

# Breaking the Bottleneck of Owning in Business

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## Abstract

A new business, is more of a gamble. The owner has no idea how the business will perform since it has no past history or customer loyalty. The owner must provide physical facilities, inventories and organization as well as create an image for the business and assume it's risks. There are certain advantages to doing this. The new firm is designed specially by the entrepreneur. Location is selected; not merely accepted because it is already there. The fixtures, equipment, inventories, employees serve the needs of the owner. Although all customers are new and must be attracted to the business, there is no chance of inheriting a poor reputation from the owner.

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**Index terms**— provide physical facilities, inventories and organization as well as create an image

## 1 Introduction

here are different forms of business and also different means of owning them. The way of becoming an entrepreneur is either through starting a new business, inheriting an existing enterprise, buying an existing business or taking a franchise. This study will treat the first three methods of owning a business.

## 2 II.

Creating a New Business According to Schumpeter (1983), people who possess the capacity to sense, anticipate, see, appreciate and evaluate business opportunities and are ready and able to gather the required resources to exploit them successfully are entrepreneurs. Have you ever thought about starting your own business? Do you think it would be too hard or too risky? Hundreds of would be entrepreneurs of all ages have often asked themselves the question: "How can I learn to run my own business? Many of these people have no idea what kind of business they will want to start: they simply want to be in business. This seems to be a major trend among students and youths generally. To make it easier to choose the area of business to follow, government have classified and listed five groups of small businesses. They include: service business, retail business, construction firms, wholesalers, and manufactures. A review of a few of them may give you the needed direction. a) Service Business: You are already aware and familiar with the services provided by barbering shops, beauty parlours, dry cleaners, and other services that cater to you and your community. In your search for what business to follow, be sure explore services such as the above or as;

thinking, cross-fertilize ideas, stimulate curiosity, adopt indirect approach to problem solution, search encyclopedias, adopt systematic analysis and meditation. b) Retail Business: You have only to go to a major shopping center to see the possibilities in retailing.

There are stores selling shoes, clothes, hats, gloves, sporting goods, ice cream, groceries, and more. Much more. Watch the trends, and you will see new ideas like fancy popcorn stores, T-shirt shop, videotape rental stores, yogurt shops, and more. Do any of these retail stores look like interesting places to work? If yes then you can start a business in retailing. c) Construction firms: Drive through any big city and you will see huge cranes -towering over an empty lot where major construction is taking place. Would you enjoy supervising such work? Visit some areas where construction firms are building bridges, roads, homes, school, building, and dams. There is a feeling of power and creativity in such work that excites many observers. How about you? Talk to some of the

workers and supervisors and learn about the risks and rewards of small construction firms. d) Wholesale: have you ever visited a wholesale food warehouse, a wholesale jewelry center, or similar wholesale firms? If not, you are missing an important link in the small-business systems, one with much potential. Wholesale representatives often make more money, have more free time, travel more, have more fringe benefits, and enjoy their jobs more than similar people in retailing. Check it out. e) Manufacturing: Of course, manufacturing is still an attractive career for tomorrow's graduates. Manufactures make the most money among smallbusiness owners. There are careers for designers, machinist, mechanics, engineers, supervisor, safety-inspectors, and a host other occupation. Visit some small manufactures in your area and inquire about such jobs. This could be an avenue to start your own business. Naturally, there are thousands of small farmers who enjoy the rural life and the pace of farming. Small farms are usually not very profitable, but some that specialize in exotic crops do quite well. One way to find out how to start a business is to start your own business while you're still young and in school. There is no better way to learn about business than to start one. But how do you start a business? It is amazing how many people are eager to start a business, but have only a vague notion of what they want to do. Eventually, they come up with an idea for business and begin discussing the idea with people. It is at this stage that the entrepreneur needs a business plan or feasibility study of what he wants to venture into that describes the nature of the business, the target market, the advantage the business will have in relation to competitors, etc.

