ll need to perform an alternatives analysis and make a description of possible solutions for your project. For example, in your feasibility report template your e-commence project might have the following solutions description: “This project can be undertaken by the implementation of the two possible solutions: 1) Online Shop; 2) Corporate Website. Each of the solutions is carefully analyzed, and necessary information required for making the final decision is available for the management team.”

List Evaluation Criteria

Now it’s time to set and define evaluation criteria for possible solutions. This step of feasibility study report writing requires you to investigate the solutions and put them against a set of evaluation criteria. For example, you could add the following criteria to your report: “The possible solutions of this project are evaluated and compared by the following criteria: 1) Concept Spec.; 2) Content Audit; 3) Technical Design Spec.; 4) Launch Schedule & Time-frames.”

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Once the criteria are used to evaluate the solutions, your next step for writing a feasibility study report is to determine the most economically reasonable and technically feasible solution which lets the company 1) keep to optimal use of project resources and 2) gain the best possible benefit. For example, your report might include: “After the evaluation of the possible solutions, the most feasible solution for this project is identified and selected, so the project turns to be cost-effective, vital and practical.”

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The final step of the feasibility study reporting process requires you to make a conclusion by summarizing the project’s aim and stating the most feasible solution. For example, the conclusion of your feasibility report might be: “This project’s purpose is to develop a sophisticated and original design of the website that will contribute to online sales increasing, attract the target customer’s attention, and be cost-effective. The most feasible solution for the project has been chosen and approved and now is ready for further elaboration.

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UNIT 4 APPRAISAL OF PROJECTS BEFORE INVESTMENT

CONTENT

1.0 INTRODUCTION

Project appraisal follows the project formulation phase resulting in the preparation of feasibility report (FR). The main objective of project appraisal is to ultimately decide whether the project proposed/sponsored in the FR has to be accepted for Capital Investment, or be rejected. The initial appraisal of the project sponsored also aims at, if need be, recommending the steps or ways in which the project can be redesigned or reformulated with a view to better technical, financial, commercial and economic viabilities; also mitigate or minimize any adverse on negative environmental impact. Thus, project appraisal is an essential tool for judicious investment decision-making, full and complete data and information need to be documented/presented, and analysed in the FR so as to facilitate the appraisal authorities to carry out:

(i) Demand analysis to establish convincingly the need for the project,

(ii) Check on optimal location,

(iii) Technical analysis to determine whether the specification of technical parameters are sound and realistic,

(iv) Financial analysis to assess whether the project proposal is financially viable,

(v) Commercial analysis to establish the soundness of product or service specifications, marketing plans, organization structure (both project and for operation),

(vi) Socio-economic analysis to determine whether the project is worthwhile to implement from the point of view of the nation that is society at large and the economy as a whole, and

(vii) Environment and physiographical and ecological thresholds analysis which is concerned with the identification of these constraints, and make the evaluation of chances of success (or otherwise) which the project may have to face (these constraints). Internal consistency and external compatibility are two basic attributes of a viable project.

Development oriented administration and forward looking management may have under consideration, at any juncture or time, a number and variety of projects, resources being limited, a choice has to be made. Project appraisal is warranted to assess the material attributes of an investment proposition and to confirm the implications the project will pose for the sponsoring authorities (system) as well as for systems with which it will have to co-exist after its implementation.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

1. Meaning of project appraisal

2. Type of project appraisal

3. Appraisal of Project Implementation Plan

3.0 MAIN CONTENT

3.1 Meaning of project appraisal

Appraisal is the analysis of a proposed project to determine its merit and acceptability in accordance with established criteria. In other word, it is the process of evaluating the salient features of the feasibility study of a project. This is the final step before a project is agreed for financing. It checks that the project is feasible against the situation on the ground that the objectives set remain appropriate and that costs are reasonable.

The project appraisal embraces the techniques applied to determine the financial and/or economic viability of the creation of capital assets, so that decision-makers can identify and select those projects that offer the highest probability of adding to profitability and/or social welfare. The main issues that must be addressed are how to ensure that the information on revenues and expenditures (or on benefits and costs) attached to any such capital investment can be made commensurate, so as to allow decisions to be taken on a clear and consistent basis.

3.2 Types project appraisal

Technical Appraisal

Determines whether the technical parameters are soundly conceived, realistic and technically feasible. Technical feasibility analysis is the systematic gathering and analysis of the data pertaining to the technical inputs required and formation of conclusion there from. The availability of the raw materials, equipment, hard/software, power, sanitary and sewerage services, transportation facility, skilled man power, engineering facilities, maintenance, local people etc., depending on the type of project are coming under technical analysis. This feasibility analysis is very important since its significance lies in planning the exercises, documentation process, risk minimization process and to get approval.

Checklist

- Physical scale
- Technology used & Type of equipments & Suitability conditions
- How realistic is the implementation schedule
- Labour intensive method or others
- Cost estimates of Engineering Data
- Escalation is taken care of or not
- Procurement arrangement
- Cost of operation & Maintenance
- Necessary raw material & Inputs
- Potential impact of project on human & physical Environment
-

Financial Appraisal

To determine whether the financial costs and returns are properly estimated and whether the project is financially viable. Following minimum details are determined in the financial appraisal;

1. Total Cost
2. O & M Expenditure

3. Opportunity costs

4. Other costs

5. Returns on Investment over project life

Institutional Appraisal

To determine whether the implementing agencies as identified in the report are capable for effective implementation, monitoring, and evaluation of the scheme. Managerial competence, integrity, knowledge of the project, the promoters should have the knowledge and ability to plan, implement and operate the entire project effectively. The past record of the promoters is to be appraised to clarify their ability in handling the projects.

Checklist

• Whether the entity is properly organised do the job

• Strength to use capability and take initiatives to reach the objectives

• Openness to new ideas and willingness to adopt long term approach to extend over several projects

Commercial Appraisal

The demand and scope of the project among the beneficiaries, customer friendly process and preferences, future demand of the supply, effectiveness of the selling arrangement, latest information availability on all areas, government control measures, etc. The appraisal involves the assessment of the current demand/market scenario, which enables the project to get adequate demand. Estimation, distribution and advertisement scenario also to be here considered into.

