MODULE FOUR:
NEW VENTURE CREATION

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4.1 Feasibility Studies / Business Plan

4.1.1 Introduction -- Definition

A feasibility study is simply an evaluation of a proposal showing what, how and when the activities are to be carried out and to determine the difficulty involved. In providing answers to how the activities are to be carried out, feasibility study determines how the challenges are tackled. Generally, a feasibility study precedes technical development and project implementation. In other words, a feasibility study is an evaluation or analysis of the potential impact of a proposed project. Business feasibility study format can be as simple or complex as you desire. Simply, it is an examination of your business model, analysing the possibility of a profit or otherwise from your intended business.

A feasibility study is an evaluation of a proposal designed to determine the difficulty in carrying out the task of a project. Generally, a feasibility study precedes technical development and project implementation. In other words, a feasibility study is an evaluation or analysis of the potential impact of a proposed project.

A feasibility study is designed to provide an overview of the primary issues related to a business idea. The purpose is to identify any "make or break" issues that would prevent your business from being successful in the marketplace. In other words, a feasibility study determines whether the business idea makes sense.

As it is a report showing whether or not to proceed with the project and it is divided into four major parts or components, apart from the introduction. They are:

- Market environment - is there potential for your product or service to return a profit?
- Technical and operational requirements - what equipment or human resources will the business need to have access to, at what cost, in order to return a profit?
- Financial projections - what are the expected expenses and incomes of the business, including sales and advertising projections? How long will it be until the business breaks even?
- Economic contribution to community, society and the entire economy.

The next segment will give brief explanation on the four components

4.1.2 The Market Report

A business (or product/service) is assessed as feasible if it can be shown that there is sufficient market demand - that is, that you can show there are enough customers in your geographic/target market who will purchase a sufficient quantity of products/services to estimate that your business will return a profit.

A simple method of determining market demand is the 6 Step Market Potential Assessment

1. Are you selling to individuals, households or businesses?
2. What is the population of these customers in your target geographical location?
3. How much, in an average year, do customers spend on your product/service?
4. What are total sales for the region?
5. How much is currently purchased in the region?
6. Is there space in the market for new players?

This list of questions acts an initial 'screen' for your business concept. If at the end of the process you have decided that there is not space in the market (that being, your type of customers in your target location) then you should make a choice; either, target a different type of customer or different geographical catchment where there is space for your business; or drop the idea.

Many business owners fall into a trap of confusing zeal with ability. They are convinced that their product is so much bigger and better than the competition, that they believe they can enter a saturated market and survive... and they might. But in a financial arena where 80% or more of businesses do not survive the first five years, they would be wise not to subject their startup to the additional burden of trying to grow in a heavily competitive market. It is much better to be entering a market where demand outstrips supply - in this environment, customers are much more likely to buy your product, with less effort on your part.

Other important considerations include**:**

- What stage of the product life-cycle is the target population in? Is it a new industry? or mature industry? A mature industry may mean the market has been saturated, or that sales are no longer growing, and may even be falling.
- Is the market dominated by a few large players, or is it fragmented and met by hundreds of smaller players? A monopolised market (for example, grocery retail) is difficult to break into, as the major players have the financial backing to compete in the short term on price, until smaller businesses can no longer survive. Conversely, a fragmented market (such as mechanics or hairdressers) is much easier to establish - all that needs to be done is to find a geographic area that is not currently serviced.
- Is competition based around price or value? If the product has been commoditised and customers make their decisions based on price alone, it can be difficult for a new player to achieve sufficient sales to survive while they get established. However, if customers are looking for value, price is less important, and a smaller player who has superior customer service may be able to find a niche.

4.1.3 The Technical Report

A business is considered technically and operationally feasible if it has the necessary expertise, infrastructure and capital to develop, install, operate and maintain the proposed system, and that by establishing such a system, the business will be able to deliver goods or services at a profit.

When considering a new business, it is important to consider if there is sufficient access to resources. One of the primary reasons that make new business fail is under-capitalisation - not enough money to keep the business going from startup until it starts to make a profit. This can lead to a lack of resources.

Equipment:

- What type of equipment and technology will the business need to produce its product/service?
- What costs are involved to purchase and set up the equipment? What are the costs involved in the ongoing running of the equipment?

Suppliers:

- Who are the potential suppliers of the equipment?
- Where are they located?
- What sort of service and warranties do they provide?
- How long will it take to acquire the equipment and begin operations?

Materials:

- Based on your projected sales, how much raw materials will you need?
- What quality material do you need?

Raw materials:

- Who are the potential suppliers of the materials?
- Where are they located?
- What sort of service and guarantees do they provide?
- How long will it take to acquire the materials and begin operations?
- How much credit is accessible - can you easily set up an account with the suppliers?

Layout of Facilities:

- What are the possible locations for the facility (office/manufacturing plant)?
- What size facility is needed?
- What are the costs involved in the building? Do you need to fit it out? How much will it cost to get all necessary utilities connected?
- Does the proposed location have adequate access to infrastructure and services such as highways, railway and utilities?
- Will you need to build your own facility, or purchase an existing one?
- Where will the facility be located in relation to your customers?
- Who will be responsibile for transport of goods between the facility and the market? What are the costs involved?

Management:

- What organisational structure is appropriate for this business?
- How important are delivery contracts and a fixed source of supply to the success of the business?
- What qualifications are needed to manage operations?
- What are the key staff positions that need to be filled?
- What experience does management need to have?
- How easy is it to find potential candidates with the required qualifications and experience?
- How much will it cost to find AND retain acceptable candidates?

4.1.3 FINANCING REPORT:

The following costs and income should be considered:

a. What is total start-up costs needed in order to begin operations?
   i. Cost of land, plant and equipment
   ii. Legal costs in setting up a company structure
   iii. Accounting costs
b. What are the day-to-day operating costs involved? This will show you the cashflow requirements of the business.
   i. Wages
   ii. Rent
   iii. Utilities
   iv. Interest payment on debts
c. Based on estimated demand (sales) what is the business's projected income?
d. How will you determine your pricing arrangements?
e. What are the possible sources of financing? Who are potential lenders? What will their terms and limitations be?
   i. Bank loans
   ii. Accounts with suppliers
   iii. Venture capital
f. Based on estimated revenues and costs, what is the projected profit/loss of the business over the first five years?
g. When does the business break even? (Aim for no longer than 18 months)

If a business is able to 'pass' all of the above criteria, then there is potential for a successful business. However, it is important to remember - just because a business has potential, does not guarantee its success. The following are the attachment that make up the financial report in the Feasibility Study

ITEMS TO BE CONSIDERED FOR THE

I. CALCULATION OF INITIAL PROJECT COSTS

1. Preliminary and preoperative expenses
   a) Feasibility study
   b) Business plan
   c) Information gathering
   d) Consultation with funding partners/banks
   e) Business registration
   f) Promotion costs e.g. pilot staff expenses and running costs

Net total:

2. Land & property acquisition costs
   a) Purchase of land/building
   b) Costs of rent: Land/building
   c) Construction of building

i. Main factory/offices
ii. Society post
iii. Store

d) Construction of factory/layout
e) External layout

Net total

3. Cost of purchasing assets-fixed assets
   a) Plant/machinery/vehicles
   b) Equipment/refrigeration, display, etc
   c) Installation-plant and machinery, electrical fittings, plumbing works
   d) Generator
   e) Transformer/PHCN connections

Net total

4. Cost of working capital
   a) Raw materials
   b) Salaries and wages
   c) Utilities
   d) Transportation costs, etc
   e) Repairs and maintenance
   f) Environmental rates, permits, etc
   g) Others

Sub Total

Initial total cost

II. FINANCING PLAN

Debt/equity ratio 2:1	₦
Contribution from owners	x
Long term loan -3 years	x
Overdraft	x
Net total	xxx

III. PROJECTED CASH FLOW ANALYSIS

INFLOWS + OUTFLOWS

A. INFLOWS

S/N	ITEMS	YEAR 1 (₦000)	YEAR 2 (₦000)	YEAR 3 (₦000)	YEAR 4 (₦000)	YEAR 5 (₦000)
1	Capital contribution					
2	Long term loan					
3	Overdraft					
4	Sales					

	Total inflows					

B. OUTFOWS

S/N	ITEMS	YEAR 1 (₦000)	YEAR 2 (₦000)	YEAR 3 (₦000)	YEAR 4 (₦000)	YEAR 5 (₦000)
1	Preliminary expenses					
2	Rent of building					
3	Factory layout					
4	External layout					
5	Plant and machinery					
6	Equipments/installation					
7	PHCN installation/trans					
8	Generator					
9	Raw materials					
10	Salaries and wages					
11	Utilities					
12	Transport costs					
13	Repairs & maintenance					
14	Environmental rates					
15	Interest on loan 20%					
16	Loan repayment					
	Total outflows					
	Net cash flow (A-B)					
	Add opening balance b/f					
	Closing cash balance c/f					

PROJECTED PROFIT & LOSS Alc

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sales					
Less Cost of Goods Sold					
Gross Profit					
Less					
Rent paid					
Salaries					
Utilities					

Transport					
Repairs					
Rates					
Interest					
Depreciation					
Net Profit/loss					
Profit/loss (b/f)					
Accumulated profit/loss					

V. PROJECTED BALANCE SHEET

The format for constructing balance is as follows:

NAME OF COMPANY
STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
DECEMBER 31, 2017

Assets	**N**	**N**
Current assets:		
Cash…………………………………………………………………		00.0
Accounts receivables	00.00	
Less: Allowance for bad debts…………………………………..	(00.0)	00.0
Inventory……………………………………………………………		00.0

Prepaid expenses……………………………………………………		00.0
Total current assets…………………………………………….		00.0
Fixed assets:		
Plant and Equipment, original cost…………………………………..	00.0	
Less: Accumulated depreciation…………………………………	(00.0)	
Net Plant and Equipment………………………………………….		00.0
Total assets…………………………………………………………		00.0
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable……………………………………………….		00.0
Notes payable…………………………………………………..		00.0
Accrued expenses………………………………………………		00.0
Total current liabilities……………………………………...		0.00
Long term liabilities:		00.0
Stockholders' Contribution:		**00.0**
Total liabilities and stockholders' equity ………………………		00.0

4.1.4 THE ECONOMIC REPORT

One of the feasibility factors that need to be assessed is economic feasibility. Management can assess economic feasibility by doing the cost-benefit analysis, as well as using financial techniques, such as time value of money or break-even point analysis. A business or project may be regarded as economically feasible if it is able to produce goods/services and distribute them to the marketplace and still return a profit to the owners.

