

**BUSINESS PLAN FOR LOREL FLOUR
MILLS**

BY

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ENTREPRENEURSHIP

GST 213 ASSIGNMENT

BUSINESS PLAN FOR LOREL FLOUR MILL

This business plan is written to start the production of yam flour by LOREL Flour Mill Plc. This cover page provides the contents of the business plan.

Name of Business: LOREL Flour Mill Plc

Type of business: Yam flour production

Location of Business (Factory): No 15, Akinyele Street, Moniya, Ibadan. Oyo State.

Principal's name: Bamigbola Oreoluwa Elizabeth

Principal's Address: No5, Adams Street, Oluana, Akingbile, Moniya. Ibadan.

Nature of Business: The proposed said yam flour production is assumed to operate as a private limited company

Financial need: The financial needs required to start this business amounts to closely four million naira (₦4,000,000.00)

- **Owner's contribution:** ₦1,000,000.00
- **Loan request:** ₦3,000,000.00

PROPOSED LOAN TERMS:

- (i) The loan shall be repaid in 3 years and shall attract an interest of 20% per annum.
- (ii) Moratorium shall be six (6) months.

NOTE: This report and its content is confidential to the entrepreneur and whoever wants to make use of it must obtain permission from the entrepreneur.

TABLE OF CONTENT**PAGE NUMBER**

A. Executive Summary	4
B. Company Summary	5
C. Industrial Analysis	5-6
D. Market Analysis	6
E. Human Resources and Cost of Production	6-7
F. Production Plan	7-8
G. Marketing Plan	8
H. Organizational Plan	9
I. Assessment of Risks	9-10
J. Financial Plan	10-16

A. EXECUTIVE SUMMARY:

Nigeria has not been able to exploit its abundant yam tuber population to become a major player in the international processed yam sub-sector. The major reasons include; non-availability of appropriate yam storage, lack of low cost processing equipment and absence of modernized forms of yam processing. To the amelioration of these, we plan to start LOREL Flour Mill.

LOREL Flour Mill is a registered business that will process and produce yam flour in Ibadan, Oyo State. This business aims to promote investments in Yam Flour in Nigeria.

In an effort to achieve these, we have carried out extensive feasibility research and put together a business plan to highlight the profitability inherent in this investment. All information used in this business plan were sourced from various reliable sources, which aside from our due diligence, includes statistics taken from the internet.

This business plan provides a financial and economic analysis of the opportunities available in the agricultural sector for us and identifies the potential technical strengths and challenges that we may encounter. We chose to locate our business in Ibadan after our extensive research because it provides us with close proximity to yams from within Oyo state as well as Ondo and Ogun states etc.

As the city keeps booming in growth, we at LOREL Flour Mill will receive an added boost of traffic. We are aggressively planning for a 50 percent increase in sales by the second year of business. We believe that by creating good supply channels, we can comfortably increase sales by ₦5,000,000 over three years while maintaining a gross margin of 80 percent.

Through a philosophy of “nothing but the best” regarding both product and service, we plan to make sure our product produced in our facility remains exceptional. Our plan is to be profitable within the first year of operation. We also plan reinvest in the company and expand our supply market to cover the whole of the South west of Nigeria by the third year.

B. COMPANY SUMMARY:

Company Name

The name of the company is LOREL FLOUR MILL. This name was registered under the Corporate Affairs Commission (CAC) on 5th of June, 2019. The name of the company was gotten from the first name of the owner of the business who is also the principal officer in this business.

Product of Company

The main product of the company is yam flour. Yam flour is brownish in colour and produced from dried yam. Yam flour is often fortified with vitamins (e.g. A, B, B2, B3) or minerals (e.g. iron), or occasionally blended with other flours. With regard to the properties of the product, yam flour should have a moisture content of around 10 percent, and should be free of moulds (fungi), etc. Dried yam products have a shelf life of approximately one year.

