

EFFECTIVE BUSINESS MANAGEMENT FOR SMALL BUSINESSES

TRAINING MODULES

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CAUSES OF BUSINESS SUCCESS/FAILURE

Topic Objectives

At the end of the topic, the participants should be able to: -

1. Highlight the factors that contribute to business success or failure
2. Identify symptoms of business failure
3. Identify the main business skills required for successful management of an enterprise
4. List the measures to be taken in guarding against business failure

Introduction

It is not obvious that once a business starts it will succeed. Many businesses fail before the end of the starting year. This calls upon prospective businesspersons to remember from day one that success and failure are two given possibilities in business and therefore must guard against failure while cherishing success. However, it will be a matter of guesswork if somebody is guarding against failure without knowledge of what leads to success.

Business success

A business is said to be successful if it meets its stated objectives. This will be manifested in the business being able to survive long periods of profitability and continued expansion. Success is not something that just comes. It is an end result of personal initiative, determination and commitment to the spirit of entrepreneurship. Before venturing into business, one has to ask and answer the following three questions:

- a. **Why am I going into business?** Most business people think they go into business to make money and become their own bosses. However, there are other rewards and responsibilities attached to or associated with having your own business. Discover them before you start.
- b. **What business am I going into?** Some business owners may go broke and others waste their savings because they do not understand the business they are going into. It is important that every entrepreneur considers carefully the business he ventures into as the requirements for some businesses may be beyond his capability.
- c. **Why do some entrepreneurs fail while others succeed in business?** It is not obvious that a business venture will succeed. Many of the enterprises we see today have been launched and re-launched severally. It is important that a prospective businessperson finds out why some businesses fail while others succeed. This provides the person a solid ground upon which to build his or her business.

These questions, if well answered, give the person a good background of how to start and ensure business success.

Factors that Contribute to Business Success

Planning to succeed should start with a study on the success or failures of others; identify business role models and network with other business professionals. This should be followed by market research, identifying the primary audience/consumer and developing a five or ten year plan that includes cash flow, financing and expansion concerns. The old adage, "People don't plan to fail, they fail to plan" certainly holds true when it comes to small business success.

The following are some of the factors that contribute to business success: -

1. **Personal traits and characteristics.** Successful entrepreneurs have been found to display certain personal characteristics and traits. It is important for a prospective businessperson to find out if he has the following characteristics and traits, among others: -
 - a. **Opportunity seeking and initiative:**
 - Does things before asked or forced by events
 - Acts to expand the business in new areas, product/services
 - Seizes unusual opportunity to start a new business, obtain financing, equipment, land, workforce, assistance etc.
 - b. **Risk taking**
 - Deliberately takes risks and evaluate alternative solutions
 - Takes action to reduce risks or control outcome
 - Places self in situation involving a challenging situations
 - c. **Demand for efficiency and quality**
 - Finds ways to do things better, faster or cheaper
 - Does things that meet or exceed standards of quality
 - d. **Highly Persistent**
 - Takes action in the face of significant obstacles
 - Takes personal responsibility for the performance necessary to achieve goals and objectives
 - e. **Commitment to work**
 - Makes a personal sacrifice or expects extraordinary effort to complete a job
 - Mixes with workers in their place to get job done
 - Strives to keep employees satisfied and places long term goodwill over the short term gain.
 - f) **Have a high reputation for integrity, quality and values**
2. Development of a clear credit policy which includes: -
 - Who is eligible for credit
 - Circumstances under which a customer can be given credit
 - How to assess credit risk
 - The amount of credit that can be given at once
 - The credit period allowable

- The security to be given
 - The collection policy
3. Development of a business plan that acts as a business compass
 4. Obtaining accurate financial information about the business in a timely manner. This can be attained through proper and adequate record keeping and a regular analysis of these records
 5. Adequate profiling of target customers
 6. An understanding of competition in the business industry chosen
 7. Going into business for the right reasons
 8. Networking with other business owners in similar industries
 9. Choosing a right pricing strategy
 10. Realizing that consumer tastes and preferences change with time
 11. Setting aside some resources that will allow the family to survive for at least three times longer than the time period the project will take to break even
 12. Likewise, projecting and putting aside the operating capital the business will need before it breaks even
 13. Staffing the business with the right staff. Avoid relatives and personal acquaintances
 14. Know your market

??BIG QUESTION??