To assess economic feasibility, management has to analyze costs and benefits associated with the proposed project. The capital cost of a project affects the economic evaluation. Cost estimating is essentially an intuitive process that attempts to predict the final outcome of a future capital expenditure (Chen 1996). Even though it seem impossible to come up with the exact number of costs and benefits for a particular project during this initial phase of the development process, one should spend the adequate of time in estimating the costs and benefits of the project for comparison with other alternatives.

There are several economic evaluation methods available to assess an investment. The most widely used methods are Net Present Value (NPV) and Discounted Cash Flow Rate of Return, or Internal Rate of Return (IRR). Even though, NPV approach and IRR approach will normally provide the same decision result, polls of industry indicate that the IRR is the number one economic evaluation decision method use by about two-thirds of industrial companies (Chen 1996). This is due to the fact that some managers prefer a percentage rate of return more than the dollar amount from NPV.

Before calculating NPV and IRR, one should have an understanding of basic finance concept called "Time value of money". The concept of Time value of money is that a dollar today is worth more than a dollar available at a future date because a dollar today can be invested and earn a return. Someone investing a sum of money today at a given interest rate for a given period of time

would expect to have larger sum of money at the future date (Baker and Powell 2005). As different projects may provide benefits at the different time in the future, all costs and benefits of the projects should be viewed in relation to their present value.

A SUMMARY OF THE COMPONENTS OF FEASIBILITY REPORT AND PROJECT APPRAISAL

A. BACKGROUND INFORMATION

1) General Information

   a) Name b) Constitution and sector c) Location d) Nature of industry and product e). Promoters and their contribution f). Cost of project and means of finance

2) Promoters Details: Qualifications and Experience

B. MARKET REPORT

a) Product/Service Definition
b) Customers Target
c) Measure target market
   (i) Demand (ii) Supply. Competition (iii) Distribution. (iv) Pricing (v) Government Policies.
d) SWOT Analysis
e) Marketing and Selling Arrangements

C. Market Appraisal/ Report

The market appraisal attempts to answer two important questions.
(i) What is the size of the total market for the proposed product or service?
(ii) What is the product's share of total market?
To answer the questions, you have to consider the following issues:
(a) Past & present trends. (b) Present and prospective supply position.
(c) Level of imports and exports. (d) Structure of competition.
(e) Price and cross elasticity of demand (f) Consumer requirements.
(g) Production constraints.

C TECHNICAL REPORT

1) Production Process
a) Product and Capacity b) Plant and Machinery c) Raw Material d) Utilities
e) Technology / Process f) Alternatives g) New Developments h) Competing Technologies i) SWOT Analysis of technology
2) Technical Arrangement:
That is, Technical Partners, Mode of Training, Supply, Suppliers and Installations
3) Environmental Aspects
4) Schedule of Implementation
(i) Availability of the required quality and quantity of raw material.
(ii) Availability of utilities like power and water etc.

(iii) Appropriateness of the plant designs and layout.
(iv) The proposed technology vis a vis alternative technologies available.
(v) Optimality of scale of operations.
(vi) The technical specifications of plant and machinery in relation to the proposed technology.
(vii) Assembly line balancing. (viii) Selection of technology.
(ix) Manufacturing process. (x) Estimation of Inventory requirement.
(xi) Raw Material Survey. (xii) Selection of equipment. (xiii) Plant Layout. (xiv) Plant Capacity
(a) Installed capacity. (b) Capacity Utilization.
(xv) Utilities – Availability.
(a) Water (b) Electricity (c) Other Utilities.
(xvi) Estimation of manpower needs. (xvii) Estimation of Building needs.
(xiii) Selection of project location.
(a) Nature of land. b) Nature of raw material. (c) Utilities (d) Effluent disposal. (e) Transport.
(f) Labour.

D FINANCIAL REPORT

a) Cost Details
b) Working Capital
c) Means of Finance
d) Profitability Estimates
e) Assumption
f) Projections
   i) Projected Income Statement
   ii) Projected Balance Sheet
   iii) Projected Cash Flow Statement
   iv) Coverage Ratio's
   v) Break Even Analysis
   vi) Projected Revenue and cost
   vii) Sensitivity analysis: Payback period, NPV, Rate of return.
   viii) Internal Rate of Return.

E) Economic Consideration

(i) Impact of the project on the distribution of income in the society.
(ii) Impact of project on the level savings and investment in the society and socially desirable objectives like self-sufficiently, employment etc.
(iii) Contribution of project.
(iv) Employment generated in the society

4.1.5. BUSINESS PLAN

There is always the challenge of considering Feasibility Study Report as same as Business Plan, more so that the line of demarcation is very thin. However, the starting point is to know that the Feasibility Report is the foundation for writing a Business Plan. It is difficult to write a Business

Plan without first preparing a Feasibility Report. The Business Plan which is like the icing on the cake, depicts how the events stated in the Feasibility Report will take place given a time framework.
In summary, a Business Plan is made of four major components, which are:

i. Executive summary
ii. Company description
iii. Objective statement or business goals
iv. Business and management structure
v. Products and services
vi. Marketing and sales plan
vii. Business financial analysis
viii. Financial projections
ix. Appendix

References

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4.3 Participation in the Nigerian Business Environment: Regulatory and Legal Framework.

Introduction

In Nigeria, there are quite a number of legislation that governs the Nigerian business environment. The era of globalization has brought the need for a robust legal regime to govern the activities of businesses at the door step of government and her agencies. As such it has become a herculean task to carry on any type of business without facing the hurdles of registration.

The law provided a window period of 28days, after which any business in operation is required to register or else it will become impossible to enforce any contract against a third party, but the existing third party is not bound by such legal restraint and such can proceed to enforce an action against the business man.

The government has an economic agenda which is to among other things curb inflation, deflation, provide comprehensive fiscal and monetary framework, stabilise the exchange rate, improve balance of trade and drive economic growth and development through whatever means legally possible. To this end, government at various times have been seen scouting for foreign investment to boast her economy. Full or partial ownership of businesses by foreign investor is now permitted.

Relevant Laws Governing Corporate Business Operation in Nigeria

- The Companies and Allied Matters Act CAP C20, Laws of the Federation of Nigeria (LFN) 2004;
- The National Office of Technology Acquisition and Promotion Act CAP N62, LFN 2004 (NOTAP Act);
- The Companies Income (Amendment) Tax Act 2007
- Capital Gains Tax Act CAP C1,

Regulatory Bodies

For companies wishing to operate in certain sectors, there are specific Nigerian agencies that have been set up by the Government to regulate the companies that provide goods and services within those specific sectors.

These agencies have powers to set out the requirements to operate in the relevant sectors, guidelines for operations, and sanctions for non-compliance. A few of them include:

1. Central Bank of Nigeria
2. Securities and Exchange Commission
3. National Agency for Food Drug and Cosmetics
4. Nigerian Communications Commission
5. National Office for Technology Acquisition and Promotion
6. Standards Organisation of Nigeria
7. Consumer Protection Council

Role of the Corporate Affairs Commission

The Corporate Affairs Commission (CAC) was established under the Companies and Allied Matters Act (CAMA), 1990. The Commission is the Agency of Government charged with, amongst other responsibilities, the regulation and supervision of the formation, incorporation, registration and management of Companies, Business Names and Incorporated Trustees. The Commission also regulates and supervises the striking off and winding up of Companies, removal of Business Names from the register and dissolution of Incorporated Trustees.