In the broadest sense, every rational decision to make an investment is preceded by an investigation of the feasibility of the project, whether or not this is carried out in a formal manner. The larger the project and the greater the investment, the more formalize the investigation. Assurance is needed that the market exist or can be developed, that raw materials can be obtained, that sufficient labour supply is available, that local services vital to the project are at hand, and that overall cost for plat equipment, labour, and raw material inputs will be of certain order, most importantly, if must be determined that income will exceed costs by a margin sufficient to make the project financially attractive.

However, if the project is small, the study format may be quite informal. Perhaps there will be no formal study at all and little accumulation of actual data. Nonetheless, the feasibility calculations will have to be computes and evaluated even if in an informal manner, before the ultimate step of actual investment is taken.

### 3 III.

## 4 Stages of Project Feasibility Analysis

The analysis of a project involves a certain number of stages during which its various elements are prepared and examined in order to reach decisions, the preparation of a project therefore can be as a series of activities culminating in the establishment of a certain number of studies and documents which permit decision making.

Project feasibility analysis is conducted in a given institutional frame, which determines its nature and the number of economic agencies likely to be interested in it. Thus the nature and sequence of decisions concerning viability of the project and its financing are determined by various institutional policies as well as company objectives. Also, the range and accuracy of information necessary for decision making during different states of a project depend on its inherent characteristics, such as size, degree of complexity, and risk. Therefore any attempt to describe a typical procedure for feasibility analysis must be general, because the decisions to be made and the information required vary among companies, institutions, and types of projects.

The process of project feasibility analysis, following the determination of the objective to be attained, can be divided into stages and steps.

### 5 a) Identification Stage

The starting point of a project analysis is the establishment of the objective to be attained. This objective may prove that it is possible and desirable to

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Volume XV Issue VIII Version I Year ( ) A add a piece of equipment to the existing plant, to manufacture a certain product or group of products, or to utilize certain resources.

Ideas for new products or diversification for a company can be generated in an informal and spontaneous manner from customers, distributors, competitors, salespeople, and others, or the entrepreneur can rely on a systematic process of idea generation. For the planner, the project idea is more likely to stem from a survey of existing industry, sectorial, or inter-industrial analysis, area resource surveys, or market studies. The proposed project may develop as a response to a need that appeared within the framework of industrial development planning.

### 7 b) Preselection Stage

In the pre-selection stage, a decision must be made as to whether it is advisable to examine in detail the feasibility of the project and, if so, to define the scope and estimate the cost of subsequent studies. Both the entrepreneur and planner want to ensure that the project is of sufficient interest in the technical economic plane to justify an in-depth study, that is, that a feasible solution can be anticipated. Also, the entrepreneur wants to eliminate

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from further consideration ideas that are dissonant with either company objectives of governmental strategy and plans. The information gathered during this states assists in the identification of those aspects of the project that deserve special attention during subsequent research (e.g., market surveys, machinery evaluation}.

The results obtained during the preselection stage are often compiled into a prefeasibility study. To permit decisions on the merit of the project, the prefeasibility study should include:

? A description of the market (estimate of consumption, trends, present supply price).

? An outline of manufacturing processes and information concerning availability of .main production factors (mainly raw materials).

? An estimate of necessary investment and cost of operation.

? An approximate estimate profit

? Statement of anticipated major problems risks.

IV.

## 8 Analysis State

At the analysis stage, the various alternatives in marketing, technology, and other considerations must be studied, and the findings, with supporting data, presented in a systematic form. For a particular project, there may be more than one possible technology to evaluate, and such factors as plant size, capital availability, raw materials availability, and labour skills availability need to be considered.

The analysis of a project can be conducted at different levels of effort with respect to time, budget, and personnel, depending on the circumstances. A complete study contains, a market, technical, and financial analysis and is referred to as an economic feasibility study. In some cases, such a detailed study is not necessary. For example, if the project's output has a confirmed buyer, then an in-depth market analysis is not required, in some instances, a partial study of the market or of the technologies satisfies the data requirement for decision making. To permit a decision on the merit of the project, the project feasibility analysis should include the following studies.