Environmental Appraisal

To see any detrimental environmental impacts and how to minimise the impacts. Environmental appraisal concerns with the impact of environment on the project. The factors include the water, air, land, sound, geographical location etc.

Economic Appraisal

How far the project contributes to the development of the sector, industrial development, social development, maximizing the growth of employment, etc. are kept in view while evaluating the economic feasibility of the project.

Legal Appraisal

To determine whether the project satisfies the legal issues related to land acquisition, title deed, environmental clearance etc.

3.3 Appraisal of Project Implementation Plan

As indicated earlier, project appraisal is the process of evaluating the salient features of the feasibility study of a project. Project duration or time profile of the project is one of the basic evaluations in comparative appraisal of project ideas. Project Network Analysis (PERT/CPM) is concerned with development of work or implementation plan and establishment of the overall project duration. It will also provide data and information on the quantum and timing of outflow of funds required to implement the project. These data and information are essential for financial/budgetary planning and control and are of vital importance to project authorities for proper and reliable scheduling of the repayment of loans along with interest charges. The point to be assessed in the appraisal process is the authenticity and dependability of the project implementation plan and schedule. It needs to be checked up whether this plan includes all the activities necessary for achieving the project end objectives. After the framework of the implementation plan has been tested, it needs to be ascertained whether the time and resources scheduling has been done on a realistic basis. If time is of essence and happens to be a crucial constraint in the overall scheme of things, it has to be checked up whether the overall project duration will be in accordance with the time requirements (or availability) of the situation. Another aspect to be assessed is whether the project time schedule and the financial outlays envisaged (including their time phasing) are in balance.

3.4 Three Main Techniques Used Of Tackling Obstacles Facing The Consistent Project Appraisal Of Capital Investments:

• *Discounted Cash Flow* (DCF) analysis takes account of the effects of different time periods when comparing projects where all resource values and opportunity costs are fully reflected in market prices
(eg the commissioning of manufacturing plants operating within competitive factor and product markets);

• *Cost-Benefit Analysis* (CBA) tackles projects with significant impacts that are inadequately priced through the market (eg provision of new infrastructure with major externalities or public good characteristics);

• *Multi-Criteria Analysis* (MCA) is applied to projects designed to deliver a number of alternative objectives, the overall assessment of which requires the establishment of a specific preference ranking system to substitute for market forces (eg choosing between strategic options which involve health and safety issues, such as the storage of radioactive material)

4.0 CONCLUSION

In this unit, we discussed Appraisal of projects before investment. We discussed Meaning of project appraisal, type of project appraisal and appraisal of Project Implementation Plan.

5.0 SUMMARY

In this study unit, we have discussed the following topics:

- Meaning of project appraisal
- Type of project appraisal
- Appraisal of Project Implementation Plan

In the next study unit, we shall discuss the issue related to Project evaluation techniques.

6.0 TUTOR MARKED ASSIGNMENT

Enumerate and expatiate the type of project appraisal

Solution to Self-Assessment Exercises

Technical Appraisal

Determines whether the technical parameters are soundly conceived, realistic and technically feasible. Technical feasibility analysis is the systematic gathering and analysis of the data pertaining to the technical inputs required and formation of conclusion there from. The availability of the raw materials, equipment, hard/software, power, sanitary and sewerage services, transportation facility, skilled man power, engineering facilities, maintenance, local people etc., depending on the type of project are coming under technical analysis.

Financial Appraisal

To determine whether the financial costs and returns are properly estimated and whether the project is financially viable.

Institutional Appraisal

To determine whether the implementing agencies as identified in the report are capable for effective implementation, monitoring, and evaluation of the scheme. Managerial competence, integrity, knowledge of the project, the promoters should have the knowledge and ability to plan, implement and operate the entire project effectively. The past record of the promoters is to be appraised to clarify their ability in handling the projects.

Commercial Appraisal

The demand and scope of the project among the beneficiaries, customer friendly process and preferences, future demand of the supply, effectiveness of the selling arrangement, latest information availability on all areas, government control measures, etc. The appraisal involves the assessment of the current demand/market scenario, which enables the project to get adequate demand. Estimation, distribution and advertisement scenario also to be here considered into.

Environmental Appraisal

To see any detrimental environmental impacts and how to minimise the impacts. Environmental appraisal concerns with the impact of environment on the project. The factors include the water, air, land, sound, geographical location etc.

Economic Appraisal

How far the project contributes to the development of the sector, industrial development, social development, maximizing the growth of employment, etc. are kept in view while evaluating the economic feasibility of the project.

Legal Appraisal

To determine whether the project satisfies the legal issues related to land acquisition, title deed, environmental clearance etc.

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UNIT 5: PROJECT EVALUATION TECHNIQUES

CONTENT

1.0 INTRODUCTION

A piece of planned work or an activity that is finished over a period of time and intended to achieve a particular purpose. A project is a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates that a project has a definite beginning and end. The end is reached when the project's objectives have been achieved or when the project is terminated because its objectives will not or cannot be met, or when the need for the project no longer exists. A project may also be terminated if the client (customer, sponsor, or champion) wishes to terminate the project. Temporary does not necessarily mean the duration of the project is short. It refers to the project's engagement and its longevity. Temporary does not typically apply to the product, service, or result created by the project; most projects are undertaken to create a lasting outcome. For example, a project to build a national monument will create a result expected to last for centuries. Projects can also have social, economic, and environmental impacts that far outlive the projects themselves.

2.0 OBJECTIVES

At the end of this study unit you should be able to:

- Define Project
- Enumerate types of projects
- Explain Project Cycle
- Define project evaluation

3.0 MAIN CONTENT

3.1 Meaning of Project

We just mentioned that the very foundation of an enterprise is the project. Hence, the success or failure of an enterprise largely depends upon the project. In simple words, a project is an idea or plan that is intended to be carried out. The dictionary meaning of a project is that it is a scheme, design, a proposal of something intended or devised to be achieved. Let us also consider a few definitions on 'project'.