The Commission has its Head Offices in Abuja and offices in all the States of the Federation and section 7 (1) par a-e of the companies and allied matters act specifies the functions performed by the Corporate Affairs Commission

The services offered by the Commission include the following:

a. Regulation and supervision of the formation, incorporation, registration and management of Companies, Business Names and Incorporated Trustees
b. Registration of changes, amendments and alterations in particulars of Companies, Business Names and Incorporated Trustees
c. Repository for statutory records of Companies, Business Names and Incorporated Trustees including annual reports of exempted foreign companies and annual returns of Companies, Business Names and Incorporated Trustees
d. Searches

e. Issuance of certified true copies of certificates and extracts of filed documents
f. Enforcement of compliance of Companies, Business Names and Incorporated Trustees with the provisions of CAMA
g. Conducting investigations into the affairs of Companies, Business Names or Incorporated Trustees
h. Registration of changes in share capital, mortgages, debentures, charges, etc.
i. Registration of appointment/discharge of Receiver/Manager
j. Registration of appointment of Liquidator
k. Regulation and supervision of the striking off and winding up of Companies, removal of Business Names from register and dissolution of Incorporated Trustees
l. Express incorporation of Company
m. Accreditation of Lawyers, Chartered Accountants and Chartered Secretaries as direct users of the services of the Commission
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Forms of Business Investment Platforms in Nigeria

Businesses are conducted in Nigeria are conducted using various platforms, the following are some of the means through which businesses are conducted

1. Sole proprietorship
2. Partnership business
3. Company
4. Free Trade Zones (FTZ)

Sole Proprietorship

This is a kind of business owned exclusively by one individual, in this form of business platform; there is no legal distinction between the owner and the business. The owner is entitled to all profits and responsible for all business debt, loses and liability. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. It is a "sole" proprietorship in contrast with partnerships (which have at least two owners).A sole proprietor may use a trade name or business name other than his, her, or its legal name.

Advantages of running a sole proprietorship business

1. The process of registration is generally uncomplicated. It is covered by part B of the Companies and Allied Matters Act, which allows the entrepreneur or legal practitioner acting on his behalf to approach the corporate affairs commission and obtain a registration form upon payment of a fee, fill it and attach his passport. The form will require the business man to provide his address, nature of business to be carried out.
2. It affords the entrepreneur the opportunity to own the name of the business as an intellectual property only available to him for future incorporation

3. It provides competitive leverage for the business man, because he now operates within a legal framework.
4. Sole proprietors are the sole owners of their businesses and do not split profits with other owners. One hundred percent profit retention allows sole proprietors to use the money at their discretion. You can choose to reinvest the money back into the business to expand the company, start another business or use it for personal reasons.

Disadvantages

1. The owner carries the financial responsibility for all debts and/or losses suffered by the business, to the extent of using personal or other assets, to discharge any outstanding liabilities.
2. The owner is exclusively liable for all business activities conducted by the sole proprietorship and accordingly, entitled to full control and all earnings associated with it as such he is susceptible to wear out because they mostly work alone since they occupy the position of manager and owner.
3. Raising capital from outside sources is a cumbersome task
4. Sole proprietors are in charge of every aspect of the business, including product and service development and delivery, marketing, accounting and customer service. Most sole proprietors are knowledgeable about their business product or service, but have limited knowledge or experience in the other areas. This lack of expertise can slow and even limit growth. Further, there is only so much a single person can accomplish. At some point, owners max out the amount of time they can spend on business activities and can't grow without adding more manpower to the business.
5. The success of most sole proprietorships is so closely tied to the owner that the business may be unable to survive the loss of the owner through illness or death. While sole proprietorships can be sold or transferred to heirs, they often struggle to survive because the new owners lack the knowledge to keep them going or the customers' loyalties were to the original owner and not the business.

Partnership Business

The partnership law of each state provides direction for the operation of partnership business; this was largely the position at the period preceding the draft partnership law prepared by the Law Reform Commission in 1990. The business of partnership is still under the purview of the Corporate Affairs commission, but nuances on the operation of this form of business is still dictated by each state of the federation. This is because it is covered in the concurrent legislative list in the constitution of the federal republic of Nigeria and as such it is a matter both state and federal government are competent to legislate on. But in reality, the core issues in this form of business are comprehensively the same in all states of the federation.

Forms of Partnership

There are two forms of partnerships, general partnership and limited partnerships. There are three essential elements to a general partnership:

1. a sharing of profits and losses,

2. a joint ownership of the business, and
3. An equal right in the management of the business.

In a limited partnership there is one general partner and one or more limited partners. The general partner assumes the responsibility for the management of the business and the limited partner contributes only assets to the business, while having no role in the company's management.

Advantages of a General Partnership:

1. Businesses as partnerships do not have to pay income tax; each partner files the profits or losses of the business on his or her own personal income tax return. This way the business does not get taxed separately.
2. Easy to establish.
3. There is an increased ability to raise funds when there is more than one owner
4. Wider pool of knowledge, skills, and contacts.
5. Improved management with more than one owner.

Disadvantages of a General Partnership:

1. Partners are jointly and severally liable for the actions of other partnership obligations including contracts, torts, and breaches of trust. Joint and several liability means that if a third party were to sue the partners; the third party can sue any one of the partners without suing all of them. If a partner has been sued but cannot pay the third party the full amount, the third party may collect the money from the remaining partners.
2. Each partner is individually liable for the debts and obligations of the business; if the business does not have enough assets to pay back business debts, creditors can take the personal assets of the partners.
3. A partner cannot transfer interest in the business without the unanimous consent of the partners.
4. Partnerships can potentially be unstable because of the danger of dissolution if one partner wants to withdraw from the business or dies.

Advantages of a Limited Partnership:

1. Being a limited partner puts a limitation on liability with respect both to potential lawsuits and money; the limited partner is only going to be liable for the amount of capital it contributed to the business; a business creditor cannot come after the limited partner's personal assets.
2. Easier to attract investors because limited partners have limited liability to the business debts.
3. Profits and losses pass through the business to the partners, who are taxed on their own personal income tax returns.
4. Limited partners get to share in the profits and losses without having to participate in the business itself.

Disadvantages of a Limited Partnership:

1. If the limited partner becomes active in the business he or she may have general-partner personal liability.

2. General partner is personally fully liable for the debts of the business

Registered Companies

The Companies and Allied Matters Act provides the entrepreneurs with the opportunity to register three broad category of companies for the purpose of carrying out profitable business or objectives for the owners-

1. A company limited by shares
2. A company limited by guarantee
3. An unlimited company

Private companies (LTD)

A private company is a company which is stated in its memorandum and articles of association to be a private company. It must by its articles restrict the transfer of its shares. This means that is prohibited from inviting the public to subscribe for any of its share or debenture, its membership shall not be less than 2 and must not be more than 50.

Any company other than a private company shall be a public company and its memorandum of association shall state that it is a public company - S. 24 of CAMA

From the foregoing general classification of companies, the following different types of companies may be identified under the Act:

a. Public Company limited by shares
b. Private Company limited by shares
c. Public Company limited by guarantee
d. Private Company limited by guarantee
e. Public Unlimited company
f. Private unlimited company.

The cost of incorporating a private company is smaller relative to a public company. The minimum authorized share capital of a private company is N10, 000 while that of a public company is N500, 000 and the Act requires that at least 25% must be taken by initial subscribers.

Requirements for registration of a company shall include the following:

1. evidence of approval of name
2. duly completed set of incorporation forms
3. duly stamped Memorandum and Articles of Association
4. evidence of consent letter (where applicable)
5. proficiency certificate (where applicable)
6. residence permit in case of resident foreigners
7. photocopy of duly verified Particulars of Directors, Statement of Share Capital and Return of Allotment of Shares together with Memorandum and Articles of Association for certification as true copies
8. duly signed and sealed resolution of the company authorising the subscription where a company subscribes to the Memorandum and Articles of Association

Formation of Companies

Right to Form a Company - SS. 18/20 of CAMA

Any two or more persons may form and incorporate a company whether private or public. However, the following persons shall not join in the formation of a company:

1. A person who is less than 18 years of age, unless there are two other persons of full age and capacity who have already subscribe to the memorandum.
2. A person who is of unsound mind.
3. An undercharged bankrupt
4. A person disqualified under S.254 of the Act from being a director of a company(i.e. fraudulent persons)
5. A corporate body in liquidation

Choice of Name

Once two or more persons have agreed to form a company, the first step for them to take is to choose a name for the proposed company. Normally, two names are chosen - the preferred name and the alternative name. The name may be the individuals' personal names or a combination of names of the promoters. It may also be invented or coined names, geographical names or generic names. It is advisable to conduct a preliminary on-the-desk search for the availability of the name using the directory of registered companies published by the Corporate Affairs Commission (CAC),

Prohibited and Restricted Names - S.30 of CAMA

Although the promoters of a company are free to choose any name for their companies, there are certain names that they are prohibited from choosing. Similarly, there are other categories of names and/words that cannot be used by them except if requisite consent be first obtained.

Accordingly, no company shall be registered by a name which:

i. Is identical or so closely resembles a name by which an existing company is registered
ii. Contains the word "chambers of commerce" unless it is a company limited by guarantee
iii. Is capable of misleading as to the true nature or extent of its activities
iv. Is offensive, undesirable or otherwise contrary to public policy
v. Would violate any existing trademark or business name unless the consent of the owner of the trademark or business has been obtained.

