

# OPERATIONAL BUSINESS PLAN FOR DEMAND AND FINANCIAL PROJECTIONS IN ADAMU INTERNATIONAL STANDARD BREAD (AISB) DAMATURU, YOBE-STATE, NIGERIA

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## Abstracts

*The research titled 'Operational Business Plan, Demand and Financial Projections of Adamu International Standard Bread (AISB) in Damaturu, Yobe State' is imperative because of the crucial role of effective demand forecast and financial estimates for SMEs. A major challenge to existing firms is meeting the market demand. A Bakery business is a classic example of a company whose product, loaves of bread faces an inelastic demand. Sudden increase in demand usually results from factor of increased in number of buyers. Damaturu is a civil servant town and a handsome number of low-income earners; demand for loaves of bread grows steadily. However, available quantity of bread usually falls short of demand and buyers scout around particularly for reputable ones. More so, limited finance hampered the ability to meet the increased demand resulting from inability to develop operational business plan acceptable to conventional and microfinance banks. This research examines the extent to which bakery could secure operational finance in the form of bank loan via business plan and financial projections. The research methodology is survey and case study. Data were gathered through survey and records available with the company. Major finding is the inability of the existing bakery to meet market demand resulting from limited finance due to poor business plan, demand and financial estimates. This is established by the fact that there is the need for 200% increased capacity on the current operations to meet the current orders. It recommends adoption of alternative/local inputs, and exploiting other markets around Damaturu metropolis.*

**Keywords:** Bakery, Business plan, Demand estimates, Financial projections.

## Introduction

A business plan can be seen as a document that commercialises a business idea as a whole towards potential investors and stakeholders. A business plan is successful if the proprietor is successful in conveying to the reader the most significant opportunities and growth capacities of the enterprise realistically. A business plan is a written document that describes in detail how a business (usually a new one) is going to achieve its goals. According to Galasso (2010), a business plan lays out a written plan from a marketing, financial and operational viewpoint. More so, business plan is paramount in that it allows a company to lay out its goals and attract investment. However, the business plan is not just for business start-ups. Many reasons such as business acquisitions, part purchases, newly developed

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products or changes in the market demands could prompt an existing business to create a business plan. Existing businesses use the business plan to monitor their expenses, define their strategies and benchmark their progress. Unlike new business start-ups, the business plan for an existing business is often simpler because the required information is readily available. Nevertheless, market analysis is important for both the start-ups and existing businesses since it serves as the basis for the marketing plan and helps to justify the sales forecast. Existing businesses will rely heavily on past performance as an indicator of the future (Gumel, 2019).

Adequate efforts must be made to provide room for enterprise opportunities for development. Demand forecasting are widely used in making pricing decisions, in assessing future capacity requirements, or in making decisions on whether to enter a new market. It also determines a company's production capacity and scheduling systems, and serves as inputs to finance, marketing and human resources planning. Managers should project balance capacity to enable better position and win the market (Rombe, 2018). This is the premise of business plan for existing enterprises. Importance of forecasting is not limited to areas of demand Rombe, (2018) sites other forecasting areas or types to include, economic forecast which addresses businesses cycles by predicting inflation rates, money in circulation, and other economic indicators. The technological forecast that concerns with the level of technological development, which may result to growth of new exciting products, requiring new plants, equipment and machinery.

According to Eniola, (2013) insufficient access to financial resources is a significant barrier to the performance and growth of SMEs and is said to be a major factor of high rate of business failures. In addition, SME owners lack business plan preparation, mentoring and management training to enable them access external finance for the purpose of growth and improved performance. The study by Evbuomwan, Ikpi, Okoruwa and Akinyosoye (2012) indicated that 75.7% of their survey respondents relied mostly on own funds to finance their businesses. Therefore, to meet the challenges of financial constraint, a going concern need good business plan to meet financial requirement when there is sudden changes in level of demand, which require increased capacity. Therefore, existing SMEs must be up-to-date with regard to the ability to raise finance to meet operational costs associated with increased capacity toward meeting increased demand. Drawing up a good business plan could achieved target goal to meet the requirement of available banks, which usually prefer to finance existing business with records of accomplishment or performance, and standardised financial projections.