## 9 a) Market Analysis

During the process of project feasibility analysis, market studies can be made separately or as a segment of the overall economic feasibility study. Market analysis can serve as a method for screening venture ideas and also as a means of evaluating projects feasibility in terms of the market. In each of these instances, the market analysis involves the search for an analysis of data that can be used to identify, isolate, describe, and quantify the market. The basic difference in these studies is that those conducted during the evaluation require a more extensive and indepth analysis than those used for screening. A market analysis generally should contain:

? A brief description of the market, including the market area, method of transportation, existing rates of transportation, channels of distribution, and general trade practices.

? Analysis of past and present demand including determination of quantity and value of consumption, as well as identification of the major consumers of the product.

? Analysis of past and present supply broken down as to source" (whether imported or domestic), as well as information which will assist in determining the competitive position of the product, such as selling prices, quality, and marketing practices of competitors,

? Estimate of future demand for the product.

? Estimate of the project's share of the market, considering the demand, supply, competitive position, and the project's marketing program.

## 10 b) Technical Analysis

The technical analysis of a project feasibility study serves to establish whether or not the project is technically feasible, and it also provides a basis for cost estimating. Equally important, it porpoises an opportunity to consider the effect of various technical alternatives on employment, ecology, infrastructure demands, capital services, support of other industries, balance of payments, and other factors. The technical ? Description of the product, including specifications relating to its physical, mechanical, and chemical properties, as well as the uses of the product. ? Description of the selected manufacturing process, showing detailed flow of charts as well as presentations of alternative processes considered and justification for adopting the one selected. ? Determination of plant size and production schedule, which includes the expected volume for a given period, considering start-up and technical factors.

? Selection of machinery and equipment, including specifications, equipment to be purchased and origin, quotation from suppliers, delivery dates, terms of payment, and a comparative analysis of alternatives in terms of cost, reliability, performance, and spare parts availability. ? Identification of the plant's location and assessment of its desirability in terms of distance from raw materials sources and markets. For a new project, this part may include a comparative study of different sites, indicating the disadvantages and advantages of each. ? Design of plant layout and estimation of the cost of erection of the proposed types of buildings and land improvements.

? Study of the availability of raw materials and utilities, including a description of the physical and chemical properties, quantities, needed, current and prospective costs, terms of payment, locations of sources of supply,

and continuity of supply. ? Estimate of labour requirements, including a detailed breakdown of the direct and indirect labour and supervision required for the manufacture of the product. ? Determination of the waste disposal method, its costs, and necessary clearance from proper authorities. ? Estimate of the production cost for the product.

## 11 c) Financial Analysis

During the financial analysis of a project feasibility study the emphasis is on the preparation of financial statements, so that the project can be evaluated in terms of various measures of commercial profitability and the magnitude of financing required can be determined. The financial analysis requires the assembly of the market and the technical cost estimates into various pro forma statements. If more information on which to base an investment decision is needed, a sensitivity analysis or, possibly, a risk analysis can be conducted.

? For projects that involve new companies, statement of total project cost, initial capital requirement, and cash flows relative to the project timetable.

? For all projects, financial projections for future time periods, including income statements, cash flows, and balance sheets

? For all projects, support schedules for financial projections, stating assumptions used as to collect periods of sales, inventory levels, payment period of purchases and expenses, and elements of production cost, selling, administrative, and financial expenses.

? For all projects, financial analysis showing return on investment, return on equity, break-even volume, and price analysis.

? For all projects, if necessary, a sensitivity analysis to identify items that have a large impact on profitability, or possibly a risk analysis.

V.

## 12 Evaluation and Decision Stage

Decisions as to whether the project will be implemented must be made at this stage. For the entrepreneur, the studies conducted during the analysis stage of the project provide an assessment. If positive results are obtained, the entrepreneur, if seeking financing, will want to prepare an investment proposal. The planner or government official, however, having obtained positive conclusions from the economic feasibility study, will want to evaluate the project's social profitability. If an order of national development priorities exists, the project must be quantitatively assessed in terms of its social profitability. Finally, the investment proposal must be prepared and submitted to the lending institutions and, in some instances, to the government body on whose approval execution of project depends.