Restricted Names

Names that contain any of the following words:

1. Federal, National, Regional or State Government or suggest patronage of Federal or State Government, Ministry or Department
2. Municipal or Chartered or suggest connection with any municipality or other local authority
3. Co-operative or Building Society
4. Group or Holding

5. any word suggesting temporary business arrangement, e.g. consortium

Free Trade Zones (FTZ)

The Free Trade Zones are designed to attract foreign direct investment (FDI). There are presently 31 FTZs with 14 operational and 17 under construction as at April 2015. Notable amongst the operational FTZs are: Calabar Free Zone, Kano Free Zone, Lekki Free Zone, Tinapa Free Zone and Tourism Resort, Onne Oil and Gas Export Free Zone, Olokola Free Zone.

Foreign investors can setup business directly in FTZ without necessarily incorporating a company in the customs territory. Registered companies are also eligible to register separately and do operation in an FTZ entity.

An FTZ entity enjoy the benefits of 100% capital and profit repatriation, exemption from all federal, state and local government taxes, levies and rates and waivers on customs and import duties.

Compliance requirement for Business operation

1. **Companies and Allied matter Act**

The submission of Annual report for both private and public company is mandatory and compulsory. And this becomes due after the first 12months of operations. There are provisions for 3 months extension after the end of the accounting year within which the annual general meeting of the company must have been held.

Failure to file annual returns attracts penalty, and the worst case scenario is for the names of the defaulting company to be expunged from the register of companies where they fail to file annual returns for a period of 3 consecutive years.

2. **The Company and Income Tax Act**

This Act provides for the imposition of tax on companies, and that tax shall be payable, for each year of assessment, at specified rates on the profits of any company, accruing in, derived from, brought into or received in Nigeria.

Companies Income Tax is chargeable at a rate of 30% of a company's profits. Newly registered companies have up to 18 months after registration, or no later than six months after the end of the first accounting period, whichever is earlier, to file tax returns.

In addition to the above, the Act mandates a person (i.e. a body corporate or incorporate, government ministry, department etc.) to deduct at source withholding tax, to remit the tax deduction to the relevant office of the Federal Inland Revenue Service and to issue a receipt for the tax so deducted.

The receipt should contain information including the nature of service or activity in respect of which payment was made, the gross amount paid or payable, the amount of tax deducted and the period to which the payment relates. The receipt is evidence of tax deduction upon which a company from whom tax is deducted may claim tax credit for the tax so deducted from the relevant tax authority.

Currently, the rates of withholding taxes that are to be deducted at sources are between 5% and 10%. Such rates may vary depending on the type of payments for which withholding tax is deductible.
It is worthy of note that non-resident companies are subject to withholding tax deductions on the income they earn from Nigeria.

3. Capital Gains Tax

The Capital Gains Tax Act regulates capital gains tax in Nigeria. Capital gains tax is payable on gains that accrue to any person on a disposal of assets for the year of assessment.
The tax is chargeable on all forms of property (including options, debts, incorporeal etc.) whether or not it is situated in Nigeria. It is, however, useful to state that capital gains tax will be charged on assets situated outside Nigeria if any amount thereof is received or brought into Nigeria.
The rate of capital gains tax is 10%. Capital gains tax is not chargeable on gains arising from the acquisition of the shares of a company that is either taken over, absorbed or merged.
The following organisations and government bodies are exempted from paying capital gains:

- Ecclesiastical, charitable or educational institutions of a public character;
- Any statutory or registered friendly society;
- Any cooperative society under the cooperative societies law of any state;
- Any trade union registered under the Trade Unions Act; and
- Local government councils.

4. Value-Added Tax Act

This Act requires companies to pay taxes on goods and services which are consumed by individuals, corporate organisations and others. Value-added tax is charged at a rate of 5% on the value of all goods and services except for certain exempted goods and services, as well as "zero-rated" goods, the latter having been listed in the Act as non-oil exports, goods and services purchased by diplomats, and goods purchased for Nigeria in humanitarian projects.

5. Labour Law

The main law that governs the labour sector in Nigeria is the Labour Act. The Act, however, is limited in scope to persons who are defined as "workers" – i.e. persons who do not exercise any administrative, executive, technical or professional functions; in other words, the Act is only applicable to junior level workers performing manual labour or clerical duties.
The employment of all other professional employees is governed by their individual contracts of employments and policies and procedures of the company incorporated by reference to their respective contracts of employment.
Trade Unions: The formation, registration and organisation of trade unions in Nigeria are regulated by the Trade Unions Act. This Act amended the Trade Unions Acts of 1978 and 1996 as amended, and further liberalised the labour movement and trade unionism in Nigeria, for example by granting employees the freedom to decide which unions they wish to join.
It is pertinent to mention that the Trade Unions Amendment Act of 2005 does not replace the principal Act, which is known as the Trade Union Act, but rather supplements and amends it. Some affected areas include the following: Voluntarism: Membership of trade unions by employees shall be voluntary, and no employee shall be forced to join a trade union or be victimised for refusing

to join or to remain a member. Payment of dues: Trade Unions shall pay to the appropriate registered federation of trade unions such sums as may from time to time be specified in the constitution of the registered federation of trade union concerned. These payments shall be made from contributions received from the members of the trade union. Ban on strike or lock-out: No person, trade union or employer shall take part in a strike or lock-out or engage in any conduct in contemplation or furtherance of a strike or lock-out unless the following conditions have been met:

- The person, trade union or employer is not engaged in the provision of essential services.
- The strike or lock-out concerns a labour dispute that constitutes a dispute of right.
- The strike or lock-out concerns a dispute arising from a collective and fundamental breach of an employment contract or collective agreement on the part of an employee, employer or trade union.
- The provisions for arbitration in the Trade Disputes Act Cap 432 1990 have first been complied with.
- In the case of an employee or a trade union, a ballot has been conducted in accordance with the rules and constitution of the trade union at which a simple majority of all registered members voted to go on strike.

6. **Trade Disputes**: The Trade Disputes Act regulates the settlement of trade disputes and makes it unlawful for any person to commence an action which concerns a trade dispute, or a dispute between unions or within a trade union, in a court of law, breach of which renders the offender liable to a fine, imprisonment or both. The exclusive jurisdiction for matters involving trade disputes rests with the National Industrial Court, which was established by the National Industrial Court Act 2006.

Employee safety in the workplace: The Factories Act and the Employees' Compensation Act (ECA) seek to protect employees working in potentially hazardous conditions and to regulate the payment of compensation to employees who are injured in the course of their employment.

The Factories Act requires factories whose employees are exposed to occupational hazards to be registered and also provides regulations for the safety of workers, as well as imposing penalties for any breaches of the regulations.

The ECA stipulates a specific set of categories of workplace injury for which an employer will be liable to the employee; it also regulates the payment of compensation to those employees (both in the public and private sectors) who are injured in the course of their employment.

The ECA establishes the Employees' Compensation Fund, into which employers are required to make prescribed contributions. The fund is managed by the Management Board of the Nigeria Social Insurance Trust Fund, in the interest of employees and employers.

7. **Intellectual Property (IP) Protection**

The Nigerian legal system affords protection to IP rights in the following categories – copyright, trademark, and patents.

Copyright

A copyright is a legal right that grants the creator of an original work exclusive right to its use and distribution, usually for a limited time. The exclusive rights are not absolute; they are subject to certain limitations.

In Nigeria, the primary piece of legislation for copyright is the Copyright Act, and the body charged with the enforcement and protection of copyright is the Nigerian Copyright Commission (NCC).

The ownership of copyright is vested in the creator of a copyright work, usually referred to as the "author" of the work. He/she owns the copyright in the work in the first instance. However, the author is at liberty to transfer his rights to a third party. In such a case, the person who has obtained the right by transfer or other legal means becomes the owner of copyright.

The Scope of copyright protection

1. Literary works;
2. Musical works;
3. Artistic works;
4. Cinematograph works;
5. Sound recording; and
6. Broadcasts

For it to be eligible for copyright protection, the work must be sufficiently original, and must be in a form which is expressed e.g. in writing, a painting, a musical recording etc. You can't have copyright protection over something in your head, which has not been expressed. Originality and expression are the key pillars for eligibility. It should be noted that registering for copyright is not a precondition for protection. You do not have to register your copyright. Copyright subsists automatically in a work from the moment the work is created.

However, the NCC has established a voluntary copyright registration scheme designed to enable authors and right owners notify the Commission of the creation and existence of a work.

The NCC justifies the establishment of this scheme based on the following benefits:

1. It provides an independent source of verifying data relating to a work or its author to the general public;
2. The acknowledgement certificate issued provides prima facie evidence of the facts shown on it;
3. It provides a depository for preserving original copies of works notified;
4. The information and data contained in the Notification database offers reliable rights management information to members of the public and prospective licensees to the work

Process for registering a copyright

You can register a copyright with the NCC by submitting a completed registration form, along with two (2) copies of the work, and evidence of payment of the prescribed fee. Registration can be done online or physically at the NCC office.

Trademark

A trademark is a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of the goods of one party from those of others. Once a trademark is registered, it enables the trademark owner to amongst other things- take legal action against anyone who uses the registered mark without permission, sell and/or license the registered trademark (so in a sense it becomes an asset), and allows the owner to legally put the ® symbol next to the brand – to show ownership and warn others against using it.
In Nigeria, the legislation, which governs the registration of trademarks, is the Trade Marks Act (and the Trade Mark Regulations made pursuant to it). The government agency that is in charge of the registration of trademarks is the Trademarks, Patents and Designs Registry, Commercial Law Department, Federal Ministry of Industry, Trade and Investment. Applications are made to the Registrar of Trade Marks.