Bread making is a good business in the poverty ridden areas particularly a location that had suffered long period of instability. This is because, it is staple food; consumption is always constant for poor masses and therefore the demand is almost price inelastic. Increased demand for loaf of bread is a factor of increased in the number of buyers resulting from migration from the crises affected areas into the city centre. In addition, many owners abandoned their business at the instant of Boko Haram insurgency. The resultant effect is upward shift favourable demand for

bread. This research observes the unstable nature of business operations particularly as it affects demand and production in Damaturu metropolis. Even with adequate forecasts, some changes are unimaginable, tempt to proof wrong an expert opinion, and documented target. Such an instance is the case of sudden increase in consumers of food items in Damaturu after restoration of peace in the last about five years commencing from 2015. Bakery business has been promising with some of them unable to cope with the new market demand for loaf of bread. Ability to raise finance via drawing up of operational business plan, which is acceptable to financial institutions, is a way out for bakeries toward better performance. The focus of this paper is to examine the role of business plan in raising operational finance for bakery business.

### **Literature Review**

Existing business are in dare needs of operational business plan to take market advantage and prosper. Indeed, many Nigerian small businesses originated through heredity of business-minded individuals that might established a business venture through personal saving and family borrowings. Thus, it is difficult for small businesses to grow without additional funding which remains always difficult for many of the Nigerian entrepreneurs (Gumel, 2019). The main issue is that o business sustenance resulting from inability to meet up with growing demands. Kolawole (2014) identify business sustainability as a significant factor in assessing the impact of micro finance banks in the business life of small business in Michika Metropolis.

Aremu and Adeyemi (2011) carried out a study in Nigeria to find out the challenges facing SMEs in Nigeria employing ANOVA statistical technique. Their result shows that access to funds is one the major challenges facing of SMEs. Akingunola (2011) performs a study on the challenges facing SMEs in Nigeria using Rho spearman. The result shows that there is a positive relationship between SMEs financing and their performance.

A business plan serves as a valuable tool for management of a company because it helps the proprietor to efficiently plan the company's development and prepare towards necessary modification and measures in a structurally predetermined way. It therefore serves as a guide to the daily decision-making and as a control tool in managing the current business. In addition, from an external point of view the business plan represents the main financing tool of a firm, and serves as means of securing cordial relationship between the business and owners in the one hand, and the enterprise with the lenders on the other hand (Vaseghi, 2007).

### ***Business plan versus Demand Forecasting***

Forecasting is a prediction, concerning determining what the future will be, a plan is an input to the forecasting model. If forecasts are undesirable, then one might change the plan, which, in turn, could change the forecast. Thus, a good plan depends on good forecasts (Amstrong, 2001). Forecast has many uses in accounting

such as cost estimates, profit projections and cash management. In addition, forecast in finance has uses such as equipment replacement needs, timing and amount of funding or borrowing needs. More so, forecast has uses in human resources, which includes hiring, recruitment, training, layoff planning, outplacement and counselling; whilst in marketing function, it includes product design, pricing, promotion and competitive strategies and in management information systems (MIS), it covers operations and product designs (Stevenson, 2005). With rapid and often unpredictable changes in the economic and market conditions, managers are making decisions without knowing what will exactly happen in the future. Forecasting therefore, remains essential for decision making because it 'is a planning tool that helps management in its attempts to cope with the uncertainty of the future, relying mainly on data from the past and present and analysis of trends (Ogedengbe, Ogedengbe, Okhaku & Ewanlen, 2018).

Good forecasts are the major input in all aspects of manufacturing operations decisions; and when the accuracy of forecasts declines, decisions based on the forecasts lead to operational missing steps. The increased complexity of organisations and environmental dynamism have made it more difficult for decision makers to take all factors regarding future development of organisations into account and therefore have to rely on combination of many methods of forecasts so as to reduce errors arising from faulty assumptions, bias, or mistakes in data (Ghodrati & Kumar, 2005).

Goal of forecasting is essentially to provide most objective prerequisites for making business decisions and effective analysis of the events that might unfold. This is very imperative regardless of the type of industry, be it manufacturing, service or goods providers. Indeed, enterprises are established to meet some particular needs of their customers, and managers must take actions; using capital and other resources carefully to earn incomes. In a successful company, business and strategic situations are thought about continually and decisions are made early enough in order to act successfully within the market. Business plan is meant for mid-size and small companies of assessing a company and positioning it correctly within the market. Small and midsize companies must also have to compete and view their markets from standardized perspective. It is those entrepreneurs that have prepared thoroughly that have the hope of successful operations (Vaseghi, 2007). Forecasting has wide coverage in the activity of a business organisation. Ezeliora, Umeh, Mbeledogou, and Okoye, (2014) identify the following roles of forecasting: ***Demand Forecasting:*** Production Planning and product scheduling functions of a business requires the need not to operate in wilderness. Crucial decisions about how much to produce must be taken; all depends upon its estimate of future demand for the product. If the forecasted demand is expected to rise, the firm can plan for expansion of its production capacities. Again, in case of declining demand, inventory planning is useful for the firm to acquire the right quantum of inventory at the right point of time to meet the needs of the production without unnecessarily locking up the finances of the firm in inventory accumulation. Sound predication of demands and trends are very essential items if managers are to cope up with