Newman defines that *“a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission”.*

Gillinger defines project *“as the whole complex of activities involved in using resources to gain benefits”.*

According to Encyclopedia of Management: *“a project is an organized unit dedicated to the attainment of a goal-the successful completion of a development project on time, within budget, in conformance with pre-determined programme specifications”.*

Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Longman Dictionary of Contemporary English defines a project as “an important and carefully planned piece of work that is intended to build or produce something new, or to deal with a problem”. From this simple definition, we can see that a project, apart from being Important, should be carefully planned so as to produce something. Some of the things that a project seeks to produce may be tangible or intangible. A motorcycle is a tangible product but conducting a census is not a tangible product.

3.2 Types of projects

A. Competitive projects

The projects are selected as a result of an open or closed project contest announced and conducted by particular Implementing Authorities which is responsible for implementation of a given measure. Selection of these projects is performed with respect for the principle of disclosure and access to information according to the criteria of project selection adopted by the Programme Monitoring Committee.

The process of project selection consists of the following stages:

1. Call for proposal,
2. Submission of projects,
3. Formal evaluation and content-related evaluation of applications,
4. Publication of the contest results,
5. Review procedures (if needed),
6. Signing contracts on financing projects,
7. Registration of documents in the information system, according to separate provisions in areas concerned (the first registration after the formal evaluation of the application for support).

B. Individual projects

Individual projects are undertakings whose implementation is important and justified concerning the implementation of the strategy of a given sector or area and which contribute to a large extent to achieving objectives of a priority axis a given projects is implemented under. Placing the project on the list is only a conditional declaration of its financing and is connected with guarantying funds for its implementation within the project budget. These projects will not be subject to content procedure and will not apply for the funds under the content procedure. The project implementation will depend on fulfilling the selection criteria approved by the Programme Monitoring Committee, requirements concerning documentation and implementation readiness as well as acceptance of the application for support.

3.2 .1 CLASSIFICATION OF PROJECTS

Projects, according to Jelili and Samuel (n.d) can also be classified into various classifications like national and international projects, industrial and non-industrial projects, on the basis of technology, size, ownership, public or private projects, need, expansion or diversification projects. They are discussed as follows:

1. **National and International Projects:** This kind of projects is categorized on the basis of geographical location set as countries. If one country tries to build projects with other foreign country, such projects are said to be International projects and when it is done in one‟s own country, then it is said to be a domestic or national project.

2. **Industrial and Non-industrial Projects:** The projects initiate in one‟s own country with an objective to make money and for commercialization, are called industrial projects. For example, a car manufacturing is an industrial project. While the project which are done for the upliftment of the society and majorly done with social welfare objectives, are called non-industrial projects. For example Building of a canal, agricultural development comes under non-industrial projects; these are mainly carried up by the government.

3. **Projects based on Technology:** These are largely high technology projects which require lots of investment and works on new or non-existent technologies like rocket launch project, space projects, etc. and some other are those projects which use technology which are already proven like a software ERP project, automobile automation project, etc.

4. **Projects based on its size:** These projects are based on investment size or capacity of plant to offer goods or services. This can be further classified down to small, medium and large scale projects. Project above the investment of 100 million dollars is considered as large projects.

5. **Project based on ownership:** This can be further classified as public sector project, private sector project and joint sector project.

i. **Public Sector Projects:** Projects which are of the state, center or both forms of governments, are known as public sector projects.

ii. **Private Sector Projects:** Projects with a complete ownership of promoters and investors is known as private sector projects. Owners may be an individual, partnership firm or a company. These projects are mostly done with an objective to earn profit and thus have a commercial nature.

iii. **Joint Sector Projects:** In these projects, there exist a partnership between the entrepreneurs and the government; it may be from state government or the central government. These types of partnership occur on the grounds of expertise and laisioning work and government arranges for the fund in large amounts. For example, Project of Metro Train, Dams, Information technology parks, Electricity plants and other similar natured projects.

6. **Need based projects:** Projects are basically driven by certain needs of the organization and these needs furthers forms the basis of project categorization as Balancing Project, Modernization Project, Expansion Project, Diversification Project, Rehabilitation Project and Plant Relocation Project.

i. **Balancing Project:** Augmenting or strengthening the capacity of particular area within a chain of entire production plant with a purpose of scaling to the capacity in order to have optimum utilization, is balancing project.

ii. **Modernization Project:** Upgrading the technology to increase the productivity and inevitable approach of technology is called modernization project.

iii. **Expansion Project:** When the production capacity of goods and services is to be increased, the project that is undertaken is known as expansion project.

iv. **Diversification Project:** Project undertaken by the organization to completely divert from its core business is called diversification project. For example, if a Petroleum company decides to enter into Information Technology business, then the project will be known as diversification project.

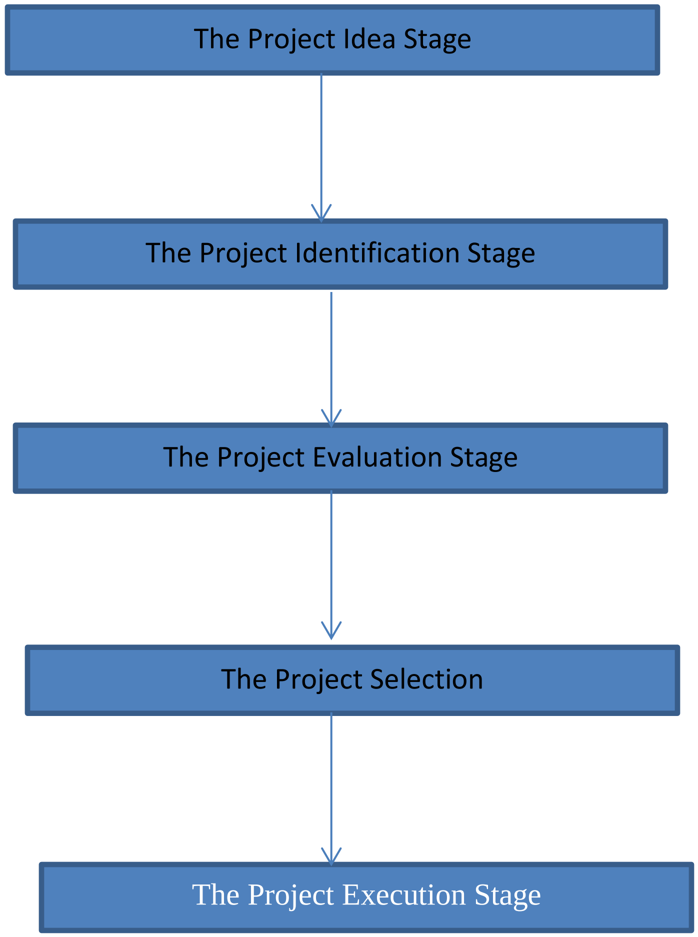
v. **Rehabilitation Project:** When a project is started to revive a loss bearing company, is known as rehabilitation project.

vi. **Plant Relocation Project:** When an organization decides to shift his plant from one location to another, the project started will be known as relocation project.