Eligible item for trademark registration

1. Device, brand, heading, label, ticket, name, signature, word, letter, numeral, or any combination thereof;

For it to be eligible for registration it must contain or consist of at least one of the following essential particulars –

1. the name of a company, individual, or firm, represented in a special or particular manner;
2. the signature of the applicant for registration or some predecessor in his business;
3. an invented word or invented words;
4. a word or words having no direct reference to the character or quality of the goods, and not being according to its ordinary signification a geographical name or a surname;
5. any other **distinctive** mark

Importance of Registering a Trademark

In order to have exclusive use of your trademark, it is imperative that you register it. Unlike with copyright, protection does not vest automatically in the owner. Not registering a trademark would mean that you do not have exclusive right to use it. If someone were to use the same mark as you, the only recourse you would potentially have would be an action for the tort of passing off. So, yes you should register your trademark.

Process for registering a Trademark

The Trademark registration process can be broken into 3 general stages:

1. Availability Search – You conduct a search to determine whether there are registered marks that are similar to your proposed mark. The outcome of the search will help you determine whether the proposed mark may be registered or not.
2. Trademark Application – If there is no similar mark, you may apply for registration. If the application is deemed registrable, the registry issues a Letter of Acceptance that serves as an approval in principle. After the acceptance has been issued, the mark is advertised in the Trademarks journal published by the Trademarks Office.
3. Application for Certificate – Once the proposed mark has been advertised, an interested party may oppose the registration of the mark within 2 months of the advertised journal. If

the mark is not opposed within 2 months, you may then apply to the Registrar for a Trademark Certificate.

A trademark is valid for an initial period of 7 years, and then for further renewable in 14-year periods.

Patent

A patent is an exclusive right granted for an invention, which is a product or a process that provides a new way of doing something, or offers a new technical solution to a problem.

A patent basically grants the inventor a temporary but exclusive monopoly of the commercial exploitation of that invention. It gives the inventor the right to exclude others from making, using, or selling the claimed invention in that country without their consent, for the duration of the patent. In Nigeria, the primary legislation that governs the grant of patents is the Patents and Designs Act. The Government agency that manages the grant of patents is the Trademarks, Patents and Designs Registry, Commercial Law Department, Federal Ministry Of Industry, Trade And Investment. Applications are made to the Registrar of Patents and Copyrights.

Eligibility for Patent registration

Patents are granted for the invention of products or processes. However, for it to be patentable, the invention

1. Must be new,
2. Must have an inventive step that is not obvious to someone with knowledge and experience in the subject,
3. Must be capable of being made or used in some kind of industry and not be, a scientific or mathematical discovery, theory or method, a literary, dramatic, musical or artistic work, a way of performing a mental act, playing a game or doing business, the presentation of information, or some computer programs, an animal or plant variety, a method of medical treatment or diagnosis,
4. And must not be against public policy or morality.

Need to register a Patent

Yes. In order to be able to exclusively commercially exploit an invention, it must be patented. The rights to a patent are vested in the "Statutory Inventor" i.e. the first person to file and register the patent. However, the law in Section 2(2) of the Act enables the possibility of redress by reassigning the rights to an invention, to a person who is adjudged to be the true inventor whether or not he is the first to register a product.

Process for registering a Patent

To make a patent application in Nigeria, the first step is to ensure the invention has not already been patented, by conducting a search. If the result of the search is positive, then the application is made:

1. A petition or request for a patent signed by the applicant or his agent and containing the applicant's full name and address;

2. a specification, including a claim or claims in duplicate; plans and drawings, if any, in duplicate;
3. where appropriate, a declaration signed by the true inventor requesting that he be mentioned as such in the patent and giving his name and address;
4. a signed power of attorney or authorization of agent if the application is made by an agent;
5. an address for service in Nigeria if the applicant's address is outside Nigeria; and payment of the prescribed fee.
6. Once granted, a patent is valid for 20 years.

8. Weight and Measures Act

Section 6(1) and Section 38(1) of the Act provides expressly that the units of measurement shall be Metric. As such any measurement, weights or length not in metric is illegal.

Conclusion

The investment climate in Nigeria is relatively conducive for the advancement of business interest of both domestic and local actors. However, government is required to ensure that the processes of registering new companies are not cumbersome, if this is attained, it will encourage the emergence of small business that are willing to establish legal frameworks for the operations of their business.

Inter- agency cooperation and participation is paramount to a healthy legal climate for business participation. The synergy of bodies such as FIRS, PENCOM, NAFDAC, SON etc. will provide the needed boast for a healthy business environment in terms of compliance to legal requirement and standard.

4.3 Business documentation and Entrepreneurial Financing

Learning Objectives

After studying this chapter, readers will be able to:

- ✓ Conceptualize financing and entrepreneurial financing.
- ✓ State financial limitations in entrepreneurship.
- ✓ Determine the financial needs of an entrepreneur.
- ✓ State entrepreneurial financing options and choices.
- ✓ Explain sources of entrepreneurial financing and entrepreneurial financial planning.

Introduction

Generation of business idea abounds in today's world and given the present level of poverty and inequalities around the world, a way out of these disadvantages would be to embrace entrepreneurship. However, one of the major hindrances to entrepreneurial efforts is the availability of finance. Business growth depends to a large extent on availability of funds. This is more so because, the implementation of new innovation (new method; new process, new materials, new market, new products or new organizational structures) cannot be successfully done without adequate financing. The production of goods and service in a most efficient manner has continued to be the only viable and reliable option of growth, development, and survival of world economies,

and given the importance of production, it is impossible to attain a high productive level without a well developed and well financed industrial sector. Thus all businesses, whether they are currently start-ups through entrepreneurial efforts, or whether they are well established organizations (acting as major players in the international market), the concept of finance and the need for entrepreneurial financing remains a critical influence for overall performance and success.

Concept of Financing

Financing is the act of providing funds for business activities, making purchases or investing. Financial institution and banks are in the business of financing as they provide capital to businesses, entrepreneurs, consumers and investors to help them achieve their goals. Financing can also be regarded as the act of borrowing money from a financial institution for a fee or interest over a set time. People borrow money for a variety of reasons - to purchase homes, cars, starting up a business, to meet individual needs or to generally make the purchases. Thus, financing is borrowing money with a promise to repay the money with some additional fee (interest) over a period of time.

Financing can also be viewed as a large variety of financing techniques that businesses and consumers can use to receive financing, ranging from credit notes to obtaining facilities such as bank loans. The use of financing is very vital in any economic system as it allows consumers to purchase products out of their immediate reach, like homes, and business to finance large investment projects.

Concept of Entrepreneurial Financing

Entrepreneurial finance is the study of value and resource allocation, applied to new ventures. It addresses key questions which challenge all entrepreneurs: how much money can and should be raised; when should it be raised and from whom; what is a reasonable valuation of the start-up; and how funding contracts and exit decisions should be structured. Entrepreneurial financing is primarily designed for would be entrepreneurs who plan to get involved with a new venture at some point in their career - as a founder, early employee, advisor or investor. It also involves gaining a broader view of the financing landscape for young firms, going beyond the basics of venture capital an angel financing to look at venture debt, bank finance, corporate venture capital and receivable financing.

Entrepreneurial financing focuses on the financing decisions of entrepreneurs and emphasizes the identification and valuing entrepreneurial business opportunities. It provides the basis for addressing how and from whom entrepreneurs raise funds and how financial contracts are structured to manage risk and align incentives, so that entrepreneurs can harvest success and value as well as creating the best conditions for financing high growth business. Some of the facts about entrepreneurial financing includes the fact that it:

- Enables an entrepreneur to apply what he has learnt to handling the business needs and to truly understand what success really looks like.
- Boost the confidence of the entrepreneur to do business in different culture and market.
- Helps to build valuable networks and enhances future deal flow through a wider and more dynamic business network.

- With the knowledge of entrepreneurial financing, becoming an entrepreneur will no longer be difficult, and raising capital to fund the entrepreneurial journey becomes less challenging.

Financial Limitations in Entrepreneurship

Many entrepreneurs discover they need to attract money to fully commercialize their concepts. Thus they must find investors – such as their own employer, a bank, an angel investor, a venture capital fund, a public stock offering or some other source of financing. When dealing with most classic sources of funding, entrepreneurs face numerous challenges such as; scepticism towards the business and financial plans, requests for large equity stakes, tight control and managerial influence and limited understanding of the characteristic growth process that start-ups experience. On the other hand, entrepreneurs must understand a number of basic problems that can limit investors' willingness to invest capital, which includes:

A) Uncertainty about the future: This is in terms of start-ups development possibilities and market and industry trends, suggesting that the greater the uncertainty of a venture or a project, the greater the distribution of possible outcomes.

B) Information Gaps: This relates to differences in what various players know about a company's investment decisions.

C) Soft Assets: Soft assets refer to those assets which are unique and rarely have markets that allow for the measure of their value. Thus, lenders are less willing to provide credit against such an asset.

D) Volatility of current market conditions: Given today's global market conditions, financial and product markets can change overnight, affecting a venture's current value and its potential profitability.