seasonality, sudden changes in business levels, and price-cutting manoeuvres of competition, strikes and large swings of economy (Chambers, 2017)

**Capital planning:** Business has to take crucial decisions about quantity to produce which depends upon its estimated future demand. If the forecasted demand is likely to rise, the firm can plan expansion of its production capabilities to meet the growing demand at the right point of time. If business capacity is inadequate, ability to meet customers demand become ineffective, and may lead to loss of customers, market share and good will. On the other hand, excess capacity could end up in a situation whereby huge amounts of capital are tied up with little or no return. Therefore, Managers should project balance capacity to enable strike a balance and win the market. Increased production requires increased capital resources, and as well as working capital. Availability of demand forecasts helps the firm to mobilise the capital resources in time.

**Marketing strategy:** Demand forecasting is useful in devising appropriate sales promotion, advertisement expenditures or marketing strategies. Where demand forecasts indicate a declining trend in sales, a firm resort to intensive sales promotion and aggressive marketing campaigns to sustain reasonable sales.

**Manpower planning:** Human resource is an important capital in any business organisation, hiring, training and development, or dismissal of employees depends on anticipated demand and the quality of manpower employed. Senior Management needs to give enough warning time to Human Resources Departments with regard to hiring, training and lay-off of workers. For example, inadequate training could result in poor performance and reflect negatively on quality of products and services production. A firm has to recruit and train the appropriate level of work force. This calls for forecasting the demand well in advance so that the required contingent of the labour resources could be obtained.

**Pricing strategies:** Devising and setting the optimum pricing depends upon the forecasted demand. Where forecasts indicate a declining trend, the company has to slash the prices to sustain demand, and conversely, if the forecasts indicate increased demand in the market share over a longer period, the firm charges higher prices subject to the other considerations.

### ***Supply Value Chain***

Good supplier relations and price discount for materials and parts depend on accurate forecasting. The forecast must strive to get the right items in the right quantity, at the right price and at the right time (Rombe, 2018). The need for raw materials and spare parts is the life wire of some companies. This is because, they need to maintain an inventory of spare parts to enable them to quickly repair either own equipment or their products sold or leased to customers.

### ***Financial Needs***

The importance of the financial management is on the premise that it serves as tools for effective management of enterprises. It is the practical abilities of the managers determining the success or otherwise of a business (Delkash & Mouari 2016). The overall strategy of an organisation is codified through financial

terminologies and therefore, financial strategy is the most oriented business approach used in coordinating all other programmes. Thus, financing is a catalyst and a success factor for then growth, development and sustenance of an economy (Taiwo, Falohun, & Agwu 2016).

### ***Purpose of Financial Projections in the Business Plan***

CFO (2020) maintains that an important aspect of the business plan process is the preparation of financial statements, which predicts the outcome of organisation results. Usually, it is based on compiling the internal and external accounting data already used in the day-to-day management of an enterprise. According to Maverick, (2019) a financial forecast is estimation of projection of likely future income or revenue and expenses. A financial plan lays out the necessary steps to generate future income and cover future expenses. This is done by developing projected Income Statements, Balance Sheets, and Cash Flow Statements. Usually, projected on a monthly basis for at least the first twelve months or until the business is profitable and stable. The benefits of financial projections are:

- i. It reflects an unbiased view of the firm's economic status and path that the business may likely take to the future;
- ii. It prepare for expenditures and revenue based on the supply and demand patterns for the products of an enterprise;
- iii. It set up points of achievements to ensure business is growing as predicted;
- iv. It also serves as mechanism of comparing the business growth with the market development to reveals possible areas of deviations;
- v. It therefore focuses on the following purposes;
- vi. Establish the profit potential given applicable assumptions of the business;
- vii. Determination on the amount of required capital and decision on capital deployment; and,
- viii. Demonstrate the business ability to generate adequate cash to meet operation capacity and meeting loans repayment.