Location of company

The company's factory is going to be located at No 15, Akinyele Street, Moniya, and Ibadan. Oyo State. The land belongs to Bamigbola Oreoluwa Elizabeth who is also the owner and main shareholder in the company. This location is far from residential areas. It is also close to two main markets in Ibadan, Akinyele market and Sasa market which allows easy sale of products to customers. The location is close to farms in this area which allows easy access to raw materials.

C. INDUSTRY ANALYSIS:

Yam is an important source of carbohydrate for many people in Nigeria. It remains the second most important tuber crop in Nigeria, after just cassava root, with production reaching above one third of the level of cassava. Yam tuber is without doubt a starchy food, its key nutritional function being the supply of calories to the body. This characteristic contributes to the sustaining of food supply, especially in the scarcity periods at the start of the wet season. Yam tubers grow up to 2.5m (8.2ft) in length and weigh up to 70kg (154lb). It has a tough stem that softens after heating. They are annual or perennial tuber-bearing and climbing plants with over 600 species out of which six are economically important in terms of food and medicine.

It is one of the principal tuber crops in the Nigeria economy, in terms of land under cultivation and in the volume and value of production. Oyo North remains the major and highest yam-producing zone in Nigeria as well as in the whole South West of Nigeria where the common species are *Dioscorea rotundata* (White Yam) and *Dioscorea alata* (water yam).

In these areas, the variety of yam cultivated depend on the yield, commercial value as well as excellent food products. Yam production in this area is on commercial production that can

sustain any yam-processing venture resulting in high profits. Mainly the *Dioscorea rotundata* (White Yam) is used in the production of yam flour.

Even though there are many producers of yam flour, the demand of yam flour is still very high due to the ever growing population of the city and the country at large and hence there is still a supply gap to be filled to ensure adequate supply of yam flour to the public. This shows that there is opportunity to enter the market and for the business to be successful.

D. MARKET ANALYSIS:

The company wishes to sell its goods to customers only within Oyo State. The company has identified two major customer groups within the state: consumers who wish to purchase the goods in large quantity for consumption and retailers who wish to buy from the company and sell in small amounts to final consumers for consumption. A typical example of an ideal customer is a market man/woman who sells flour products to final consumers in the market place. Most market men and women prefer to buy directly from the company at reduced prices in order to gain more profits. Also, high class individuals mostly women prefer to buy from the company in large quantities to avoid stress of going to the market several times. The company will therefore concentrate its marketing efforts on these two customer groups mainly within Ibadan and then extend to other parts of Oyo State. The Ibadan indigenes are mostly known for their popular “Amala and Gbegiri” and since yam flour is an important ingredient in making this meal, the demand for yam flour is very high in this area. From research at least 1 person in each household eats amala every day in about 90% of households in Ibadan. Therefore many people will purchase this product and hence this business has a high market potential.

E. HUMAN RESOURCES AND COST OF PRODUCTION:

The mission statement of the company is “LOREL: nothing but the best”. This mission statement will help the company and its staff to deliver the best products and services to its customers.

At take-off, the business will require a manager/owner who will also act as the supervisor of operations within the factory, 3 laborers who will be involved in production process, a production officer who will supervise production process, 1 machine operator, a cleaner and security officer for the factory and they will all be running on an eight (8) a.m. to six (6) p.m. shift from Monday to Friday., an accountant will also be needed and a marketing officer as well.

The compensation package for three year structure is in the table below

Projected Staff Strength

Title	Year 1	Year 2	Year 3
Manager/ Supervisor	1	1	1
Marketing Officer	1	1	2
Accountant	1	1	2
Production officer	1	1	2
Labourer	3	3	3
Machine operator	1	1	1
Cleaner	1	1	1
Security	1	1	1

Projected Total Compensation Package Per Annum (₦)

Manager/ Supervisor = 300,000

Marketing Officer =180,000

Accountant = 240,000

Labourers = 90,000

Production Officer =180,000

Machine operator = 180,000

Cleaner = 60,000

Security = 60,000

F. PRODUCTION PLAN:

The production plan for the production of yam flour will combine both labour- intensive and capital-intensive method as both labourers and machines are made used of for optimum results in production process. The main raw material required to make yam flour is tubers of yam.