NOW THAT WE ARE ALL AWARE WHAT MAKES BUSINESSES FAIL WHAT SPECIFIC STEPS WILL EACH OF US TAKE TO STRIVE FOR SUCCESS?

Business Failure

A business becomes a failure when it fails to meet its objective. This is manifested when the business closes down or fails to make profits among many other reasons. It is researched and established that the failure rate for new businesses seems to be around 70% to 80% in the first year and only about half of those who survive the first year will remain in business the next five years; Businesses with fewer than 20 employees have only a 37% chance of surviving four years of business and only a 9% chance of surviving 10 years. Of this failed business, only 10% of them close Involuntarily due to bankruptcy and the remaining 90% close because the business was not successful, did not provide the level of income desired or was too much work for their efforts.

Symptoms of business failure

The following are some of the symptoms of business failure.

- Shortage of working capital
- Accumulating losses and declining profits
- Declining sales
- Failure to meet customer demand

Factors that contribute to business failure

1. **Choosing a business that isn't very profitable.** This is a business that will generate lots of activity, but profits never grow to the extent necessary to sustain an on-going business.
2. **Inadequate cash reserves.** If you don't have enough cash to carry you through the first six months or so before the business starts making money, your prospects for Success are not good. Consider both business and personal living expenses when determining how much cash you will need.
3. **Failure to clearly define and understand the market.** A businessperson should be able to clearly identify his/her customers in the broadest way possible. The person must determine how to reach them and meet their needs.
4. **Poor pricing.** You must clearly define your pricing strategy. You can be the cheapest or the most expensive what matters is the focus of your business. Your pricing must match your focus. Otherwise you will fail.

Consider this:

- One shop may price its product slightly lower than the competition and end up selling more quantities at higher speeds
- Another shop may price its product higher than the competition and end up selling less and at a slower speed

5. **Failure to adequately anticipate cash flow.** When you are just starting out, suppliers require quick payment for inventory (sometimes even Cash On Delivery).

If you sell your products on credit, the time between making the sale and getting paid can be months. This two-way tug at your cash can pull you down if you fail to plan for it.

6. **Failure to anticipate or react appropriately to competition, technology, or other changes in the marketplace.** It is dangerous to assume that what you have done in the past will always work. Be prepared to cope with any changes that may take place.
7. **Over-generalization.** Trying to do everything for everyone is playing safe but remember this is a sure road to ruin. At the start, choose and specialize in a narrow business segment and concentrate your resources in a specific area.
8. **Over-dependence on a single customer.** At first, it looks great. But with time one remains to be at the mercy of such customer. Occasionally it happens that one has a big customer that losing that customer means folding up the business. This situation should be avoided.
9. **Uncontrolled growth.** Slow and steady business growth wins every time. Chasing every business you can get drains your cash and actually reduces overall profitability. When one goes for this and that business, he usually become less selective about customers and products, both of which drain profits from his business.
10. **Believing you can do everything yourself.** One of the biggest challenges for entrepreneurs is to control all aspects of his business. It is advisable that an entrepreneur concentrates on the most important problems or issues facing his business and delegate others.
11. **Putting up with inadequate management.** A common problem facing businesses is growing beyond management resources or skills. As the business grows, you may surpass certain individuals' ability to manage and plan. It might be that you, the entrepreneur, don't have what it takes to run the business you have chosen. Search for a person with the talent and professional capability to manage it and give him the necessary authority and responsibility to run it for you.