The financial aspect of a business plan treats the financial impact on the various strategies that the enterprise adopts in achieving targeted objectives.

### ***Business Plan in Adamu International Standard Bread (AISB) at Damaturu***

Typical business plan and financial projections is the case of Business Plan of Adamu International Standard Bread (AISB). The salient features of AISB business plan is presented below.

AISB Bakery-Bread is a private company located at New Jerusalem, Damaturu. The Business is purely Bakery production of edible bread. Due to its good quality, market is always readily available. Main objective is to provide high quality bread within Damaturu Metropolis. The business is under a direct supervision and control of the proprietor, the owner who has been in the business since last fifteen (15) years. The plant facility is located on one (1) plot containing six (6) rooms apartment, a distribution vehicle, two (2) permanent personnel and three (3) temporary/seasonal labourers as at 2018.

**Table I: Existing (2018) Operation Capacity: P/Week**

S/NO	Mats. Inputs	QQ	Unit Price	Total Cost
1	Flour/bag	30bgs	10,500	315,000
2	Sugar	6bgs	15,000	90,000
3	Yeast	12pks	1,400	16,800
4	Butter	60pks	200	12,000
5	V. oil	6gln	2,000	2,200
6	Salt	12mud	300	3,600
7	Powder	30pks	700	21,000
8	Improver	12lts	1,000	12,000
9	Labour	5	3,000	15,000
10	Firewood consumption	Estimate per day @ #1,500	@ 6 days a week	9,000
11	Vehicle Fueling	@ #1,500 per day	1500x6days	9,000
	<b>TOTAL</b>			<b>#515,600</b>

**Source: Company Record 2018**

**Remarks:** With material requirement, items 1-11 in Table I represent the associated costs of weekly operation equals #525,600. Table II gives the revenue generated.

**Table II: Outlay of Income Generated; 2018**

DAY/ OUTPUT	Small Bread QQ	SP/1#	Income from Small Bread #	Big Bread QQ	SP/1#	Income from Big Bread #
1	1,200	100	120,000	100	200	20,000
2	1,200	100	120,000	100	200	20,000
3	1,200	100	120,000	100	200	20,000
4	1,200	100	120,000	100	200	20,000
5	1,200	100	120,000	100	200	20,000
6	1,200	100	120,000	100	200	20,000
<b>TOTAL</b>	<b>7,200</b>		<b>720,000</b>	<b>600</b>		<b>120,000</b>

*N.B: SP/1 = Selling price per 1*

**Source: Company Record 2018**

**Remarks:** AISB operates 6 days a week and produces small and big sized breads. Existing capacity allows production of 1,200 small-sized loaves per day at #100 per loaf. Total income from small bread equals 1200 x 100 x 6 days= #720,000. Similarly, it produces 100 big-sized bread per day at #200 selling price per unit equals 100 x #200 x 6 days = #120,000. Total Income = total income of small bread + total income of big bread = #720,000+120,000 = #840,000; Profit: =Total income - total cost = #840,000-#515,600 = #324,400.

***Increased Demand for Adamu International Standard Bread, 1<sup>st</sup> Quarter, 2019***

Market surveys available in the records of AISB indicate the following additional request by consumers in the city metropolis:

**Table III: Areas of un-served markets and Demand estimates**

S/NO	Market	Small Bread weekly demand	Big Bread weekly demand
1	Buni-Yadi Military Brigade	2,000	500
2	Polytechnic Community	2,500	1,000
3	Christian Congregations	5,500	1,000
4	Farmers/Labourers Assoc.	3,000	500
5	University Community	2,000	500
6	Kokareta Military Base	1,500	1,000
<b>Total</b>		<b>16,500</b>	<b>4,500</b>

Source: Company Record 2019

**Shortage of Supply:**

- i. Shortage of Small Bread =  $16,500 - 7,200 = 9,200$  (small bread)
- ii. Shortage of Big Bread =  $4,500 - 600 = 3,900$  (big bread). Total Shortage=  $9,200 + (3,900 \times 2)$  i.e. expressing all in terms of small bread =  $9,200 + 7,800$  (a 'big bread' = two (2) small breads) =  $17,000$  (small bread).