The production process will begin with sorting tubers of yam to remove bad tubers of yam and obtain fresh tubers of white yam. Since the factory is located near the farms, sources of the yam will be directly from farmers in this area. Alliances will be made with farmers whose farms are located near the factory to supply fresh tubers of yam to the factory. After the fresh tubers of yam are obtained, the sorted yams are appropriately weighed to measure input of the raw yam. The raw yam are then blanched by placing in boiling water for a few minutes to soften the skin for simple peeling. 100 tubers of yam are washed to remove dirt from it. The tubers are then

peeled and sliced into smaller sizes. The yam is then transferred into the drying machine and then transferred to the grinding machine and ground into powder. The powder is then sieved to obtain the craving molecule estimate. The flour obtained is now packaged by the automated packaging and sealing machine into damp proof polythene bags at 10kg per bag and final products are sold to customers. The machines to be used are weighing machine, drying machine, grinding machine and automated packaging and sealing machine. The production process would take about 10 hours. A production line can produce 100 bags of yam flour in a day using two (2) shifts of 10 hours each with one hour break. The production cycle would take a day. The sales cycles which involves selling the products to the customers can take about 3 days hence a 2-day grace is granted to customers who buy on credit. The entire business cycle including the production and sales cycle would take 5 days at maximum.

G. MARKETING PLAN:

The demand for yam flour in Ibadan currently is still higher than its supply. In order to effectively sell our products, our marketing plan at LOREL Flour will centre on educating our target audience and subsequent word-of-mouth. We plan to make our location known for its unique buying experience as well as a superior yam flour production. Our customers are middle class consumers and retailers who want quality and affordable products, also from research, competitors in the market sell at range of ₦13,000-₦15,000. After taking into consideration our customers likes and dislikes, preferences and our cost of productions, we decided to sell at ₦12,500.

We plan to reach our clients through fliers, newspaper advertisements and special holiday promotions and also give free samples of our products to the public. Our business location will also play a very important role in marketing and promotion. We plan to target progressive and generally well-educated and middle class consumers who are interested in trying new products and experiences and are dissatisfied with the limited selection and lack of solid and quality goods seen in the market. As we advertise our products to the public, we would ensure to produce enough goods to avoid shortage of goods for sale. In order to prevent adulteration of our products, our trademark will be boldly imprinted on our products particularly on the packaging material.

Our major marketing objective is to sell the company as well as the product. Just as KFC is known for its great chickens, LOREL Flour will come to be known for its well-processed yam flours.

H. ORGANIZATIONAL PLAN:

The form of ownership will be a private limited liability because most of our customers would prefer to deal with a legal entity separate from its owner. Also limited liability enhances the personality of the organization. Principal shareholders in the business are individuals who will invest in the business but they have little power in making decisions in the company. The main decision maker in the business is the entrepreneur. In case the private limited company has debt and losses, the only liability by the shareholders is only up to the amount they individually invested. Their personal assets, the salary earned as an employee of the company, real estate properties, etc. are safe from liquidation if insolvency occurs. The key officers in the business are the manager/supervisor who will see to the smooth running of the business, the accountant who will deal with the financial sector of the business, production manager who will supervise the production process in the factory as well as the workers in the factory such as the technicians in charge of the machines, labourers who will be involved in one or more sections of the production process. The marketing officer will also deal with sales and marketing of our products. The key officers will report to the manager on a weekly basis and the manager will report to the owners of the business on weekly basis as well.

I. ASSESSMENT OF RISKS:

After our research on the proposed business, some of the noticed potential risks in the business include:

- Contamination of raw materials
- Raw materials supply
- Power Supply
- Competition
- High rate of labour turnover
- Staff problems

On the issue of contamination of raw materials, we would ensure that the best of raw materials free from crop diseases are obtained from the suppliers in order to produce the best quality products for our customers. We would also build a network of reliable raw materials supplier to ensure that raw materials are always available for production. To ensure continuous power supply a 20KV generator will be procured. In business competition is important and we will use our proposed marketing strategy to widen our customer base. On labour turnover, we would ensure that workers' welfare will be the main attention of our management and any problem would be properly taken care of.