Other factors

12. Poor management of debt
13. Going into business with wrong reasons
14. Family pressure on time and money commitments
15. Lack of financial responsibility and awareness
16. Lack of a clear focus
17. Inadequate experience
18. Poor financial planning
19. Poor general administration
20. Inadequate business records
21. Lack of business information
22. Failure to diversify market and products

Conclusion

While no person should start a new venture preparing for failure, a business person should have a clear plan for success, which involves actions to take should things go wrong. While some of the best prepared and best planned businesses still fail, an understanding of the reasons for failure can help assess the overall success potential of a business. In planning against failure, be honest and objective, know yourself and your limitations and be prepared to really manage the business.

??BIG QUESTION??

NOW THAT WE ARE ALL AWARE WHAT MAKES BUSINESSES FAIL WHAT SPECIFIC STEPS WILL EACH OF US TAKE TO AVOID FAILURE?

How can you know you are entrepreneurial?

Introduce the gambling/betting game as a precursor to this session

Certain personal characteristics have been identified as associated with people who are more likely to succeed as entrepreneurs. These characteristics include: -

- Risk taking
- Courage and confidence in decision making
- Creativity
- Ability to work hard and derive pleasure from working
- Love for challenges and accomplishments
- Perseverance and determination
- Being positive and optimistic
- Flexibility and adaptability
- Having a long range view

While you may not possess all these characteristics, the more one has, the higher the chances of success.

How can you select a business that suits you?

There are several different types of businesses in the marketplace that you can engage in. Your search for the right business idea will be aided by assessing your: -

- Interests,
- Skills,
- Abilities,
- Knowledge, and
- Talents

What main steps can you take be sure your business is on the road to success?

Carrying out Market Research

Market research is a systematic, objective collection and analysis of data about your target market, competition, and/or environment. Market Research: -

- Guides your communication with current and potential customers.
- Helps you identify opportunities in the marketplace.
- Minimizes the risk of doing business.
- Uncovers and identifies potential problems.
- Helps you evaluate your success.

Marketing

Marketing is everything you do to find out who your customers are and what their needs and wants are. It is all about identifying customer needs and how to satisfy them and make a profit by: -

- Providing the product/service they need,
- Setting prices that they are willing to pay,
- Getting your products or services to them, and
- Informing and attracting them to buy your products/services.
- Retaining your customers

Selecting or changing the location for Your Business

When its time to select the location for your new business, or you're ready to expand or move into a new location, consider the following questions: -

- Is the location near potential customers?
- Where is the competition?
- How long have the competitors been in this area, and how strong are they?
- Are there potential employees nearby?
- Is the location convenient and accessible to traffic? Near public transportation? Accessible by pedestrians?
- Is the area growing or declining? Are there people there who have the money/resources to pay for your services / products?
- How safe is the area?
- Are there adequate support services nearby, such as suppliers, distribution centres, etc.?
- Is there room for expansion?

Finally, once you narrow your selection down to 1 or 2 locations, its time to acquire the business premises.

Planning

Planning is appropriate for any business that wants to succeed. Planning helps you anticipate the future and make well-informed decisions.

The first step in the planning process is to develop the goals you have for your business.

Goals are targets for your business. They can cover a short or long time period. Each goal must be measurable. That allows you to track progress toward the goal.

When setting goals, answer the following questions: What? Why? How? When? Who? and Where?

Goals can be set for any aspect of your business, but targets are commonly set for the following: Sales Volume, Profit, Customer Satisfaction, Owner Compensation, Owner Time Commitment, and Assets.

Financing your Business

Adequate finance to cover both the cost of setting up and running your business should be arranged for. It is important that sufficient funds be in cash to enable the business to meet expenses requiring cash disbursements.

In the next few chapters we shall elaborate on the above and more steps to succeeding in business.

BASICS IN BUSINESS MANAGEMENT

Topic Objectives

At the end of this topic, the participants should be able to:

1. Explain what effective business management entails
2. List business management skills necessary in running a successful enterprise
3. Start and operate a profitable and sustainable business

Introduction

Effective business management forms an integral part of the success of any business organization. Management is the process of harnessing the business resources towards realizing the business objectives.

