

Business Start-Up Guide

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FOUR MAJOR THINGS THAT SMES AND
START-UP ENTREPRENEURS MUST DO TO ATTRACT INVESTMENT



Four Major Things that SMEs and Start-up Entrepreneurs Must do to Attract Investment

Nigerian entrepreneurs are taking advantage of business opportunities and spaces where business activities and services are needed, to provide those services to willing consumers. There are over 3 million SMEs in the country which account for over 84% of jobs in the country, 4.5% of the country's GDP and 7.27% of exported goods and services.

Everyday new startups are being birthed and many founders require financial investments to transform their ideas into viable businesses. However, entrepreneurs must ensure that their businesses are investment ready and attractive to prospective investors. Here are 4 (four) major things that startups and SMEs must do to attract investments:



IDEA



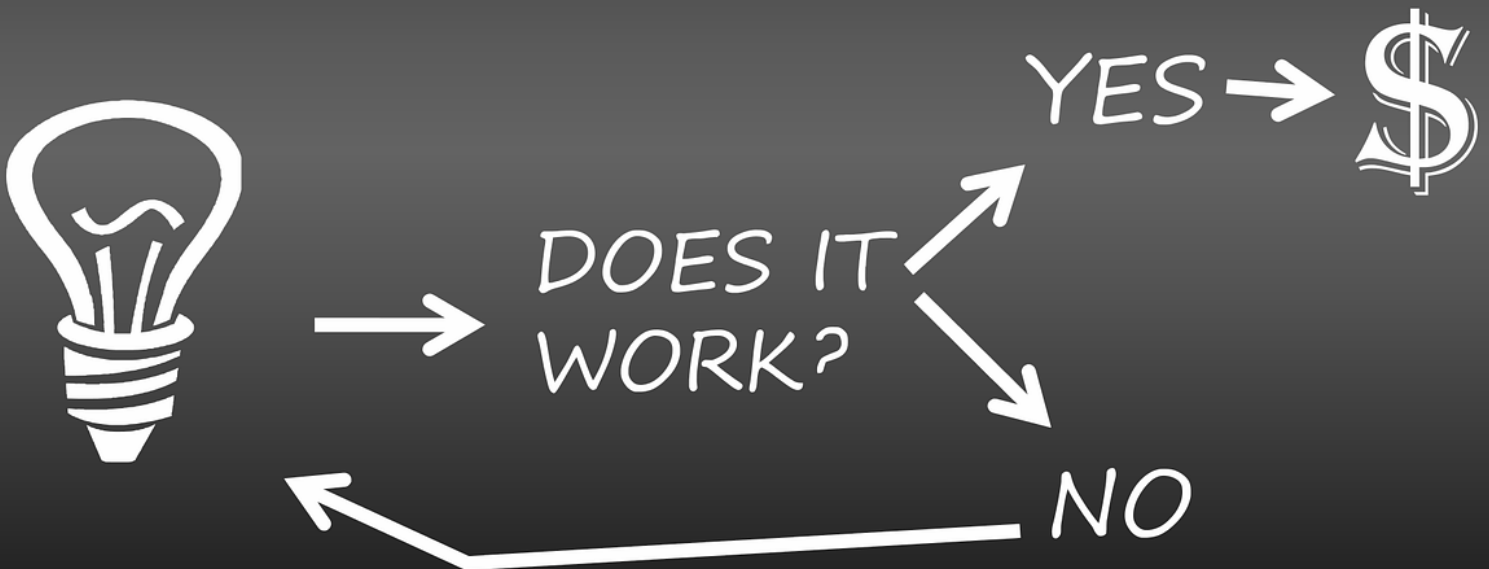
1. Select an appropriate business structure

A business structure is the registration requirement of a business. Entrepreneurs must consider these questions when selecting an appropriate structure:

- a. How is the startup to be set up?
- b. Is the business to be incorporated as a company or registered as a business name?
- c. Are there 2 or more business partners or is the business run by a sole proprietor?