Also we would ensure that the company takes insurance cover against any form of theft, burglary, staff infidelity and other problems that may put the company at risk of closure. Also, it would be ensured that staff are hired based on their qualifications and not on sentiments in order to hire staff with best qualifications and also ensure good supervision of business activities to ensure smooth running of the business. SWOT analysis would be properly addressed in order to know the strengths, weaknesses, opportunities and threats in the business and act on them accordingly to increase the success rate of this business. SWOT analysis is seen below:

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
over 200 million ensures a large domestic market for Yam foods	Production processes are generally laborious and result in high costs.	Urbanization is creating opportunities for domestic market expansion	Competitions from regional markets as other Sub Saharan countries like Ghana, are also developing their Yam flour industries.
There is a wide market for Yam flour within Nigeria.	At 25%, yields are generally low.	Current Government policies will create production expansion.	Globalization in the market may result in an influx of competing foreign products such as Yam flour.
Exports market available as demand increases from West African communities living abroad.	Production is mostly on cottage scales	Rural employment and income generation.	Fluctuation in market prices.
High shelf life.	Scanty produce standardization and quality enforcement.	Low energy cost.	Lack of storage facilities as Yams has high perish-ability index

J. FINANCIAL PLAN:

The financial evaluation of the business covers a 2-year period of a three year plan. The calculations on production and finances in the report are based on the general assumptions stated below:

- Production will be 12 months in a year
- Normal losses of 1% are assumed for high quality tubers of yam
- Interest on loan is at the rate of 20% per annum.
- Insurance is equivalent of 2% of cost of fixed assets.
- Marketing/Distribution expenses are equivalent to 2% of sales.
- The project will attract a tax of 25%
- Depreciation is on straight-line basis.

**PROFORMA INCOME STATEMENT FOR TWO YEARS OF THE THREE
YEAR PLAN**

Year 1

Raw materials & Components	₦	
Opening stock	-	
Purchases	400,000	
Carriage on purchase	<u>5, 000</u>	
	405,000	
Closing Stock	<u>(20,000)</u>	
Issued to production	720,000	
Direct labour	800,000	
Other direct expenses	<u>20,000</u>	
Prime Cost	1,540,000	
Work Overheads		
Rates	120,000	
Insurance	250,000	
Power	400,000	
General repairs in the factory	80,000	
Miscellaneous	<u>50,000</u>	<u>900,000</u>
Factory input or works cost		<u>2,440,000</u>
Of production in year one		
Works Cost of finished goods output	₦	
Transferred from manufacturing account	2,440,000	
Opening stock of finished goods	-	
Total cost of produced goods		<u>2,440,000</u>
Closing stock	-	
Cost of goods to be sold		2,440,000
Sales		<u>4,000,000</u>
Gross profit		1,560,000

Administrative/Selling expenses	200,000	
Distribution expenses	<u>80,000</u>	<u>280,000</u>
Profit before interest and tax		1,280,000
Interest on loan		<u>600,000</u>
Net profit before tax		680,000
Taxation		<u>170,000</u>
Profit after tax		<u>510,000</u>

**PROFORMA BALANCE SHEET OR TWO RELEVANT YEARS OF THE THREE
YEAR PLAN**

Year 1

Fixed Assets	₤	₤	₤
	Cost	Dep	
Factory machine and	500,000	200,000	300,000
Office equipment			
Current assets			
Closing stock (raw materials)	700,000		
Debtors	1,000,000		
Cash	4,500,000		5,500,000
Current liabilities			
Creditors	200,000		
Loan	3,000,000		<u>3,200,000</u>
Working capital			<u>600,000</u>
			<u>3,800,000</u>
Financed by			2,350,000
Capital			<u>1,450,000</u>
Net profit			<u>3,800,000</u>