With a modest amount of starting capital and a relatively good product or service, it is easy to start up a small business. To ensure success, the entrepreneur must not only have a saleable product or service but also manage the business both efficiently and effectively. Business management ability is quite often the determining factor in the success or failure of a business organization.

Key Concepts

A Business

A business is any economic activity intended for profit by providing either a product or a service to the market.

A Small Business

This is a business entity that is started with meagre/humble resources mainly of sole proprietorship or partnership and employs between 1 and 49 workers.

Business Management

This is a process of utilizing the resources available in a business organization effectively and efficiently with a purpose of attaining the set goals/objectives.

These resources may be summed up as:

- Money (Finance)
- Men (Manpower or labour)
- Materials (Stock, Goods or services)
- Machines (Tools and Equipment)
- Market (Customers)
- Minute (Time-frame)
- Methods (expertise, Skills, Technical-know how etc)

BASIC BUSINESS MANAGEMENT SKILLS

Management has a number of functions which can be defined as planning, organizing, leading, coordinating and controlling the activities of the business to achieve the desired goals/objectives.

To achieve the above, the following skills are essential; -

Business Planning

A plan is an indication of activities, time, places, procedures and processes of doing things. A plan is always prepared before doing things. The reason for doing this is that a plan is meant to show:

- What is to be done
- How it shall be done
- How much money is needed and how to get it
- When the various tasks are supposed to be done
- Who to be responsible for the task

A business plan is an indication of the activities, times, places, procedures and processes of doing a business.

Business planning consists of three logical steps.

- Setting business objectives and deciding what you want to achieve
- Outlining procedures and deciding how you will achieve these objectives
- Assigning responsibilities and deciding what people and skills are needed to meet the objectives

Organizing/implementing business activities

Organizing is a process that involves the following steps: -

- Detailing all the work that needs to be done.
- Equitable division of work/activities
- Assigning responsibilities appropriately

Leading/directing

Leading or directing is the setting of direction for your enterprise by communicating activities to employees and motivating them so as to be efficient and effective.

Co-coordinating

Co-ordination is ensuring that there is no overlap of duties in an enterprise. No activities are left undone and that the left hand knows what the right hand is doing.

Controlling

By exercising the control function, standards for work performance are set, i.e., performance is measured against the set standards and remedial action is taken for deviations. This brings operations in line with plans.

Staffing

Staffing in an enterprise involves: -

- Recruiting and selecting workers and assigning them relevant tasks
- Motivating the workers through training and development

- Paying the workers accordingly

Other Managerial Skills

- **Information gathering**

The entrepreneur should be able at all times to seek any relevant information concerning the business for its smooth running and growth.

- **Decision-making and Problem-solving**

Businesses always face various difficulties especially at the start-up stage. The owner/manager should develop skills in evaluating the risks and making wise decisions concerning the business.

- **Business Financing**

In business, money is required for: -

- Start-up
- Daily operations
- Future expansion and development

In addition, a businessman should possess knowledge/skills in the following areas; -

- Budgeting for all resources needed
- Identifying relevant sources of business finance
- Effective management of working capital
- Effective costing and pricing
- Record-keeping and basic accounting

- **Public and Customer Relations Skills**

A successful entrepreneur must develop good public and customer relations with all interested parties in his business.

Conclusion

Success in any business venture becomes a reality when sound managerial skills are applied.

MARKETING YOUR PRODUCTS/SERVICES

Topic Objectives

At the end of the topic, the participants should be able to:

1. Explain the meaning and importance marketing
2. Identify appropriate products/ services to meet the needs of their target markets
3. Identify appropriate pricing, promotional and distribution strategies.
4. Attract and retain customers.

Introduction

Every enterprise is based on selling of a product or service for a profit. The product or service is sold to a market. Your most priceless asset must be your customers, not your products, machinery or plant. To reach your customers and improve sales, one needs to undertake certain activities. It is the carrying out of these activities that is called Marketing.

What is marketing?