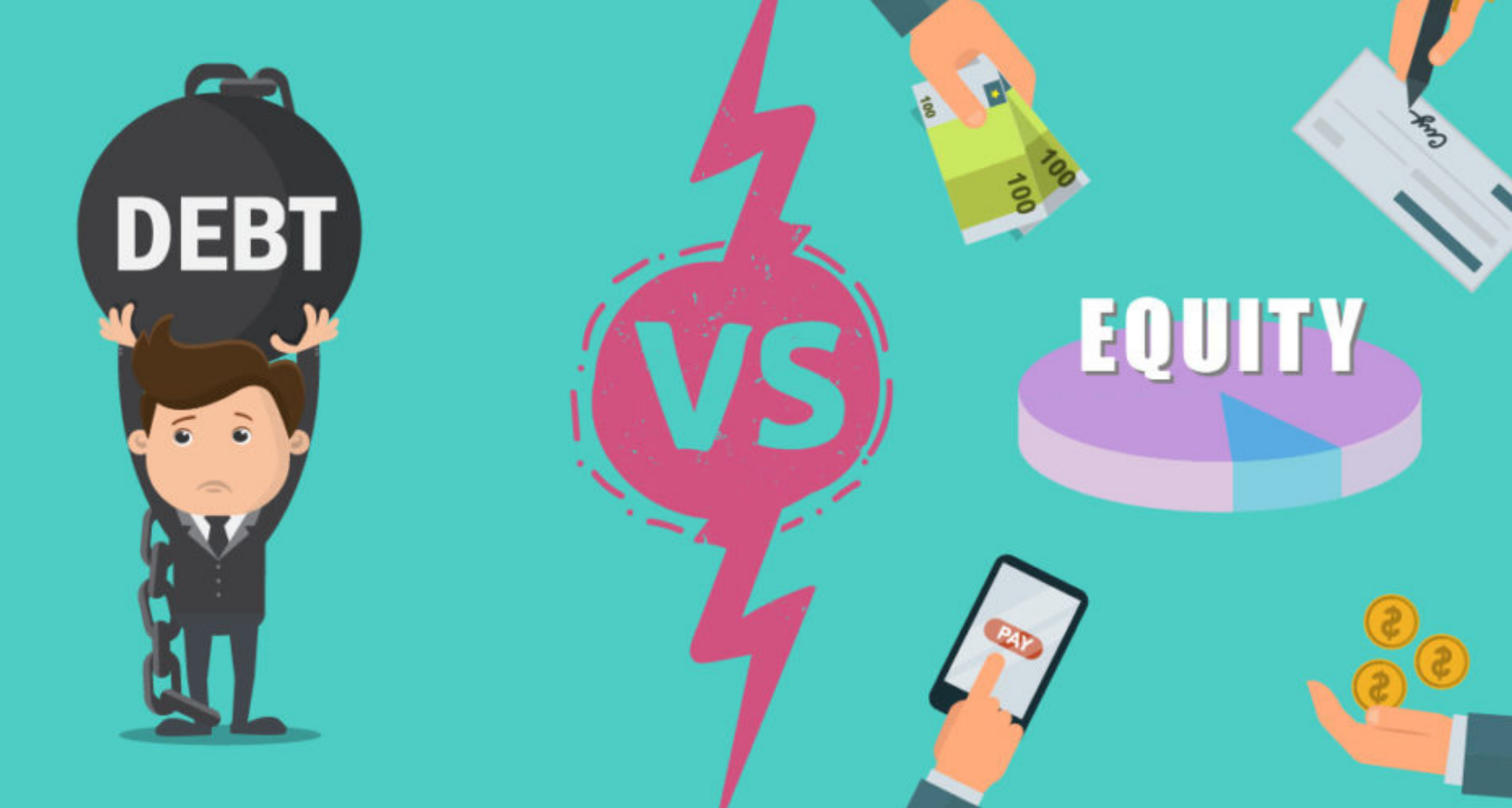
Different structures may apply to different sectors. For example, a startup may be operating in a sector that requires a company to be incorporated. Also, investors are more attracted to the company structure because it gives them ownership rights in the company in exchange for their investments. In some cases, depending on shareholder and investment agreement, the investors may also have some input in directing the affairs of the company. A company structure provides immediate consideration for investors, in the form of shares and ultimately dividends, in exchange for their investment.

Business Plan



A startup is most prepared for investor engagement when it has a prepared business plan that expresses operations strategy, the cost of operations and marketing and the path between investment and returns. Investors need to be assured that there is a viable market for the business and that they will receive a return on their investment. Entrepreneurs therefore need to prepare business plans that show a detailed breakdown of the business operations, the sales and marketing strategy and a financial plan that will show the cost and profit scenarios for the company and an estimation of the timeframe between investment and earnings.

2. Develop a business plan



3. Determine the type of investor and investment the business requires

Startups and SMEs shopping for investors must consider the type of investor and structure of investment they require. For example, they must consider whether they require short-term capital injections or patient capital. They must consider whether they require equity investment or a loan. They must consider whether they want investors who will mentor the business founders and provide networking opportunities or simply require access to finance. Investors come in different forms and startups must tailor their investor engagement strategy to the particular investor being courted.

Should I Hire A Lawyer?



4. Yes, hire a lawyer.

Though listed here as the last, this should be the first step a start-up should take - hire a darn good commercial lawyer. Hiring a lawyer to represent the SME/startup and its interests with investors and between the founding partners is an important part of getting investment ready.

A lawyer will advise on the appropriate structure and assist with investor engagement. A commercially minded lawyer will ensure that both the investor and startup founders understand each other's terms and are in a well-structured partnership. All legal and regulatory matters that are necessary to be investment ready will be quickly anticipated and handled by a lawyer when one is onboarded with the startup in its formation stages.

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