**PROFORMA INCOME STATEMENT FOR TWO RELEVANT YEARS OF THE
THREE YEAR PLAN**

Year 2

Raw materials & Components	₦	
Opening stock		700,000
Purchases		200,000
Carriage on purchase		8, 000
		<u>908,000</u>
Closing Stock		<u>(900,000)</u>
Issued to production		800,000
Direct labour		900,000
Other direct expenses		<u>25,000</u>
Prime Cost		1,725,000
Work Overheads		
Rates	120,000	
Insurance	250,000	
Power	600,000	
Depreciation of factory	150,000	
General repairs in the factory	70,000	
Miscellaneous	<u>40,000</u>	<u>1,080,000</u>
Factory input or works cost		<u>2,955,000</u>
Of production in year two		
Works Cost of finished goods output		₦
Transferred from manufacturing account		2,955,000
Opening stock of finished goods		-
Total cost of produced goods		<u>2,955,000</u>
Closing stock		<u>(20,000)</u>
Cost of goods to be sold		2,955,000
Sales		<u>5,000,000</u>

Gross profit		2,045,000
Administrative/Selling expenses	300,000	
Distribution expenses	<u>90,000</u>	<u>390,000</u>
Profit before interest and tax		1,655,000
Interest on loan		<u>250,000</u>
Net profit before tax		1,405,000
Taxation		<u>351,250</u>
Profit after tax		<u>1,053,750</u>

PROFORMA BALANCE SHEET FOR TWO RELEVANT YEARS OF THREE YEAR PLAN

Year 2

Fixed Assets	₤	₤	₤
	Cost	Dep	
Factory machine and	350,000	150,000	200,000
Office equipment			
Current assets			
Closing stock (raw materials)	350,000		
Closing stock (finished goods)	450,000		
Debtors	1,000,000		
Cash	4,850,000		6,650,000
Current liabilities			
Creditors	3,000,000		
Loan	600,000		<u>(3,600,000)</u>
Working capital			<u>453,000</u>
			<u>4,053,000</u>

Financed by	3,000,000
Capital	<u>1,053,000</u>
Net profit	<u>4,053,000</u>

EVALUATION, RECOMMENDATION AND CONCLUSION: To be able to make an objective and scientific recommendation and conclusion, we shall analyze the financial statement using financial ratios

A. Liquidity ratio

a.
$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

Year 1	Year 2
$\frac{5,500,000}{3,200,000}$	$\frac{6,650,000}{3,600,000}$
=1:1.71	=1:1.85

(ii)
$$\text{Acid test ratio} = \frac{\text{Current assets} - \text{Stock}}{\text{Current liabilities}}$$

Year 1	Year 2
$\frac{5,500,000 - 700,000}{3,200,000}$	$\frac{6,650,000 - 700,000}{3,600,000}$
= 1:1.5	=1:1.65

Although the liquidity ratio of the company may not look very impressive, but looking at the improvement from year one to year two, this liquidity positions of the company looks very promising.

b. Profitability Ratio:

(i)
$$\text{Gross profit margin} = \frac{\text{Gross profit} \times 100}{\text{Sales}}$$

Year 1	Year 2
$\frac{1,560,000 \times 100}{4,000,000}$	$\frac{2,045,000 \times 100}{5,000,000}$
=39%	=40.9%

(ii) Net profit margin = $\frac{\text{Profit before interest and tax (PBIT)} \times 100}{\text{Sales}}$

Year 1
 $\frac{680,000 \times 100}{4,000,000}$

= 17%

Year 2
 $\frac{1,405,000 \times 100}{4,000,000}$

=35.1%

Although, the profit margin looks very impressive but looking at the taxation on the profit and expenses incurred from power and labour in the company, if government efforts in infrastructural development particularly power as well as agricultural policy improves, this venture will skyrocket to the best it can ever be in no time.