Marketing is everything you do to find out who your customers are and what their needs and wants are. It is all about identifying customer needs and how to satisfy them and make a profit by: -

- Providing the product/service they need,
- Setting prices that they are willing to pay,
- Getting your products or services to them, and
- Informing and attracting them to buy your products/services.
- Retaining your customers

Importance of Marketing

In business, marketing is very important because it is at the centre of all business activities. A product or service produced is important if it can be sold and consumed. The following are the main reasons why marketing is important: -

- All businesses are based on the sale of a product or service
- Marketing helps in creating demand for goods and services. This in turn stimulates production
- Through public relations, marketing creates goodwill for the business
- Marketing forms the basis of business budgeting. The first budget to be made is usually the sales budget. Other budgets help in realizing the sales budget.

What is a Market?

A market is made of customers. Your customers are the people or other businesses that want your products/services and are willing to pay for them.

Your customers are: -

- The people who buy from you now
- The people you hope will buy from you in the future
- The people who stopped buying from you but you hope to get them back

For market information

Market information will help you in making the various marketing decisions on target markets, products, pricing, distribution and promotional activities.

Sources of market information include: -

- Internal records that you keep in the business e.g. financial and sales records
- Interviewing consumers, customers, middlemen, salesmen and suppliers
- Published materials like; -
 - Government papers/reports
 - Business magazines
 - Trade associations
 - Daily newspapers

Select appropriate Product/Service

To be successful in business, you must have the products or services your customers want. Products are things like clothes, food, furniture, cars etc. Services are activities like motor vehicle repair, transportation, painting, salon, dry cleaning etc.

Whatever products/services you sell, it must be able to meet customer needs/ wants. The following are some of the things you should consider; -

- What quality
- What quantity
- What price
- What size
- Which design or style
- What colour
- Whether there are any substitutes in the market
- Reasons for purchase – use of the products, benefits

In choosing what products/service to sell, you can use customers to help you decide.

- Find out from customers what they like about your product
- Ask for advice on product and prices you offer
- Note the product customers keep asking for and you do not make or stock. It shows they need that product and you should make/stock it.
- Find out what you could improve in your products/services according to your customer suggestions

Determining the right Price

In marketing, price means setting a price that your customers are able and willing to pay. You should make sure the price is attractive and gives you enough profit.

Before you set a price for your product or service you need to: -

- Know your costs. To make a profit your price must be higher than your total costs for the product
- Know how much customers are willing to pay
- Know your competitors' prices
- Know how to make your prices more attractive, e.g., by using special offers and discounts.

Distribution (Place)

Place means where your business is located. It also means different ways of getting your products or services to your customers, i.e., channels of distribution.

Types of Channels

- Producer → consumer/industrial users
- Producer → retailer → consumer/industrial user
- Producer → wholesale → Consumer/Industrial user
- Producer → wholesaler → retailer → consumer
- Producer → Agent → wholesaler → retailer → consumer. →

Selecting the Channel

- Decide whether you want to use only one or several channels at the same time
- Look at the nature of the market
- Nature of the product
- Consumer buying habits
- Competition
- Finances and costs
- Geographical areas to be covered

NB. Ensure that the channel used is convenient to you and your customer.

Promotional Activities

Successful business people do not sit and wait for customers to come to them. They promote their products/services.

Promotion involves three major activities: -

- Informing – advertising and publicity
- Attracting customers – sales promotion
- Personal selling – salesmanship

Promote your products/services in order to sell more and increase your profit by: -

- Advertising – making customers interested
- Sales promotion – getting customers to buy more
- Publicity – getting free promotion
- Improving your skills as salesperson

Advertising

The following are some of the simple ways on how you can advertise your products/ services:

-

- Using of word of mouth
- Using posters, price lists and business cards
- Using your business name on a sign post or shop face
- Drawing pictures on the walls of your business premises
- Using newspapers, radio and television
- Distributing handbills to customers

Sales Promotion

Sales promotion is everything you do to make customers buy more of your products or services. The following are some of the simple methods you can use in sales promotion: -

- Giving free samples
- Giving extra free service
- Having demonstration
- Having competitions
- Having attractive displays
- Giving discounts and other incentives

Publicity

This is free promotion, which may be through an article in a newspaper or magazine, which tells people about your products or services. The article promotes your business and can help increase your sales.