3.3 The Project Cycle

A project cycle tries to describe the various stages that are involved, from the conception of a project idea to when the project is executed or actually takes off. Understanding a project cycle is very important as it enables us to get the total picture of a project. It consist of the project idea stage, the project identification stage, the project evaluation stage, the project selection stage and the project execution stage.

The Project Cycle



The Project Idea Stage

The project idea stage is the first stage of a project cycle. The idea about a project arises from a variety of sources within the internal environment or market place. New project ideas could originate from within an organisation or from outside the organisation. If the idea originates from within, it could be from a sales person who has encountered some success or problem with customers while performing his or her functions.

The Project Identification Stage

After the project idea stage, the next stage is the project identification stage. The project identification stage consolidates the idea stage. Project ideas are not really useful unless they are clearly identified and put down in a systematic manner for further processing. The idea to introduce a new product into the market may come from a company salesman who is very familiar with the market.

The Project Evaluation Stage

When a project has been identified, the next step is to evaluate the project. Project evaluation involves the estimation of the benefits and costs of a project. Benefits and costs should be measured in terms of cash flows. We have to emphasise at this point that the estimation of the cash flow of a project is a very difficult task. It is difficult in the sense that the cash flow to be estimated is future cash flow.

The Project Selection Stage

After the project evaluation stage, the next stage is the project selection stage. Faced with an array of projects with different values and worth, there is need to select which projects to embarked upon. There is no standard procedure for selecting projects as this will differ from benefit seen. The important thing to note is that the project selection function is a top management responsibility.

The Project Execution Stage

The project execution stage is the final stage in the project cycle. After a project has been selected, it moves on to the execution stage. In most organisations, the responsibility for execution of projects is vested on a project management team raised by top management. The function of the team is to ensure that the budget for the project is spent entirely on the project and that the project is completed on schedule (Jelili and Samuel, n.d).

3.4 Definition of Project Evaluation

Evaluation of a project involves a careful consideration of the totality of the project with a view to seeing how useful or valuable it is Evaluation enables us to attach proper financial value to a project and also allows us the liberty of comparing it with other projects.

An evaluation must be planned carefully. There is no one suite of techniques that fits all types of projects. The evaluation approach, design and methodologies should match the specific project (Jelili and Samuel, n.d). The focus and purpose of an evaluation differs depending on the needs of stakeholders that may include project developers, funding agencies, local government, community, teaching personnel and students. It is important to consult with stakeholders to select the most suitable approach.

3.4.1 Common Steps in Project Evaluation

- Identification of problems and establishing objectives
- Identification of major options
- Design
- Financial analysis
- Economic analysis
- Environmental impact assessment
- Public hearings
- Agency approvals

3.5 Methods for Project Evaluation

- • Present worth (PW) method
- • Future worth (FW) method
- • Annual worth (AW) method
- • Benefit-cost ratio (BC) method
- • Internal rate of return (IRR) method
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4.0 CONCLUSION

In this unit, we discussed definition of Project, types of projects, Project Cycle and project evaluation.

5.0 SUMMARY

In this study unit, we have discussed the following topics:

- Definition of Project
- Types of projects
- Project Cycle
- Project evaluation

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6.0 TUTOR MARKED ASSIGNMENT

Differentiate between public sector project and private sector projects

Solution to Self-Assessment Exercises

Projects, which are of the state, center or both forms of governments, are known as public sector projects. On the other hand, projects with a complete ownership of promoters and investors is known as private sector projects. For private sector projects, owners may be an individual, partnership firm or a company. These projects are mostly done with an objective to earn profit and thus have a commercial nature.

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MODULE 3

PROJECT EVALUATION TECHNIQUES

Unit 1 Introduction to Project Evaluation

CONTENT

1.0 Introduction

The capital budgeting process governs the way managers produce and share information about proposed investments and also determines which decisions are delegated, to whom, and under what constraints.

In many firms, individual managers are assigned capital spending limits based on proposals generated. Effective investment decision making is essential to corporate survival and long-term success because it directly impacts future performance by molding future opportunities and developing competitive advantage by influencing, among other things, its technology, its processes, its working practices and its profitability.

2.0 Objectives

At the end of this study unit, you should be able to:

- Define Project Evaluation
- Explain the six fundamental phases in the Project Evaluation process
- Differentiate between Traditional and Modern Evaluation Technique

3.0 Main Content

Capital budgeting decisions are guided by corporate strategic plan which provides direction of where the corporation wants to be and how it intends to get there. A strategic plan is the grand design of a firm and clearly identifies the business the firm is in and where it intends to position itself in the future.

Strategic planning translates the firm's corporate goal into specific policies and directions, sets priorities, specifies the structural, strategic and tactical areas of business development, and guides the planning process in the pursuit of solid objectives.

A firm's vision and mission are encapsulated in its strategic planning framework. Strategy refers to the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of its resources within a challenging environment and geared towards meeting the needs of the markets as it fulfils stakeholder expectations.

In the capital budgeting process, there are feedback loops at different stages, and the feedback to strategic planning at the project evaluation and decision stages is important to project appraisal processes as it may suggest changes to the future direction of the firm which may cause changes to the firm's strategic plan. It is through the strategic plan that an organization's activities including investment activities are directed for optimal performance.