Determining the Financial Need of an Entrepreneur

The first step in raising capital is to understand how much capital the venture needs to raise. Successful businesses anticipate their future cash needs, make plans and execute capital acquisition strategies well before they find themselves in a cash crunch. Consequently, there are three basic axioms that guide start-up or new ventures in their processes of fund raising:

- As businesses grow, they often go through several rounds or stages of financing. These rounds are targeted to specific phases of the company's growth and require different strategies and types of investors.
- Raising capital is an on-going issue for every venture.
- Capital acquisition takes time and needs to be planned accordingly.

Entrepreneurial Financing Option and Choices

Finance is the lifeblood of every company, but for new firms, capital is especially critical. That is why a discussion with any entrepreneur about the greatest challenge being faced by the new venture, will most likely lead the conversation into a discourse on capital or finances. Realizing this, policymakers have pursued a wide variety of strategies, from government grants to investment

funds to special tax breaks. Even with these measures, most firms rely on private external financing in two forms: debt and equity.
Debt dominates for the typical firm, and banks dominate among other forms of debt. Indeed, the primary source of capital for young firms is banks, eclipsing all other sources of financing. A larger percentage of the initial start-up capital in a new business is debt that originates from banks. Small banks, in particular, excel at lending to entrepreneurs, as they specialize in soft information that can substitute for more traditional measures of risk. Equity is much rarer, but can be more impactful. The main sources of equity financing are angel investors and venture capitalists, which finance a lower percentage of new firms. Despite their undersized presence, active investors can add tremendous value to companies through their expertise, networks, and guidance.
Aside from these forms of finance, young firms are increasingly using non-traditional channels to raise capital, such as cooperatives, while other sources like accelerators, government prizes, and grants round out the funding mix, thus where and how an entrepreneur finance an operation, can be the difference between dominance and failure of the business. In addition, a number of critical determinants of the financial need of a venture subsist and four of these critical determinants of the financial need of a venture are enumerated below:

- Determination of projected sales, their growth and the profitability level.
- Calculation of start-up costs (one-time costs).
- Estimation of recurring costs.
- Projection of working capital (inventory, credit and payment policies), as this determines the cash needed to maintain the day-to-day business.

Sources of Entrepreneurial Financing

An entrepreneur might face the major hurdle of acquiring financing to jumpstart a business and increase the likelihood for success. Depending on the services or products provided, a company might require huge capital outlay or lesser amounts to open for business. Fortunately, an array of finance sources is available and an entrepreneur must select the source based on his personal financial standing and that best meets the need of the business in question. The major sources of entrepreneurial financing are discussed below.

1. Personal Loan (Friends and Family members)

An entrepreneur seeking to complete funding of a new business or other loan sources that can augment existing funds, can give due consideration to loans from family or friends. Friends and family enable an entrepreneur to tap into the ‘inner circle before expanding the horizons’ in the process of entrepreneurial financing. As a rule of thumb, professional investors like to see ‘real skin in the game – close associates of an entrepreneur, and people whom the entrepreneur trusts’. Usually, friends and family members might be the most lenient investors of the lot available. They do not insist on collaterals and they might even agree to sell their interest in the company back to the entrepreneur for a nominal return. It is expected that if this is the source of funding, the entrepreneur should execute a loan note that defines the loan amount and terms, including the interest rate. This document becomes a business record that might affect business profit and taxes.

2. Bartering

Exchanging goods or services as a substitute for cash can be a great way to run on a little 'wallet' and generate the needed cash flow, such as trading free office space by agreeing to be the property manager for the owner. This technique can also work with legal, accounting and engineering services.

3. Smart leases

Closely related to the above is the method of leasing fixed assets in order to conserve cash for working capital (to cover inventory), which is generally tougher to finance, especially for an unproven business. However, it is instructive not to put so much money down such that the business ends up spending the same amount of cash as would have been spent had the asset been bought with a down payment. The cost of a lease may be slightly higher than bank financing, but the cost of the down payment an entrepreneur did not have to make is likely to be less painful than the dilution suffered from giving away equity.

4. Forming Partnerships

A more established company may have a strategic interest in helping to develop the products of a new venture – and may equally be willing to advance funding to make it happen. Today, there are companies who exist primarily to develop customized social networks for large enterprises, with the expectation of using that funding and experience to compete in the consumer market some day.

5. Bank Loans

Banks are a type of financial institution which mops up excess funds from surplus units of an economy and channels same to deficit economic unit for productive economic activities. Banks are like the supermarket of debt financing. They provide short-term, medium-term or long-term financing, and they finance all asset needs, including working capital, equipment and real estate. This assumes, of course, that the business can generate enough cash flow to cover the interest payments (which are tax deductible) and return the principal. Banks want assurance of repayment by requiring personal guarantees and even a secured interest (such as a mortgage) on personal assets. Unlike other financing relationships, banks offer some flexibility, as an entrepreneur can pay off the loan early and terminate the agreement. Venture capitals and other institutional investors may not be so amenable.

6. Retirement Funds

As with borrowing money from friends or family to buy a business, some might consider using money from a retirement or social security fund. This source can often be an effective way to invest in an entrepreneurial endeavour and has had successful outcomes for lot of today's businesses. However, drawing from a retirement savings scheme, must be done in line with the regulatory provisions (such as those of the Pensions Act in Nigeria). It is equally possible for an entrepreneur to combine money from his retirement fund with loans and other funding methods for greater flexibility. Many entrepreneurs choose to invest in a business they control because they

believe the growth opportunity is greater and want to diversify a portion of their retirement holdings outside of the stock market.

7. Financial Bootstrapping

Financial Bootstrapping is a term used to cover different methods for avoiding using the financial resources of external investors. It involves risks for the founders but allows for more freedom to develop the venture. Many billion-Naira entrepreneurs find a way to grow without external financing so that financiers don't control their destinies or grab a disproportionate slice of the wealth pie. Generally, bootstrapping for an entrepreneur is like a 'self-funding' from ones savings and it is a more preferred and viable option. The main advantage is that the entrepreneur does not have to 'run' to investors at every instance of a 'financial crunch' and the entrepreneur does not have to relinquish any control in the company. Different types of financial bootstrapping include Owner financing, Sweat equity, Minimization of accounts payable, joint utilization, minimization of inventory, delaying payment, subsidy finance and personal debt.

8. External Financing

Businesses often need more capital than owners are able to provide. Hence, they source financing from external investors: angel investment, venture capital, as well as with less prevalence crowd funding, hedge funds and alternative asset management. While owning equity in a private company may be generally grouped under the term private equity, this term is often used to describe growth, buyout or turnaround investments in traditional sectors and industries.

9. Angel Equity (or Business Angels)

A business angel is a private investor that invests part of his own wealth and time in early stage innovative companies. Apart from getting a good return, business angels expect to also enjoy the 'proceedings' and have fun. It is estimated that angel investment amounts to a substantial value of entrepreneurial financing in developed economies. It involves selling an ownership stake to get a company 'off the ground', and it starts by finding a respected industry executive who is willing to invest a reasonable amount and give the venture credibility with other investors. For angel equities, networking is critical, and there is a need to find 'angels' who understand the industry and share same passion as the entrepreneur.

10. Venture Capital

Venture capital is a way of corporate financing by which a financial investor takes participation in the capital of a new or young private company in exchange for cash and strategic advice. Venture capital investors look for fast-growing companies with low leverage capacity and high-performing management teams. Their main objective is to make a profit by selling the stake in the company in the medium term. They expect profitability higher than the market to compensate for the increased risk of investing in young ventures. Generally, venture capital investors provide funds to early-stage start-up companies. These investors are interested in industries with high-growth potential (such as information technology). Normally, venture capital investors provide funds to a

company in exchange for company shares. These investors require a business plan that demonstrates the probability of success.

Venture Capital Methods

To determine the future value of a start-up, a venture capital investor is guided by a number of questions such as: What percentage of the portfolio company should an entrepreneur have at exit, to guarantee that he gets the IRR (internal rate of return) committed to the investors. The valuation of the future company can be broken down into four steps namely:

- Determination of company's value at exit.
- Requested fraction (percentage) of the venture capital at exit.
- Number of shares to be bought in the current round of financing to get the desired percentage of the company.
- Estimation of maximum price per share willing to pay in current round of financing

Usually there is more than one round of financing. Venture capital investors generally prefer staged investments to reduce the money invested at the higher risk and control entrepreneurs via milestones. Entrepreneurs benefit from dilution in future rounds by reducing the price of the shares to be exchanged for financing.

11. Buyouts

Buyouts are forms of corporate finance used to change the ownership or the type of ownership of a company through a variety of means. Once the company is private and freed from some of the regulatory and other burdens of being a public company, the central goal of buyout is to discover means to build this value. This may include refocusing the mission of the company, selling off non-core assets, freshening product lines, streamlining processes and replacing existing management. Companies with steady, large cash flows, established brands and moderated growth are typical targets of buyouts. There are several variations of buyouts and some of the most common ones include:

i. Leveraged Buyout (LBO): This is a combination of debt and equity financing. The intention is to unlock hidden value through the addition of substantial amounts of debt to the balance sheet of the company.

ii. Management Buyout (MBO): This is also called management buy-in (MBI) and buys in management buyout (BIMBO). It is a situation in which private equity becomes the sponsor of a management team that has identified a business opportunity with a price well above the team's wealth. The difference is in the position of the purchaser: the management is already working for the company (MBO), the management is new (MBI) or a combination (BIMBO).

iii. Buy and Built (B&B): Involves the acquisition of several small companies with the objective of creating a leader (highly fragmented sectors such as supermarkets, gyms, schools, private hospitals).

iv. Recaps: Re-leveraging of a company that has repaid much of its LBO debt.

v. Secondary Buyout (SBO): This encompasses the sale of LBO-company to another private equity firm.
vi. Public-to-Private: This involves the takeover of public company that has been 'punished' by the market, that is, its price does not reflect the true value.