Personal Selling

It helps in actual selling and passes ownership of the product to the customer. Without it, the whole marketing effort may be useless. To be a successful salesperson and increase your sales, you need to: -

- Know your customers and their needs
- Know how to treat your customers
- Know your products and how to sell them well

CUSTOMERS – THE HEART OF THE BUSINESS

Handling Customers in your business

There are two types of customers people in your business. These people are: -

- Internal customers- owner and employees
- External customers- the people buying your services or products and suppliers of your services or products

You should maintain mutual understanding between your business and its customers based on truth, knowledge and information.

What Customers Want

The customers want: -

- To be treated with dignity and respect
- Your product/service to meet their expectations
- To be treated with consideration – they want to feel good about interacting with you
- You to help them solve their problems
- You to respect their time – serve them quickly
- Information on your product or services.

The Indicators of Quality Product or Service to the People

- Ease and convenience of products/service to customers – accessibility
- Quick response – willingness or readiness to provide products/service
- Understanding – efforts to know customers needs
- Competence of employees – skills and knowledge
- Courtesy – employees are friendly, respectful and considerate
- Credibility – trustworthy, honesty, having their interests at heart
- Reliability – consistent and accurate performance and dependability
- Responsiveness – respond quickly to customer requests or problems
- Security of products/service – products/service free from danger
- Understanding the customer needs and complaints
- Tangibles – appearance of premises, people, equipment etc

Effects of Poor Customer Care/Service

- Poor public image
- Bad publicity due to negative word of mouth from angry customers
- High costs of waste, mistakes and repeat work.
- Loss of competitive edge and hence loss of sales
- Lack of pride in the company – no one wants to be associated with the business.

Steps in Good Customer Care

Understanding customer needs. This can be done by: -

- Encouraging them to visit you in your office/business
- Establishing suggestion boxes
- Having them write to you
- Having them call you
- Visiting them at their premises
- Carrying out surveys to establish their needs

NB. Listen to the customers and ensure that you understand their needs well.

- **Understanding customer expectations.** Factors that affect customer expectations include: -
 - What the customer has heard about the product/service or the provider
 - Customer experience with other service providers
 - What the customer believes he/she needs
 - The communication by the service provider

Ensure that you understand what the customers expect and where possible shape their expectations to make sure that they are realistic.

- **Serving the customer.** Service delivery is determined by several factors. These include: -
 - Knowledge, skills and attitude of the service provider
 - Service delivery tools and equipment
 - Service delivery environment
 - Quality of support and/or supervision received by the service provider
 - Availability of service standards.
- **Customer assessment of quality of product/service**

Quality of a product/service is the result of the assessment that a customer makes of the product/service he/she receives. Quality is a comparison of the customer's expectations with the performance of the product/service. We can have excellent, satisfactory or poor product/service.

Feed back from customers

This can be in the form of a complaint. A complaint is a negative feedback that a customer will give when he/she is not fully satisfied with the service given.

Causes of Customer Complaints

- Products/service that do not live up to customers expectations
- Limited choices
- Delays, mistakes etc
- Poor external communication leading to frustration
- Unprofessional behaviour by the service provider

Handling Customer Complaints

- Introduce yourself and do not start giving excuses
- Do not become defensive or argue about the complaint
- Do not tell customers what you can't do for them, rather emphasize on what you can do to solve the problem
- Ask for facts
- Admit mistakes and apologize
- Use simple language
- Only make promises on what you can personally deliver.

Conclusion

Proper application of the marketing techniques can greatly increase your sales and improve your profitability. It will help you to provide the market with the right product/service at the right price, at the right place and at the right time. This will increase your chances to succeed in business. Remember, business is marketing and marketing is business.