There are six fundamental phases in the Project Evaluation process that have been identified and these are:

i. Identification of investment opportunities
ii. Evaluation

Once investment proposals have been identified, it is necessary to analyze them thoroughly, collecting relevant and detailed information for each alternative, and evaluating their profitability and global attractiveness;

iii. Selection: a screening of investment proposals which have passed through the previous phase might be necessary because of financial or strategic factors. As a result, some projects might be cancelled or postponed to another planning period
iv. Authorization: almost all investment projects must be approved before their implementation;
v. Implementation and control: while the project is being carried out, follow-up procedures are indispensable to adhere to budgeted costs and deadlines;
vi. Post auditing: in this phase the outcomes of each project are compared with budget targets in order to assess forecast accuracy and identify error patterns with a feedback effect on the whole decision process.

4.0 Definition of Project Evaluation

Project Evaluation Techniques also known as Capital Budgeting Techniques are employed to evaluate the viability of long-term investments. The project evaluation decisions are one of the critical financial decisions that relate to the selection of investment proposal or the course of action that will yield benefits in the future over the lifetime of the project.

Since the project evaluation is related to the long-term investments whose returns will be fetched in the future, certain traditional and modern capital budgeting techniques are employed by the firm to judge the feasibility of these projects.

The traditional method relies on the non-discounting criteria that do not consider the time value of money, whereas the modern method includes the discounting criteria where the time value of money is taken into the consideration.

5.0 Traditional methods:

The traditional methods comprise of the following evaluation techniques:

1. Average Rate of Return Method (ARR)
2. Payback Period Method (PB)

6.0 Modern Methods

The modern methods comprise of the following evaluation techniques:

1. Net Present Value Method
2. Internal Rate of Return
3. Profitability Index

The common thing about both these methods (Traditional and Modern) is that these are based on the cash inflows and the outflows of the project.

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Unit 2: The Average Rate of Return (ARR)

CONTENT

1.0 Objectives

At the end of this unit, you should be able to:

- Define Accounting Rate of Return (ARR)
- Use ARR to distinguish favourable and unfavourable projects
- Explain the merit and demerit of ARR

2.0 Main Content

The rate of return on the investment is defined as the average annual accounting net income from the investment divided by the total cost of the investment or by the average cost of the investment.

The average cost of the investment is derived by averaging the beginning investment and the end of life value, or salvage value. This technique is more defensible than payback in that it attempts to calculate a rate of return rather than concentrate on the time necessary to recapture the original investment.

It also includes the proceeds after payback period and it allows ranking of capital project alternatives according to their respective returns. However, this method has disadvantages because it fails to take into consideration the time value of money and the possibility of reinvesting this money. It may also be disadvantageous because it can be calculated differently, on the basis of total investment or average investment.

3.0 Definition: The Average Rate of Return or ARR, measures the profitability of the investments on the basis of the information taken from the financial statements rather than the cash flows. It is also called as Accounting Rate of Return

The formula for calculating the average rate of return is:

Average Rate of Return = Average Income / Average Investment over the life of the project

Where, Average Income = Average of post-tax operating profit Average Investment = (Book value of investment in the beginning + book value of investments at the end) / 2

Accept-Reject Criteria: The projects having the rate of return higher than the minimum desired returns are accepted.

4.0 Merits of Average Rate of Return

1. It is very simple to calculate and easy to understand

2. The measures the profitability of the entire project since it considers the cash flows throughout the life of the project.

3. It is based on the accounting information which is readily available and easily understood by the businessmen.

5.0 Demerits of Average Rate of Return

1. It is based on the accounting information and not on the actual cash flows since the cash flow approach is considered superior to the accounting approach.

2. It does not take into consideration, the Time Value of Money.

3. It is inadequate to differentiate between the projects on the basis of amounts required for the investment, in case the proposals have the same rate of return.

Thus, this is the only method that uses the firm's financial data to assess the profitability of the project undertaken and do not rely on the future cash flows.

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Unit 3: Payback Period (PB)

CONTENT

1.0 Introduction

Payback period is a capital budgeting technique defined as the time period calculated as number of years in which the initial investment is recovered from the invested project.

The payback period is one of the earliest and most popular methods of capital project evaluation, and it has been widely used by many firms. The essence of the technique is the determination of the time period it takes for the cash inflow from an investment to pay back its original cost. The investment alternative with the shortest payback period is considered superior.

2.0 Objectives

At the end of this unit, you should be able to:

- Define Payback Period
- Apply Payback Period in evaluating projects and making decision
- Understand the merits and demerits of Payback Period

3.0 Main Content

This approach computes the length of time required to recover, through the incremental cash inflow, the amount of investment outlay in a project. The basic idea of this approach is that investment decisions should be made in accordance with how fast an organization is able to recoup its capital outlay from a given project.

The PBP can be used as a decision criterion to select investment proposal. If the PBP is less than the maximum acceptable payback period, accept the project however, if the PBP is greater than the maximum acceptable payback period, reject the project. The decision criterion holds that only projects with shorter period to recover the capital outlay are accepted first. If the incremental cash inflow from a project is the same in every year, the payback period becomes the ratio of the cost of the project to the annual cash flow.

This technique can be used to compare actual pay back with a standard pay back set up by the management in terms of the maximum period during which the initial investment must be recovered.

The standard PBP is determined by management subjectively on the basis of a number of factors such as the type of project, the perceived risk of the project etc. PBP can be even used for ranking mutually exclusive projects. The projects may be ranked according to the length of PBP and the project with the shortest PBP will be selected.

Payback period has several advantages. It is simple to compute, easy to understand, and provides a good measure of the risk involved in a given investment proposal. However, it can lead to the wrong investment decision as a result of several disadvantages. It does not consider the time value of money and does not distinguish between alternatives having different economic lives. Its biggest disadvantage is that it does not consider events occurring after the end of the payback period. To ignore the cash flows that occur after the payback period is not a very desirable characteristic in a selection criterion.

The criticisms of payback methods are therefore valid, but these are criticisms that generally predate the advent of new technology, and examples of their being used as the sole appraisal technique are, in practice, rare.

The argument usually given for their use is that they are a simple approach to safeguarding against undue risk, as projects with a short payback are likely to be less risky. Too much stress on their use can thus indeed operate against proposals for new technology.

4.0 Definition: The Payback Period helps to determine the length of time required to recover the initial cash outlay in the project. Simply, it is the method used to calculate the time required to earn back the cost incurred in the investments through the successive cash inflows.