12. Small Business Administration Loan

The small business administration (such as it is the case in the US), are usually government agencies that provide financial assistance to new and existing businesses and business cash flow is the primary consideration for a loan. This 'bucket' often gets overlooked, but it should be a major focus for entrepreneurs.

13. Personal Credit Card

Although it is best to separate personal and business transactions, an entrepreneur might consider using his personal credit card to start up a company, while keeping records of business-related charges to the credit card. This funding might build equity in the company and the entrepreneur might elect instead to reimburse himself from future revenue.

14. Incubators

Although not very common in developing countries, start-up incubator is a company, university or other organization that ponies up resources–laboratories, office space, consulting, cash, marketing–in exchange for equity in young companies when they are most vulnerable.

15. Personal Bank Loan

An entrepreneur can also initiate a personal bank loan that he can personally guarantee or back up the facility with collateral (if it exists). If a company has other owners, they may not be liable for this type of debt (provided it is sourced as a personal loan), regardless of the company's use of the funds. If the company requires only a temporary or small infusion of cash, then the entrepreneur can explore the possibility of a bank line of credit. Sometimes though, the commercial banks are often dismissive of start-ups unless the entrepreneur has personal collateral at risk, such as real estate properties. However, it is essential for the entrepreneur to consider documenting a personal loan to the company to the tune of the amount provided by him, for future reimbursements.

16. Committing to a major customer

Some customers would be willing to cover the development costs in order to be able to buy a new business' product before the rest of the world can. The advantage in doing this is the control over the production process (to make sure it meets their requirements) and the promise of dedicated support. Even large companies look to their best customers to fund new projects–this is the essence of good business development. No matter which route an entrepreneur chooses, all funding decisions involve complex tradeoffs between near-term and long-term costs and benefits and it is best to check out all the alternatives.

17. Local and State Economic Development Organizations

Economic-development organizations can charge really low interest rates when lending alongside a bank. Development groups may not agree to finance an entire operation, but they make entrepreneurial financial sourcing a lot easier as against what obtains from other private sources.

18. Customers

Advance payments from customers–assuming the terms are not too onerous–can give a new venture the much needed cash, at a relatively low cost, to keep the business growing. Advances also demonstrate a level of commitment by that customer to your operation. A substantial number of the world-beating entrepreneurs were funded by their customers. This strategy allowed them to grow faster with limited resources, and to operate with relative impunity with respect to their investors.

19. Vendors

Big businesses in the world today have in the past been built with financing from their vendors - in other words, his suppliers. This way, the financiers do not control the growth of the business. However, for as long as the entrepreneur does not enslave himself to a handful of powerful suppliers in the process, this method has proven overtime to be one of the most viable methods of entrepreneurial financing.

20. Small Business Innovation Research (SBIR) grants. Small business innovation research (SBIR) grants are usually enabled by non governmental agencies (NGOs) and other development partners. Getting past the paper-intensive application process and SBIR grants can be a great way to turn an entrepreneurial intellectual property into sufficient funds for positive entrepreneurial endervours.

21. Tax Increment Financing

Tax increment financing (TIF), although not very common in Africa, are subsidies geared toward real estate development in targeted areas. Depending on the state, the subsidies can be as large as 20% to 30% of the cost of the project. More so, an entrepreneur may even be able to borrow against this subsidized value, depending on the communities or local government or councils offering the scheme.

22. Internal Revenue Service

Although the internal revenue service (IRS) does not lend money, yet it does allow entrepreneurs to deduct expenses. An entrepreneur paying a heap in taxes can meticulously evaluate whether the business can use the profits to expand the business venture and reduce the tax bill.

23. Peer-to-Peer Lending Networks

In addition to all the sources of entrepreneurial financing articulated above, one other alternative is to turn to peer-to-peer lending networks. These networks remove the traditional lending institutions, instead allowing lending transactions to take place directly between individuals. Using this route is usually done via online companies and on these sites, loan seekers request a specific

amount at a specific interest rate, and lenders fund all or portions of the loan. Lenders are then paid back with interest over a set period of time. Buyers' success when using these networks depends largely on their credit ratings.

23. Seller Financing

Increasingly in today's globalized markets, more business-for-sale transactions are resting on a seller's willingness to finance at least part of a sale. In a deal that includes seller financing, the seller takes part of the purchase price in cash and the remainder in the form of a promissory note that the buyer will pay back with interest over a period of three-to-five years. This has become essential; buyers are having difficulty accessing funds through traditional methods, therefore there's a natural gravitation toward seller-financed businesses to help offset some of the cost up front. Conversely, sellers who continue to say no to seller financing are finding it difficult to close a deal, and as more of them have realized this, there has been an increase in seller-financed businesses on the market.

24. Equity Financing

Equity financing is also more likely to be a more viable source of entrepreneurial financing at early stage businesses than debt financing. Equity investors primarily seek growth opportunities, so they are often willing to take a chance on a good idea, but debt financiers primarily, seek security, so they usually require the business to have some sort of track record before they will consider making a loan. Another advantage of equity financing is that investors often prove to be good sources of advice and contacts for small business owners.

Overall, for entrepreneurs, who are in the market for small businesses, it is important to be aware of alternate funding options. National government and the world over are acting as stimulus and bank policy have been trying to promote ongoing small business lending in recent times (although many banks are still more conservative than they used to be about when and to whom they loan money). Today's business-for-sale marketplace is full of exciting opportunities that will allow entrepreneurs of 'different shades and colours' to take their destiny into their own hands, and with various options available there is no reason to let a shortage of traditional capital sources get in the way of great dreams and innovative entrepreneurial efforts.

Entrepreneurial Financial Planning

Financial planning allows entrepreneurs to estimate the quantity and the timing of money needed to start their venture and keep it running. It follows therefore that there are a number of key questions that needs to be appraised by an entrepreneur. The key questions for an entrepreneur are:

- Is it worthy to invest time and money in a particular business?
- What are the cash flow rates?
- How is dilation minimized by external investors?
- What are the needed scenario analysis and contingency plan?

In new businesses the chief financial officer (CFO) normally assumes the key role of entrepreneurial financial planning. However, in established companies, the start-up chief financial officer takes a more strategic role and focuses on milestones with given cash resources, changes in valuation depending on their fulfilment, risks of not meeting milestones and potential outcomes and alternative strategies.

Financial planning also helps to determine the value of a venture and serves as an important marketing tool towards prospective investors. Traditional valuation techniques based on accounting, discounting cash flows (Discounted cash flow, DCF) or multiples do not reflect the specific characteristics of a start-up. Instead, the venture capital method, the First Chicago or the fundamental methods are usually applied. Thus, the primary objective of entrepreneurial financial planning is to provide a better understand of corporate finance issues confronting entrepreneurial firm and to further enhance the developmental frameworks used to appraise financial issues and develop experience in applying this framework to make useful business decisions.

Entrepreneurial Financing Risk

The real risk of entrepreneurship is building a new business. Not every entrepreneur is successful at their initial attempts at establishing a new venture on a going concern basis. From start-up that earns their founders millions of Naira to small businesses that provides a comfortable living for the owners' and family, many entrepreneurs have found that the benefits outweigh the risk. Before an entrepreneur has any chance of reaping the rewards of entrepreneurship, he needs to identify and recognize the risks inherent in entrepreneurship and manage them effectively.

The risks of entrepreneurship are very real and it is a reality that businesses in the world over do fail, whether they are new ventures or well established organizations. It is important therefore, for entrepreneurs to make sure that they are not betting everything they have on the success of an untested idea. Putting every single resource into the hope that a business will take off and grow quickly is a dangerous proposition. As such the inexpensive ways to evaluate business ideas before 'lunching' straight into such entrepreneurial endeavours must be meticulously appraised, so that the entrepreneur can make informed judgments as to the mode of the entrepreneurial operations. An entrepreneur can equally minimize the risks by limiting the number of assets engaged in the new venture.

In addition, there are risks beyond the purely financial. A business owner, who invests everything owned into a business, will most certainly be limiting his ability to spend resources and time with his family. Similarly, there can be a high level of emotional strain associated with entrepreneurship especially, if it places a strain of family relationships. What is most important is that an entrepreneur can reduce the risk associated with entrepreneurial financing with some careful planning. In a world where a steady job can disappear in the blink of an eye, it is worth deciding if other options are just as risky. If they are and a great opportunity is identified, such an opportunity must not be neglected simply because of the chances of failure.

Overcoming Entrepreneurial Financing Risk

It is essential for new ventures to find a way to get through challenges that have caused others to be out of business. Entrepreneurs must also figure how to recover after a failed product launch, speed up cash flow during tough times, withstand the threats from new competition, hire the right employees and find new customers. Below are some essential tips on overcoming entrepreneurial financing risk.