## 13 VI.

## 14 Social Profitability Analysis

The social profitability analysis, that is, an evaluation of the project's contribution to the economy, is primarily the concern of the government loan officer or planner. The techniques used to determine social profitability range from the very simple to the complex. In developing countries, the analysis often contains no more than an estimate of project's employment impact or net foreign exchange benefits. To obtain an in-depth assessment of the social profitability, a cost benefit analysis may be a desired approach. This involves:

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The financial analysis should include:

? For existing companies, audited financial statements such as balance sheets, income statements, and cash flow statements.

? Definition of the project in terms of technical description, alternate that should be considered, and any pertinent constraints.

? Enumeration of costs, benefits, and an assessment of the validity and quantifiability of the listed costs and benefits.

? Collection of the data needed to evaluate the costs and benefits.

? Measurement of the costs and benefits of the project.

? Presentation of results.

VII.

## 16 Investment Proposal

The purpose of the investment proposal or loan application is to convince a lender that the project is a desirable investment. This implies that it not only possessed the potential for profit, but that the proposed management team has the capabilities to achieve the potential. The investment proposal normally contains:

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? Gender information on the product, company history, nature of the industry, type of organization, organizational chart, and the reputation and : qualifications of the existing or proposed management.

? Description of the project, which usually consists of extracts from the economic feasibility study and includes information on such items as markets, production, selected manufacturing method (with a detailed Indication of the cost of equipment or operation expense), and financial, statements.

? Miscellaneous information, such as proposals concerning guarantees to be offered to a lending institution, steps taken and formalities completed toward implementation of the project, and technical partners envisaged or selected.

VIII.

## 17 Inheriting A Business

Often people vacate positions of business either on account of death, retirement or ill-health. This gives room for some individuals whose parents or family members own enterprises to inherit them. Most times, these individuals have prior workings of the business they inherit because of their association with the business from birth of year of nosing around the family business.

The advantage inheriting an already existing business includes the following: a) The business is already established and the lucky person inheriting it is saved the problems associated with creating a new business, which often has to do with starting from the scratch.

Starting the business from the scratch leaves the owner with the problem of providing physical facilities, inventories and organization as well as creating an image for the business and assuming its risk. b) The owner inherits some fixed current assets:-Assets are what a business owns, but they are also more than that. Assets include productive items such as equipment, the building, land, furniture, fixtures, and motor vehicles that contribute to income as well as intangibles such as patents or copyrights. They also include the following: Cash on hand, petty cash, and deposit in Bank.

Accounts receivable -money owed to a business from customers who bought goods on credit, Inventory, investments, e.t.c. Thus, assets are things such as property and machines that have monetary value. There are said to be liquid when they can be easily converted into cash. Stocks are considered highly liquid assets because they can be sold easily and turned into cash. On the other hand, land is considered highly non-liquid because it takes much time and paper work to sell it. Based on liquidity, assets are divided into three categories. i. Current assets -Resources, including cash or noncash items, that can be converted to cash within one year. ii. Fixed assets -Items of permanent nature, such as land, building, fixture, and furniture's. iii. Other assets -items such as patent and copyrights, not included in the first two categories. c) There also exist a pool of already established customers and their goodwill on whose back the entrepreneur can ride to greater success. d) Apart from the customer's goodwill, there is the issue of existing beneficial time tested relationship with banks, suppliers, distributors, the society, government, etc. The established firm offers several advantages to the entrepreneurs. It already shows various strengths and weaknesses by actually operating in a particular location. Customers have been attracted by the business and a reputation it has created. The immediate need to provide physical facilities and inventories, as well as hire employees, is reduced since these were done by the previous owners. But even with the above advantages the beneficiary in this case, if not impressed, can select either to sell the business or liquidate it especially if he is unsure of its future survival. However, If he decides to continue with the business, then there are certain steps or measures he must take on assumption of responsibility. They include the following: undertake an absolute and autonomous management audit of the business. A typical audit consists of five stages.