COSTING AND PRICING OF PRODUCTS

Topic Objectives

By the end of the topic, the participants should be able to:

1. Describe costing and pricing concepts
2. List the costs elements of products/services
3. Describe how to calculate the cost of products/services
4. Identify various pricing objectives
5. Explain different criteria in setting prices

Introduction

The basic knowledge of costing and pricing is of great importance to any entrepreneur, as this may be the determining factor for business success or failure. All entrepreneurs should calculate their costs before setting prices of their products or services. Failure to do so could easily lead to one selling his/her products or services below cost, resulting in loss which may in turn lead to business failure.

Costing

Costing is defined as *“the process of calculating all the expenses involved in producing and selling a product/service”*. Costs, once known, provide a reference point for assessing profitability and returns. In addition, costs establish the minimum level below which prices will not normally be set.

Importance of Costing

The main aim of costing is to show the total costs and their elements so as to exercise control over them. Costing is also done for the following reasons: -

- To assist in providing a basis for price setting - when setting a price for a product or service, the costs should first be ascertained because your price must cover all costs incurred and leave a profit margin.
- To realize the desired percentage of profit.
- To provide information for planning and decision-making.

Pricing

Pricing is defined as *“the process of determining the amount of money for which your products/service will sell, based on the costs of producing and marketing your products/services, balanced against what the market will bear”*. Pricing in any particular market depends on the interaction of costs, demand and competition. None of these factors act in isolation and certainly none should provide the sole basis for setting prices.

Pricing Objectives

- **Survival** – Used when one is faced with heavy competition and wants to survive in the market etc.

- **Current profit maximization** – Here the price set will produce the maximum current profit.
- **Market share leadership** – Here pricing aims at obtaining optimum market share in order to reduce costs
- **Product quality leadership** – the objective here is to charge a high price in order to cover high cost of providing quality product /service.

Criteria for Setting Prices

Many pricing methods tend to concentrate on one particular aspect and neglect others. While getting prices right for an existing product is fairly straightforward, setting new prices is not so easy. However, the following guidelines may be useful:

- **Consider costs** - Make up your own mind about the price you are prepared to consider. Whatever you are trying to achieve, even if it is entry into the market there must be a minimum price below which sales are simply not worth pursuing.
- **Watch the customer** - Prices should be related to demand in the market place and not solely to costs. Try to take account of the non-price benefits that your customers will gain by using your products/ services, and estimate what they will be prepared to pay for them.
- **Watch the competition** - Whilst it can be very useful to look at competitors' prices, do remember that you do not have to undercut everybody in sight so as to break into the market. Carry out a careful analysis, weighing up the good and bad points about your product/service, and compare them with others on the market. Then decide on where to position your product/ service on the market and where its price should be relative to others.
- **Do not under price** - If you are offering a better product than others on the market, you should be charging a premium price for it.

Pricing Approaches/Methods

The following are the common pricing approaches:-

- **Going-rate pricing** – Here Prices are set based largely on competitors' prices. You either charge the same, more or less.
- **Market-skimming pricing** - This is a pricing strategy whereby businesses set high prices initially to maximum revenue from the market segment willing to pay a high price. In market skimming the products quality and image should support the higher price, and enough buyers must want the product at that price.
- **Cost-plus pricing** –This is a pricing method where a standard mark-up is added to the cost of producing a product/service.
- **Psychological pricing** – sellers can influence or use consumer reference prices when setting prices. e.g. how will a buyer perceive a price of 600/= and 599/95 for a shirt?
- **Discriminatory pricing** – Here prices are adjusted to allow for differences in customers, product, location, as well as time.

- **Promotional pricing** – In this strategy businesses temporarily price their product below the list price and even below cost so as to penetrate the market or increase sales.

CONCLUSION

Costing and pricing play a major role in the survival and profitability of a business. Management of a business cannot be said to be efficient and effective without applying these two concepts. Calculating your costs accurately and determining an appropriate price for it will allow you to cover all your costs and sell in sufficient quantities to make a profit and succeed in your business.