Payback Period with Uniform Cashflow

Throughout the project expect that cash flow is uniform. Thereby with uniform cash flows, net initial investment ÷ uniform increase in annual future cash flows per formula demonstrate

The formula to calculate it:

Payback Period = Initial Outlay/Cash Inflows

Payback Period with Uninform cash flows: the cash flow is accumulated until the sum equals the initial net investment (initial net Investment is equal to the initial investment minus any residual of the same investment).

In additional it has the characteristics with respect to time measurement for specific projects. The projects with shorter paybacks are preferred compared to those with longer paybacks, when all other things are equal. The Organization can choose a cutoff period as the basis for accepting or rejecting the payback and the liquidity of the project.

Accept-Reject Criteria: The projects with the lesser payback are preferred.

5.0 Merits of Payback Period

1. It is very simple to calculate and easy to understand.

2. This method is helpful to analyze risk, i.e. to determine how long the investments will be at risk.

3. It is beneficial for the industries where the investments become obsolete very quickly.

4. It measures the liquidity of the projects.

6.0 Demerits of Payback Period

1. The major drawback of this method is that it ignores the Time Value of Money.

2. It does not take into consideration the cash flows that occur after the payback period.

3. It does not show the liquidity position of the company, but only tells the ability of a project to return the initial outlay.

4. It does not measure the profitability of the entire project since it only focuses on the time required to recover the initial investment cost.

5. This method does not consider the life-span of investment, what if the life of an asset gets over very much before the initial investment cost is realized.

Thus, the payback period is the simplest method to assess the risk associated with the investment and the time required to get the initial outlay recovered.

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Unit 4: Net Present Value

CONTENT

1.0 Objectives

At the end of this study unit, you should be able to:

- Define Net Present Value (NPV)
- Apply Net Present Value in making decision

2.0 Main Content

Net present value is one of the most important discounted cash flow techniques. For this method the following steps are used:

STEP 1: Estimate the expected cost of each project, which represents the initial outlay of the project.

STEP 2: Estimate the amounts and the timing of the expected net cash inflows from each project.

STEP 3: Determine an appropriate discount rate or cost of capital for the project. This discount rate depends partly on the riskiness of the project, defined in terms of the likelihood of variability of cash inflows from the project.

STEP 4: Find the present values of the expected net cash inflows for each project.

STEP 5: For each project, subtract the estimated initial cost from the present value of net cash inflows.

The resulting figures are the net present values of each project. If the net present value is a positive number, the project is a candidate for further consideration. If negative, the project should be rejected. The project alternative with the highest positive net present value should be selected.

The (NPV) of an investment is therefore an estimate of the market price of the stream of net cash flows from the investment.

If the NPV is positive, the investment will increase the stockholder's wealth, the opposite is also true. Therefore, based on the net present value of projects, the capital budgeting decision a company faces is to select the portfolio of projects that does not exceed a certain budget, but at the same time creates maximum value.

3.0 Definition: The Net Present Value or NPV is a discounting technique of capital budgeting wherein the profitability of investment is measured through the difference between the cash inflows generated out of the cash outflows or the investments made in the project.

The formula to calculate the Net Present value is:

Net present value = $^{n}\sum_{t=1} \; C_t / (1+r)^t - C_o$

Where,

C_t = cash inflow at the end of year t

n= life of the project

r= discount rate or the cost of capital

Co= cash outflow

Accept – Reject Criteria: If the NPV is positive, the project is accepted.

4.0 Merits of Net Present Value

1. It takes into consideration the Time Value of Money.

2. It measures the profitability of the entire project by considering the profits throughout its life.

3. It is easy to alter the discount rate, by just changing the value of the denominator.

4. This method is particularly suitable for the mutually exclusive projects.

5. It is consistent with the objective of maximizing the net wealth of the company.

5.0 Demerits of Net Present Value

1. The forecasting of cash flows is difficult because of several uncertainties involved in the operations of the firm.

2. It is difficult to compute the discount rate precisely. And this is one of the crucial factors in the computation of net present value as with the change in the discount factor the NPV results also changes.

3. Another problem is that it is an absolute measure, it accepts or rejects the projects only on the basis of its higher value irrespective of the cost of initial outlay.

Thus, to compute the Net Present value, a firm should determine the cash inflows and the outflows along with the discount rate or a rate of return that firm desires during the lifetime of the project.

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Unit 5: Internal Rate of Return

CONTENT

1.0 Objectives

At the end of this unit, you should be able to:

- Define Internal Rate of Return (IRR)
- Apply IRR in decision making
- Understand the merits and demerits of Internal Rate of Return

2.0 Main Content

Generally, the rate-of-return approach involves arraying potential projects in the order of their promised percentage rates of return and then applying some predetermined company capital expenditure policy to divide the array into acceptable and non-acceptable projects.

The determination of the rate of return for a project involves finding the percentage discount rate which exactly equates the present value of the cash inflows expected during the life of the project with the outlay required to produce the inflows. The use of cash inflows rather than net earnings is emphasized.

Internal rate of return technique is regarded as one of the most advanced and efficient methods of capital project evaluation. While the net present value technique requires the use of an external rate; the cost of capital, the internal rate technique attempts to find the rate that is internal to the project.

This internal rate is that which makes the net present value of a project equal to zero. In other words, the internal rate is that which makes the present value of cash inflows equal to the initial cost of the project.

The decision rules here are:

if the internal rate of a project is greater than the cost of capital, the project is accepted; if the internal rate is less than the cost of capital, the project should be rejected. The project with the highest internal rate is given the top ranking.

3.0 Definition: The Internal Rate of Return or IRR is a rate that makes the net present value of any project equal to zero. In other words, the interest rate that equates the present value of cash inflow with the present value of cash outflow of any project is called as Internal Rate of Return.

Unlike the Net present value method where we assume that the discount rate is known, in the case of Internal rate of return method, we put the value of NPV zero and then find out the discount rate that satisfies this condition.

The formula to calculate IRR is:

$CF_o = {}^{n}\sum_{t=1} C_t / (1+r)^t$

Where,

CF_o = Investment

C_t = Cash flow at the end of year t

r = internal rate of return n= life of the project

Accept- Reject criteria: If the project's internal rate of return is greater than the firm's cost of capital, accept the proposal.