- Checking the failed product line.
- An entrepreneur should try adopting new product lines gradually rather than all at once.
- Ensuring proper confirmation of the product an entrepreneur intends dealing in.
- Taking adequate precautions, such that when something does not 'feel right', it is important to investigate further.
- Reducing too much of 'office or paper work' and engaging more in 'field work'.
- Paying closer attention to the market trends and analysis, with a view to 'dominating the market'.
- The entrepreneur should keep doing what he loves doing most and also give due consideration to the feeling and need of others.
- Taking full advantage of the social media and technological platforms for wider reach.
- Engaging in continuous researches necessary for testing the entrepreneurial ideas, with the help of professionals (where necessary).
- Not focusing too much on gaining a strong competitive edge at the expense of 'differentiation' and innovation.

Above all, an entrepreneur does not have to do everything alone, but the need to continually explore more pragmatic ways of overcoming entrepreneurial financing risk, cannot be overemphasized.

Entrepreneurship and Risk Taking

Risk taking is almost synonymous with entrepreneur. Sometimes for an entrepreneur to start and support a business, he will have to put his career, personal finances and even his mental health at stake. For most, the respect of making one's own decisions and being in charge of one's own destiny is worth it. However, to become successful as an entrepreneur, such a person will have to be prepared for the risks and challenges that come with it. The underlisted are some of the risks that every entrepreneur must take in the journey through entrepreneurship:

1. Abandoning the regular source of income: Before venturing into the world of business ownership, an entrepreneur will most likely have to say goodbye to his current job, and in some cases, the career. Some people have the luxury of a backup plan - an option to resume the previous career in case things do not go well in the independent business. Although it is better to start a business while still in employment, for most would be entrepreneurs, the choice is a risky plunge, considering that there is no guarantee of personal income especially in the first few months or years of the new company's existence. More so, an entrepreneur will likely be too busy to secure or sustain an alternative line of income.

2. Sacrificing Personal Capital: Some entrepreneurs are lucky to start their own ventures relying solely on external funding. Such situation implies a portfolio of angel investor contributions, government grants and loans, and perhaps adequate contributions for family and friends. Conversely, entrepreneurs may have to dive into their own bank accounts and personal savings to get things started. Others may not need to completely liquidate their holdings or divest their some or all of their personal savings - and that means abandoning, or at least diminishing their safety net.

3. Relying on cash flow: When a new business is guaranteed of a line of credit, securing a regular cash flow may still be difficult and stressful. An entrepreneur may have positioned himself for a profitable year, yet struggle with the day-to-day necessities if his revenue does not match or exceed costs in a timely manner. Liabilities and due obligations may add up rapidly and if the business does not have enough revenue to support outgoing cash flow, it could run short of money for paychecks or be forced to dip into emergency funds. An entrepreneur must be well prepared to address these intricacies as they arise and as at when due.

4. Estimating popular interest: It is a well established fact that no matter how much research or tests conducted, an entrepreneur may still not be able to estimate popular interest in the business with perfect accuracy. People are somewhat unpredictable which could create rigidities in the otherwise sound plan. Even when all the data appears to be synchronized, there could still be a chance that some things are either over or under estimated. At time, if projections are 'offline', the entire financial model could implode.

5. Trusting a key employee: When commencing a business, there is likelihood that there would not be a full team of employees in place working full time for the venture. Rather, a small tight-knit group of people working tirelessly together in an effort to get things done may be in place. The entrepreneur will have to put an over whelming amount of trust in them, especially if they have special skills that are hard to find and are willing to start work at a lower salary than the industry standard. Otherwise the business time line (and products) could be fatally compromised.

6. Betting on a crucial deadline: New venture are by nature forced into strict timelines for their product launches and milestone goals. Their finances are fragile, and their investors are eager to start seeing the 'wheels turning'. As a result, most entrepreneurs are forced to make multiple goals contingent on a handful of deadlines, and those deadlines become absolutely crucial. An entrepreneur must be prepared to pass late-night not necessarily worrying or gallivanting, but exploring his ability to hit those deadlines, and coming up with contingencies in situation, where it is impossible to meet the deadlines.

7. Donating personal time (and wealth): An entrepreneur must be prepared to spend countless hours doing a lot of work to make the company successful and his remaining hours appraising and ruminating about 'what has been done or what has not been done so far'. Thus, it is not uncommon for an entrepreneur (most especially one who consider success as 'non negotiable') to lose sleep

and as such, an entrepreneur may miss out on personal time, and may experience much more stress than usual.

Ultimately, the rewards and inherent benefits of entrepreneur often outweigh the personal risks that have been discussed above, but every entrepreneur who desires to be (and remain) successful, will have to be prepared to live this type of lifestyle.

PRACTISE QUESTIONS

1. Explain the concept of financing and entrepreneurial financing.
2. Discuss the financial limitations in entrepreneurship.
3. What are the financial needs of an entrepreneur?
4. Identify and discuss the entrepreneurial financing options and choices.
5. Explain the various sources of entrepreneurial financing and entrepreneurial financial planning.

Basic Steps to Reduce Business Failures and Collapse

The following are some basic steps at reducing business failures and collapse:

- **A Sound Business Concept:** The single most common mistake made by entrepreneurs is not selecting the right business to begin with. The best way to learn about your prospective business is to work for someone else in that business before beginning your own. There can be a huge gap between your concept of a fine business and reality.

- **Understanding of Your Market:** A good way to test your understanding is to test market your product or service before your start. You think you have a great kite that will capture the imagination of kite fliers of the world? Then craft some of them and try selling them first.

- **A Healthy, Growing and Stable Industry:** Some of the great inventions of all time, like airplanes and cars, did not result in economic benefit for many of those who tried to exploit these great advances. For example, the cumulative earnings of all airlines since Wilber Wright flew that first plane are less than zero. Success comes to those who find businesses with great economics and not necessarily great inventions or advances to mankind.

- **Capable Management:** Look for people you like and admire who have good ethical values, have complementary skills and are smarter than you. Plan to hire people who have the skills that you lack. Define your unique ability and seek out others who turn your weaknesses into strengths.

- **Able Financial Control:** You will learn later the importance of becoming qualified in accounting, computer software and cash flow management. Most entrepreneurs do not

come from accounting backgrounds and must go back to school to learn these skills. Would you bet your savings in a game where you don't know how to keep score? People mistakenly do it in business all the time.

- **A Consistent Business Focus:** As a rule, people who specialize in a product or service will do better than people who do not specialize. Focus your efforts on something that you can do so well that you will not be competing solely on the basis of price.

- **A Mindset to Anticipate Change:** Don't commit yourself too early. Keep a fluid mindset and be aggressive in making revisions as warranted by changing circumstances and expanding knowledge.
- **Include Plans for Conducting Business Online:** Consumer and business-to-business online sales are set to expand exponentially in the coming decade, and small retailers can reach an ever-increasing pool of customers.

Considering the importance of the business plan in insuring an enterprise so as to reduce the risk of failure and collapse, it is important to adopt some practical approaches at managing inevitable risks while pursuing opportunities. Donald N. Sull, Associate Professor of Management Practice at the London Business School, in an article in the MIT Sloan Management Review, offers some practical suggestions on managing inevitable risks while pursuing opportunities. Here is a capsulation of his suggestions on how to formulate (and reformulate) your business plan for entrepreneurial success and insurance against risk:

- Be flexible early in the process and keep it fluid. Don't commit too early. Expect your first plan to be provisional and subject to revision.
- Ask yourself if your experience or expertise gives you the right to an opinion on your specific opportunity.
- Identify your potential dream killers: variables that are likely to prove fatal to the venture.
- Clearly identify what you see as the key drivers of success. What are you betting on here?
- Raise money only in sufficient amount to finance the experiment or evaluation you next envision, with a cushion for contingencies.
- Delay hiring key managers until initial rounds of experimentation has produced a stable business model.
- At some point, take the plunge and test your product or service on a small scale in the real world through customer research, test marketing, or prototypes.
- Test and refine your business model before expanding your operations.

In addition to the above, below are the top ten Dos and Don’ts necessary for business survival and to ensure that going concern is not threatened.

The Top Ten Do's	**The Top Ten Don'ts**

1. Prepare a complete business plan for any business you are considering.
2. Make use of business plan templates furnished in several online guides.
3. Complete the necessary sections of your business plan.
4. Research useful information on search engines.
5. Package your business plan in an attractive kit as a selling tool.
6. Submit your business plan to experts in your intended business for their advice.
7. Spell out your strategies on how you intend to handle adversities.
8. Spell out the strengths and weaknesses of your management team.
9. Include a monthly one-year cash flow projection.
10. Freely and frequently modify your business plans to account for changing conditions.

1. Be optimistic (on the high side) in estimating future sales.
2. Be optimistic (on the low side) in estimating future costs.
3. Disregard or discount weaknesses in your plan. Spell them out.
4. Stress long-term projections. Better to focus on projections for your first year.
5. Depend entirely on the uniqueness of your business or the success of an invention.
6. Project yourself as someone you're not. Be brutally realistic.
7. Be everything to everybody. Highly focused specialists usually do best.
8. Proceed without adequate financial and accounting know-how.
9. Base your business plan on a wonderful concept. Test it first.
10. Pursue a business not substantiated by your business plan analysis.

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