**Meeting the shortage requires:**

Where  $7,200 + (600 \times 2) = 8,400$  initial production expressed all in small bread. Therefore:  $17,000 / 8,400 = 2.0238$  additional inputs/money capital required = 202% approx.  $202/100$  of 515,600 (i.e. total cost initial position) = #1,041,512 (additional capital required). Possible Profit position with the injection of #1,000,000; With the 200% increased upon original cost outlay, profit reflection =  $200/100 \times \#324,400$  (initial profit) = # **649, 600**

**Remarks:** With profit level of #649, 600 p/week, the proposed plan is very feasible. The business has very high capacity to pay back. There could be chances for additional innovation with proposed investment.

**Table IV: Proposed Operation Capacity and Cost Implications to meet the new Target/ er Week**

S/NO	Mats. Inputs	Quantity	Unit Price	Total Cost
1	Flour/bag	60bgs	10,500	630,000
2	Sugar	12bgs	15,000	180,00
3	Yeast	24pks	1,400	33,600
4	Butter	120Pks	200	24,000
5	V. oil	12gln	2,000	24,000
6	Salt	24mud	300	7,200
7	Powder	60pks	700	42,000
8	Improver	24lts	1,000	24,000
9	Labour	10	3,000	30,000
10	Daily Firewood	4,500 Est.	x 6 days	27,000
11	Fueling	4,500 Est.	x 6 days	27,000
	<b>TOTAL</b>			<b>#1,048, 800</b>

Source: Field Work 2019

**Findings and Discussions**

There is increased demand for AISB bread reflected in table III. The quest to meet the new level of demand necessitates additional working capital of about

200% of the current liquidity position. Attempt to raise the funds from informal sources such as friends and relatives proved difficult and the firm became incapacitated. AISB is considering sourcing working capital of #1,000,000:00 from financial institution; microfinance or commercial bank. If the loan is obtained, the firm shall access economy of scale resulting from bulky purchases, which shall further reduce the estimated cost for the new capacity. A major requirement for such facility in the business plan includes:

- i. The existing capacity fall short of demand for the product. This hovered around 200% of the present product level. Therefore, the firm is able only to meet half of its customers.
- ii. The firm is handicapped due to limited access to financial funds to meet required capacity.
- iii. Failure to draw good business plan is a major factor of failure.
- iv. Inability to timely plan, demand forecast and financial estimates are contributing factors of predicament.

### ***Challenges and Risks***

- i. Adamu International Standard Bread (AISB) is of assumption that the existing trends shall continue into some future period; at least next one to two years. Real business life situation portend some doubts because demand for bread may experience down turns with increased in numbers of elites that are presently into farming activities. Present consumers could change taste in favour of wheat and grains grown on the farmland. Recent experiences cast doubts on manufactured foods, natural food items are seen as better alternative source of food nutrients.
- ii. Factor of unexpected calamity such as epidemic corona virus should be factored into environment-sensitive business proposal and plans in order that those targets do no become ordinary dreams. Social distancing and mask wearing has little or no effects for peasant farmers but has tendency to reduce bread consumption and labour cost for who-would-be bakery labourers.
- iii. The bread –maker must also be aware of possible new comers that are encouraged by increased demand. This has threats on level of profits generated in the very near future.

### **Conclusions**

AISB has some years of business experience. The following key features could be to the firm's advantage:

- i. Business location is specified, strategic commercial and peaceful environment.
- ii. Existing facility is well defined in terms of building structures, business offices and other accessories.
- iii. Current capacity is well demonstrated.
- iv. Specified income from existing operations exist.
- v. Targeted potentials presented with possible returns from the new investment outlay.

Financial institutions and Microfinance Banks always prefer physical facilities as collateral for loans. The business is located at the state headquarters where security is guaranteed compared with other settlements outside Damaturu town. Both average and low-income earners have inelastic demand for bread. If Adamu International Standard Bread (AISB) is able to secure a loan of #1,000,000 for the proposed increased capacity, the firm has bright future.

### **Recommendations**

- i. Alternative inputs such as wheat and corns very common in the locality should be additional area to exploit. Restricted interstate movements could block or reduce supply of flour, a major input and consequential increased costs.
- ii. The bread production could go into advance processing and bakery rather than the archaic firewood ovens and the use of manual labourers.
- iii. Other potential buyers could be exploited in such areas as Dikumari, Nayinawa and Teaching Hospital along Potiskum axis and the Airport area along Gahua road rather than limiting horizons to areas that might already gained attention of other bakeries.

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