4.0 Merits of Internal Rate of Return

1. IRR takes into account the Time Value of Money.

2. It considers the cash flows over the entire life of the project.

3. IRR is consistent with the goal of wealth maximization.

4. While computing the NPV the discount rate taken is normally the cost of capital, but in the case of IRR, there is no need for the cost of capital because the rate of return generated by the project itself is used to evaluate the efficiency of the project. Thus, the rate is internal to the project.

5.0 Demerits of Internal Rate of Return

1. It is quite difficult and involves tedious calculations.

2. IRR produces multiple discount rates, which might be confusing.

3. While evaluating the mutually exclusive proposals, the project having the highest value is chosen over the other that may not be necessarily the most profitable or be in line with the objectives of the firm of wealth maximization.

4. It is assumed that the cash flows are reinvested at an internal rate of return.

The internal rate of return is usually the rate of return that a project earns. It is often called as the yield on investment, the marginal efficiency of capital, the marginal productivity of capital, rate of return and time adjusted rate of return.

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Unit 6: Profitability Index

CONTENT

1.0 Main Content

2.0 Definition of Profitability Index

3.0 Merits of Profitability Index

4.0 Demerits of Profitability Index

5.0 References

1.0 Main Content

The method is also called benefit cost ration. This method is obtained cloth a slight modification of the NPV method. In case of NPV the present value of cash out flows are profitability index (PI), the present value of cash inflows are divided by the present value of cash out flows, while NPV is a **absolute** measure, the PI is a **relative** measure.

It the PI is more than one (>1), the proposal is accepted else rejected. If there are more than one investment proposal with the more than one PI the one with the highest PI will be selected. This method is more useful incase of projects with different cash outlays cash outlays and hence is superior to the NPV method.

The formula for PI is

Probability Index = $\boldsymbol{Present\ value\ of\ future\ cash\ inflow/\ investment}$

Profitability Index (PI) is another measure used to determine capital budgeting decisions made by an organization. It is similar to the technique of calculating the present value of the cash flows generated from the project.

PI can also be defined as the ratio of the benefits or cash inflows from a project calculated in present value terms to the costs incurred while undergoing the project also measured in the terms of present values.

2.0 Definition: The Profitability Index measures the present value of returns derived from per rupee invested. It shows the relationship between the benefits and cost of the project and therefore, it is also called as, Benefit-Cost Ratio.

The profitability Index helps in giving ranks to the projects on the basis of its value, the higher the value the top rank the project gets. Therefore, this method helps in the Capital Rationing.

The formula to calculate the Profitability Index is:

PI = Present value of future cash inflows/ Present value of cash outflows

Accept-Reject Criteria: The project is accepted when the value of PI exceeds 1. If the value is equal to 1, then the firm is indifferent towards the project and in case the value is less than 1 the proposal is rejected.

3.0 Merits of Profitability Index

1. It takes into consideration, the Time Value of Money.

2. The profits are considered throughout the life of the project.

3. This method helps in giving the ranks to the projects.

4. It helps in assessing the risk involved in cash inflows through the cost of capital.

5. It also helps in assessing the increase or decrease in the firm's value due to the investments.

4.0 Demerits of profitability Index

1. Unlike the NPV, the Profitability Index may sometimes do not offer the correct decision with respect to the mutually exclusive projects.

2. The cost of capital is must to compute this ratio.

It is a modernized version of Net Present Value that shows the present value of future cash inflows over the present value of cash outlay. Whereas the NPV shows the difference between the present value of future cash inflows and the present value of cash outlay. Also, the NPV is an absolute measure, whereas the Profitability Index is a relative measure.

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Unit 7: Contemporary issues on entrepreneurship business growth and development

CONTENT

1.0 EVOLUTION OF ENTREPRENEURSHIP IN NIGERIA

In the beginning, entrepreneurship started when people produced more products than they needed, as such, they had to exchange these surpluses. For instance, if a blacksmith produced more hoes than he needed, he exchanges the surplus he had with what he had not but needed; maybe he needed some yams or goat etc. he would look for someone who needed his products to exchange with. By this way, producers came to realize that they can concentrate in their areas of production to produce more and then exchange with what they needed. So, through this exchange of products, entrepreneurship started. A typical Nigerian entrepreneur is a self-made man who might be said to have strong will to succeed, he might engage the services of others like; friends, mates, in-laws etc. to help him in his work or production. Through this way, Nigerians in the olden days were engaged in entrepreneurship.

Nigeria was traditionally an agricultural country, providing the bulk of its own food needs and exporting a variety of agricultural goods, notably palm oil, cacao/cocoa, rubber, and groundnuts (peanuts). At this time, the place called Nigeria had entrepreneurs who had the entrepreneurial mind-set prevalent at the time. The peoples of Hausa, Ibo, Yoruba and Benin all had their own entrepreneurs (13th-19thcentury), who were exposed to entrepreneurship opportunities outside their native areas. The Hausas had astute entrepreneurs who managed workers with skills in tanning, dyeing, weaving, and metalworking which were highly developed. The Hausas have long been famous for wide-ranging itinerant trading, and wealthy merchants shared the highest social positions with the politically powerful and the highly educated. In Hausa land, entrepreneurial success in Islam is not merely measured by the end result but also by the way and means of achieving them.

The Ibos also specialized in buying and selling goods and have perfected their entrepreneurial expertise in inventory control, management and distribution – which up till today, has remained their prevalent way of entrepreneuring. The Yoruba are predominantly town dwellers who practiced small-scale, domestic agriculture and are well known as traders and craftspeople. Since the 13th century, Yoruba artists have been producing masterpieces of woodcarving and bronze casting. Like the Ibos, the finished products were traded on as business ventures and enterprises The Portuguese, the first Europeans to traverse the coast of western Africa, were attracted to Benin City in 1486. The Oba established trading contacts with the Portuguese and initially sold them some war captives, which the Portuguese sold as slaves (another sad reminder) to the Akan of Asante (modern Ghana) in exchange for gold. Later, Benin's trade with Europeans in the 16th and 17th centuries was in palm oil, ivory, pepper, and textiles. Dutch traders to Benin City in the 17th century remarked about the astute entrepreneurs they met in Benin kingdom.