? Planning Activities-obtain knowledge of the business, preliminary analytical review; appraisal of risk, preliminary estimation of materiality, review of

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Volume XV Issue VIII Version I Year 2015 ( ) A internal accounting control; developing of overall audit plan; determine optimal reliance on internal accounting control, design compliance testing procedures; design substantive procedures; write audit programme.

? Compliance testing procedures-conduct test; make final evaluation internal control; modify audit plan.

? Substantive testing activities-Conduct substantive test of transactions; conduct analytical review procedures; conduct test of details of balances; post balance sheet review procedures; aggregate findings and make evaluation; obtain representation from management and others.

? Formulating opinion and reporting activities-Review financial statement financial statements; review audit results; formulate opinion, draft and issue report,

? Continuous Activities-Supervise conduct of examination; review work of assistants; consult with appropriate persons in connection with special, problems; document work performed, findings, and conclusions. ; appropriate working papers.

? To access the assets so as to ascertain their monetary worth; state of disrepair etc, This will generally give the idea of the monetary involvement as it concerns the repair of fixed assets and some movable assets. It is generally known that inheritance seldom goes with newness. What is inherited has to do item that has been used

and under control of the original owner. It common knowledge therefore, that items in use co depreciate in value especially due to wear and tear arising from long term usage. The new entrepreneur now needs to have accurate assessment of the business and money assets needed to put this business back in proper shape by making or assessing.

IX.

### 19 Ordinary and Extraordinary Repairs

Ordinary repairs are made to keep an asset in normal good operating condition. For example, keeping a wood-frame building in good condition requires that you periodically repaint it and maintain its roof. Similarly, machines must be cleaned, lubricated and adjusted, and small parts must be replaced when they wear out. Such repairs and maintenance typically are made every year, and accountants treat them as revenue expenditures. Thus, their costs should appear on the current income statement as expenses.

In contrast to ordinary repairs that keeps a plant asset in its normal good operating expectation. Reflecting this nature, the costs of extraordinary repairs are capital expenditures. They are usually debited to the repaired asset's accumulated depreciation account to show that they counteract the effects of past usage reflect as depreciation. Because extraordinary repairs add to an asset's useful life, they also benefit future periods. Thus, their cost appears in the income statements of future periods as depreciation.

For example, a machine was purchased for N8,000 and depreciated under the assumption it would last eight years and have no salvage value. As a result, the machine's book value is N2,000 at the end of its sixth year, calculated as follows: At the beginning of the machine's seventh year, It is given a major overhaul that extends its estimated useful life three year beyond the eight originally estimated. Thus, the company now predicts that it will be used for five more years, The N2,100 costs of the extraordinary repair should be recorded as follows: The machine remains in use for five years after the major overhaul, the five annual 20 depreciation charges will write off its N4,100 book value, which includes the cost of extraordinary repairs.

To go through the financial reports perhaps with an accountant if he chooses, to certain the financial position of the firm as well as its short and long term financial commitments. Public accountants participate in management accounting when they provide management advisory services to their clients. Independent auditors gain an rate knowledge of a clients accounting and operating procedures. The auditors are in excellent position to offer suggestions for

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Volume XV Issue VIII Version I Year ( ) A improving the business or can price on outright sale of the enterprise.

### 21 X.

### 22 Financial Statement

Financial statements communicate accounting information to managers and other decision makers. These statements are the primary product of the accounting process. Thus, financial statements re a good place to start your analysis of business. We begin by looking at two widely used financial statements: the Income statement and the balance sheet.

### 23 a) The Income Statement

The Income Statement is considered by many people to be the most important financial The income statement is important because it shows whether the business earned a profit (also called net income), which is one of its primary operating objectives, A net income is earned if the company's revenues exceed its expenses; a net loss is incurred if the expenses exceed the revenues. The income statement does not simply report the amount of net income or net loss. Instead, it lists the types and amounts of the revenues and expenses. This detailed information is more useful for decisions than just a single number for the profit or loss. Revenues are in flow of assets received in exchange for goods and services provided to customers as part of the major or central operations of the business. Instead of inflow of assets, revenues also may occur as decreases in liabilities, An; asset is a property or property right. While a liability is a debt owed by a business. Expenses are outflows or the using of assets as a result of the major or central operations of business. Instead of outflows or the using up of assets expenses may also occur as increase in liabilities.