2.0 PROBLEMS OF ENTREPRENEURS

Entrepreneur's all over the world face some general problems, however between developing and developed countries variations exist.

Financial Problem

The key problem facing most entrepreneurs in Nigeria is that of lack of finance in new or an already existing business. Banks especially commercial banks which we expect to launch platform for financing the development of entrepreneurship or small and medium scale industries by the providing loans have failed to support them adequately.

The stiff collateral security demanded by the bank often means entrepreneurs loses the chances of obtaining the loans because they are unable to meet up the demand by the bank which worth more than the amount they want to borrow from the bank.

High interest rate charges on loans by banks scares off potential small and medium scale entrepreneurs.

Management Problem

Entrepreneurship provides the basic energy that moves the present market economy as new business around the world encourages competition and economic growth. At the early stage of entrepreneurship, about a quarter has a problem either on time control, setting goals, measuring performance, finding and retaining qualified employees, accessing and getting useful information.

Small business owner have the problem of mastering the art and science of managing their business which have posed problem to economic growth because they pay less attention to acquiring knowledge in managerial skills towards their business. The business management requires competent training in financial control, production, marketing, and leadership.

Marketing Problem

Marketing conditions, small business enterprises have numerous challenges because of their lack of knowledge for the proper technique related with procedures in marketing.

The knowledge and strengthening of small business marketing will benefit from factors like attitude and personality of the owner manager, also the inbuilt pliability and efficiency of small business management.

Baker (1979) and Doyle (1985) classified lack of marketing orientation as a major factor for failure in business. An entrepreneur that does not have the skills or the ideas about marketing in business tends to face marketing problem. Gwen (2003) Ability to cost effectively, advertise and actual selling are two top problems in marketing area. Among other problems in marketing for an entrepreneur are developing a market plan, identifying new opportunities, branding the firm, competition from large businesses, getting positive publicity, identifying the customers, implementing marketing strategies, understanding the customer, overcoming negative perceptions, effectively networking, getting business from large corporation, getting the decision maker, and developing new products and services.

Technology Problem

The technology problem for entrepreneurship has a lot of causes that worsen it. Basic physical infrastructure needed for economic development like good transport facilities, power supply are in a very bad shape in most developing countries consequently posing a problem to entrepreneurship. An example is the damage of equipment as a result of power surges and down time caused by unavailability of electric power during production hours.

Other Common Problems of Entrepreneurship in Nigeria

Some Entrepreneurship cease to exist within the initial three to six years of its existence while some struggle to survive up to ten years. These are caused by numerous reason which few will be mentioned like lack of infrastructures, irregular power supply, conducive educational and technical environment, lack of research and development, unfriendly fiscal policies, excess taxes and levies rates, inconsistencies of policies, high cost of funds due to high charges from bank in their interest rate, limited access to a long term fund, lack of skill and experience required, insecurity, competition with foreign products, restricted access to market, high cost of production as a result inadequate infrastructure, limited access to a long term fun, poor product quality output, lack of training or development for their staff.

3.0 RECENT DEVELOPMENT OF ENTREPRENEURSHIP IN NIGERIA

The role of government in entrepreneurship development in Nigeria became significant only after the Nigeria civil war (1967-70). Since the mid-1980s there has been an increased commitment of government to entrepreneurship development especially after the introduction of the Structural Adjustment Program (SAP) in 1986.

Added to this is the establishment of the National Directorate of Employment (NDE), National Open Apprenticeship Scheme (NOAS) and, the Small and Medium Enterprise Development Association of Nigeria (SMEDAN).

Fundamentally the Nigerian government promotes entrepreneurial culture through initiatives that build business confidence, positive attitude, pride in success, support and encouragement of new ideas, social responsibility, providing technological supports, encouraging inter-firm linkages and promotion of research and development.

In the early 2000s, entrepreneurship studies were introduced into the Nigerian educational system especially in higher institutions as a mandatory course. The Centre for Entrepreneurship Development (CED), which has the objective of teaching and encouraging students of higher institutions (especially in science, engineering and technological (SET)) to acquire entrepreneurial, innovative, and management skills, was established. The Centre's goal is to make the graduates self-employed, create job opportunities for others and to generate wealth.

At the end of the war the 2nd National Development Plan focused on the development of the 3Rs objectives of **Reconstruction, Re-development and Reconciliation**. The activities in the plan challenged/tasked the ingenuity and inventive skill of the individuals.

This early period witnessed an economic development ideology of industrialization as the ultimate source of economic growth, and industrialization itself as the product of technical progress and investment. Technical progress or capital growth on the other hand is seen to be a function of, and the result of, entrepreneurial effort. In particular, evidence from the developed world indicates that economic growth is entirely due to the quality and efficiency of the entrepreneur. Thus, after independence in 1960 there was the need by the government of Nigeria to promote indigenous entrepreneurs. The Government never loses sight of the tripartite relationship between entrepreneurship, industrialization and economic growth. Entrepreneurship is often carried out by micro and small-scale businesses and therefore SMEDAN's focus is on the development of micro, small and medium-scale enterprises (MSMEs) where it co-ordinates and integrates MSME activities in order to develop their full potential and competitiveness.

In the past forty years or so, the government had established various support institutions specially structured to provide succor and to assist SMEs to contend with some of the hurdles along their growth path. Some of these specialized institutions include the Nigerian Industrial Development

Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the National Economic Reconstruction Fund (NERFUND), the Nigerian Export-Import Bank (NEXIM), the National Directorate of Employment (NDE), Industrial Development Coordinating Centre (IDCC), Peoples Bank, Community Banks, Construction Bank, Family Economic Advancement Programme (FEAP), State Ministries of Industry SME schemes, the Nigerian Agricultural and Cooperative Development Bank (NACDB), BOI[bank 0f industry] etc. These support institutions and other incentives created by the government notwithstanding, policy instability and reversals in addition to high turnover and frequent changes in government have impacted negatively on the performance of the primary institutions responsible for policy formulation, monitoring and implementation resulting in distortions in the macro-economic structure, low productivity and dismal performance of SMEs. Other major problems which have contributed to the poor performance of SMEs include: limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, street urchins‟ harassments, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth, weak demand for products arising from low and dwindling consumer purchasing power, incidence of multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business and poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.

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