### 24 b) Balance

The of tits balance sheet is to provide information that helps users understand the financial status of the business, In fact, the balance sheet is often called the statement of financial position. The balance sheet describes the financial : position by listing the types and amount of assets, liabilities and equity of the business. (Equity is the difference between a company's assets and its liabilities).

The balance sheet describes conditions that exist at a point in time. It also shows the date on which assets are identified and measured. The amounts in the balance sheet are understood to be stated as of the close of business on that date.

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Note that the total amounts on the two sides of a balance sheet are equal. This quality is the source of the name balance sheet. The name also reflects the fact that the statement reports the balances of the assets, liabilities, and equity on a given, date. Knowledge of the time period is important for judging if the company's performance is satisfactory.

## **25 XI.**

### **Assets, Liabilities, and Owner's Equity**

In general, the assets of a business are defined as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events". One familiar asset is cash. Another asset consists of amounts owed to the business by its customers for food and services sold to them on credit. This asset is called accounts receivable. In general, individuals who owe amounts to the business are called debtors. Other assets owned by the business include: merchandise held for sale, supplies, equipments, buildings, and land. Assets also can be intangible rights, such as those granted by a patent or copyright.

The liabilities of a business are its debts. Liabilities are defined more precisely as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. On common liability consists of amounts owed for goods and services bought on credit. This liability is called account payable. Other liabilities are salaries and wages owed to employees, taxes payable, notes payable, and interest payable.

A liability represents a claim against business, in general, those who have the right to receive payments from a company are called its creditors. From the creditor's side, a liability is the right to be paid by a business. If the business fails to pay its debts, the law gives the creditors the rights to enforce the sale of the business assets to obtain the money to meet their claims. If the assets are sold under these conditions, the creditors are paid first, up to full amount of their claims, with the remainder (the residual) going to the owner of the business.

Creditors often use a balance sheet to help them decide whether to loan money to business. They use the balance sheet to compare the amounts of the existing liabilities and assets. A loan is risky if the liabilities are small in comparison to the assets, XII. Evaluate the Appropriateness or Otherwise, of the Firm's Location

This can be very important, especially if the business owner thinks of keeping cost low. One of the major reason why European and Western manufacturers shifted their manufacturing facilities to Asia, Africa, and Latin America cut cost Producers move to where there is availability of the right kind of labour or cheap labour. Even though labour cost is becoming a smaller percentage of the total cost in some Industries, cheap

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Volume XV Issue VIII Version I Year 2015 ( ) A labour remains a key reason why many producers move their plants to the third world countries where there is abundant cheap labour, cheaper resources are another reason for moving production facilities. Companies often need water, electricity, wood, coal and other basic resources. By moving to areas where such resources are cheap plentiful, cost can be lowered significantly not only the cost of buying such resources but of shipping as well, one reason business sometimes choose to remain in big cities is because that's where their customers are. By, locating close to their customers, business lower the cost of transportation and can be more responsive to customers needs for service, It is especially important for service organizations to be located near urban areas where they can service their customers best. The bottom line is that site location has become a critical issue in production management. Companies want to be close to their markets, but also need a skilled or trainable labour supply.

The cost of land is also becoming a more critical factor in choosing a plant location. Some business are forced to leave cities where land is expensive, and move to rural areas where land is cheaper, Some employers also enjoy living away from noise, pollution and traffic of big cities.

Another incentive to locate or relocate in a particular city is the tax situation and government support. Some states and cities have, higher taxes while some even give tax incentives and financial support. Some state and cities (CRS, Calabar EPZ) attract business by designing industrial parks or layout. An industrial park is a planned area where business can find land, shipping facilities, etc to build a manufacturing plant or storage facility. Naturally, some places are more attractive than others because of climate, storage facilities, and other factors, in summary, business now want to cut production cost and improve lifestyle by locating where: a) Resource are plentiful and inexpensive b) Skilled workers are available or trainable c) Labour is inexpensive d) Taxes are low and local government offers support e) Energy and water are available f) Land is available, inexpensive and close to market g) Transport cost is low h) Quality of life and education is high

## **27 XIII. To Undertake Study of the Market Potential of this Enterprise**

This goes with special reference to the product and its relevance in the present market situation. The ability of the business to still stay alive despite competitors will provide the answer on whether the new owner should sell or still keep and carry on the business. The outcome of this rests entirely on the decision of the entrepreneur. Decision making here is choosing among two or more alternatives. Should I sell or still keep this business? Will

the wages of my business and financial assets compete favourably in my given location? What is my share of the market? The questions are endless. It sounds easier to say than it is in practice. In fact decision making is the heart of all the management functions an entrepreneur needs: planning, organizing, controlling and directing. They help business men to make logical, intelligent, and well founded conclusions.

After an analysis of market potentials the new owner having arrived at the decision not to sell the business should plan the way forward by providing answers to three fundamental questions of business. a) What is the situation now? What is the state of the economy? What opportunities exist for meeting people's needs? What products and customers are most profitable? Who are our major competitors? Why do people buy (or not buy) our products? Who are our major competitors? b) Where do we want to go? How much growth do we want? What is our profit goal? What are our social objectives? What are our personal development objectives for employees? c) How can we get there from here? This is the most important part of planning. It takes three forms i. Strategic (long-range) planning determines the major goals of the organization and the policies and strategies for obtaining and using resources to achieve goals. In this definition, policies are broad guides to action, and strategies determine the best way to use resources. At the strategic planning stage, the company decides which customers to serve, what products or services to sell, and the geographic areas in which the firms will compete. ii. Tactical (short-range) planning is the process of developing short term decisions about what is to be done, who is to do it, and how it is to be done. Just as objectives are specific plans to meet broad tactical planning involves defining specific plans to achieve broad strategic plans. Tactical planning is normally done by managers at lower levels of the organization, whereas strategic planning is done by the top managers of the firm (for example, the president). Tactical planning involves setting annual budget and deciding on other details of how to meet the strategic objectives.

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iii. Contingency planning is the preparation of alternative courses of action that may be used if the primary plans do not achieve the objectives of the

The best decisions are based on sound information. Entrepreneurs often have computer terminals at their desk so they can get internal records and external data of all kinds. But all the data in the world can not replace an entrepreneur who is creative and makes brilliant decision.

organization. The economic and competitive environments change so rapidly that it is wise to have alternative plans for action ready in anticipation of such changes.

XIV.

## 30 Buying a Business

Buying a business seems to be the easiest way to enter the business world. A person can become an entrepreneur by buying an already established firm. This is so because the established business offers several advantages to the entrepreneur. Aside from the knowledge of the business various strengths and weaknesses of operating in a particular location, customers must have been attracted by the business for a long period and a reputation created. The immediate need to provide physical facilities and inventories, as well as hire employees, is reduced since all of these were taken care of by the previous owner. The business may have seared beneficial relationships with relevant public such as suppliers, bankers, technical partners, etc.

Given the numerous advantages, many people have taken the opportunity to own business by purchasing on-going enterprises. If you must do the same, then be prepared to evaluate the following: a) Determine the reason why this business is offered for sale. The onus is for the buyer of the business to know why the present owner wants to sell the business. It is known fact that not all firms that are losing money need to be a failure. Therefore, if one is able to purchase a poorly managed but workable business at a bargain at a bargain price, then he has started a business with commendable thought.

b) Assessing the likelihood of the firm's profitability. In analyzing the firm, the investor should consider the risk inherent in the firms operation, the time pattern over which the firm's earning increased or decreased, the quality or reliability of reported earnings and many other factors concerning the firm's profitability. This would be investor or buyer must question the impact of decision on the firms overall valuation.

XV.

## 31 Profitability

The generality ratios enables the analyst to evaluate the firms earnings against their backdrop of a given level of sales, a certain level of assets or the owner's investment. A firm cannot easily attract outside capital if it is unprofitable. As a matter of fact an unprofitable operation will naturally cause some concern for both the firm owners and creditors. Consequently, creditors, owners, and management are usually interested in the growth in profits of the firm due to the great importance attached to earnings in the market place.



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## 32 a) Gross Profit Margin

This relates to the percentage of each sales naira or amount which is left after the firm has paid for its goods. It measures the efficiency of management in converting materials (goods) into sales. The higher the gross sold and vice versa.

$$\frac{\text{Sales} - \text{cost of goods sold}}{\text{sales}} \text{ or } \frac{\text{Gross profit}}{\text{Sales}}$$

## 33 b) Net profit Margin

The net profit margin measures the percentage of each sale naira remaining after all expenses, including taxes have been deducted. It is a measure of the firm's success in earnings on its sales.

## 34 Net Profit After Taxes / Sales c) Return on Investment (ROI)

This is also known as the return on total assets. It measures the overall effectiveness of management in generating profits with the firm's available assets. In other words, the return on the firm's total investment. The higher the ROI, the better for the firm. 
$$\frac{\text{Net Profits after taxes}}{\text{Total Assets}}$$

## 35 d) Return on Equity (ROE)

Also known as return on net worth, this ratio measures the return earned on the owner's investment. In general, the higher the return on equity, the better for the owners of the firm 
$$\frac{\text{Net Profits After Taxes}}{\text{Shareholders Equity or NPAT/Net worth}}$$
 i. By assessing the business through evaluating the firm qualitatively in terms of the business competitive strength, consumer's assessment of market position, present and future market growth potentials, cost, risk etc using a comparative rating analysis of the firms products or service. ii. Ascertaining its assets and liabilities. This is an important aspect to look into when thinking of buying an established business.

In general, the assets of a business are the properties or economic resources owned by the business. More precisely, assets are defined as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events". One familiar asset is cash. Another asset consists of amount owed to the business by its customers for goods and services sold to them on credits. This asset is called account receivable. In general, individuals who owe amounts to the business are called debtors. Other assets owned by the business include; merchandise held for sale, supplies, equipment, building, and land. Assets also can be tangible rights, such as those granted by a patent or copyright.<sup>1 2</sup>



Figure 1:

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The liabilities of a business are its debts. Liabilities are defined more precisely as "probable sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events". One common liability consists of amounts owed for goods and services bought on credit. This liability is called accounts payable. Other liabilities are salaries and wages owed to employees, taxes payable, notes payable, and interest payable.

A liability represents a claim against a business. In general, those who have the right to receive payments from a company are called its creditors. From the auditor's side, liability is the right to be paid by a business. If a business fails to pay its debts, the law gives the creditors the right to force the sale of the business assets to obtain the money to meet their claims. If the assets are sold under these conditions, the creditors are paid first, up to full amount of their claims, the remainder (the residual) going to the owner of the business.

Buyers often use a balance sheet to help them decide whether to buy a business. They use the balance sheet to compare the amounts of the existing liabilities and assets. A buy is less risky if the liabilities are small in comparison to the assets. There is less risk because there is a larger cushion if the assets cannot be sold at the amount shown on the balance sheet. On the other hand, a buy is more risky if the liabilities are large compared to the assets. The risk is greater because it is more likely that the assets cannot be sold for enough cash to pay all the debts.

Finding out whether there is a secret but gradual build up to the formation or enactment of harmful legislations that will not allow the operation of that sort of business. Some business are sold not because they are not doing well but because the operators are aware of the eminent government legislations/ regulations that are soon to be enacted and that will be inimical to the operation of such a business, and are therefore willing to sell the business at a give away price to enable them to start a new business before it became too late (eg Tobacco Laws). A buyer must look deep into why the owners of a well-to-do business are willing to sell same even when it is known that they are making huge profits. Timely knowledge of this will help the buyer a great deal.

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