MANAGEMENT OF WORKING CAPITAL

Topic Objectives

At the end of the topic, the participants should be able to: -

1. Explain the meaning and importance of working capital
2. Apply various methods of controlling cash, stock and business credit
3. Discuss the advantages and disadvantages of trading in credit

Introduction

It is only through proper management of working capital that business success can be guaranteed. Many profitable businesses fail each year because owners fail to manage working capital. They may be profitable, but they are not able to pay their bills because their cash is tied up in either stock or debtors.

Definition of Working Capital

Working Capital generally means the total of your **cash**, **stock** and **debtors**.

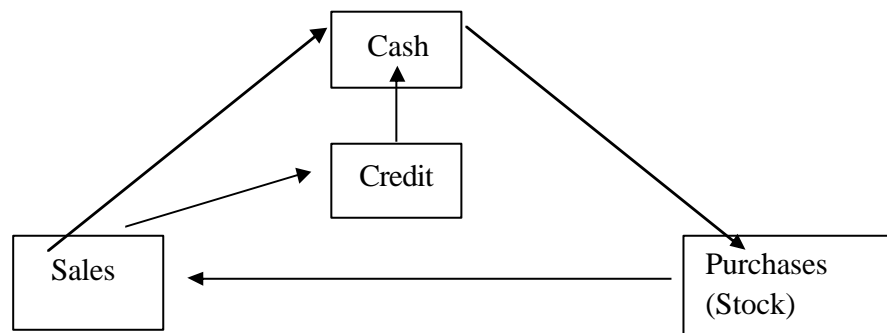
Cash - bank balances, cash holdings and short-term investments

Working capital is also referred to as **circulating capital** because it keeps on rotating.

Stock - stocks of raw materials, partly completed production and finished goods awaiting sale

Debtors - amounts owed to the business, mainly from customers in respect of sales made on credit

Working capital is also referred to circulating capital because it keeps on rotating as depicted in the diagram here below:



EFFECTIVE CASH MANAGEMENT

Proper management of cash entails: -

- Separating personal expenses from business expenses.
- Ensuring that you have enough cash to settle your debts and for purchase of stock.
- Making sure that you have only that cash you need in the business.
- Avoiding unbudgeted spending of cash.
- Saving money for business improvement and meeting unforeseen circumstances.
- Being able to prevent cash losses through fraud or theft.

Methods of Controlling Cash

To effectively control business cash, it is advisable to do the following: -

a) Counting money regularly

- If possible count your money daily.
- Put aside the money that you need the following day and bank the rest.
- Always record cash transactions.

b) Limit your drawings

- Avoid taking money from the business unnecessarily
- If you can't avoid taking money from the business, you should budget for it and stick to the budget.
- Take only what you need.
- Make a habit of recording your drawings.

c) Do not mix family expenses with business expenses

- Members of your family should only take money from the business to a certain limit.
- Family members must sign for the money taken from the business.
- Always record the cash taken from the business in your cash book

e) Paying yourself

- Allocate yourself a salary.
- Set a specific time frame as to when you can draw money from your business.
- Record all details when paying yourself.

f) Preparing a Cash Budget

It is important to prepare a cash budget for your business

The cash budget ensures that sufficient cash is available as and when needed.

The budget may show any expected shortages and may assist in taking remedial action.

MANAGEMENT OF STOCK

Generally, there are three types of stock.

- Raw materials
- Work-in-progress
- Finished products

Need for Effective Management of Stock

- To ensure stock availability at all times
- To store enough stock and cut down on storage costs.
- To identify which items to order and when.
- To determine which items move fast or slowly.

Factors Likely to Affect Stock Levels

a) Lead Time

This is the period between placing an order and receiving the goods.

b) Cost of holding stock

If the stock is not moving it means that money is tied up in the business. Therefore, this must be avoided,

c) Re-order level

This is the point when you should place a new order. It depends on the rate at which materials and finished goods are moving. It is important to set the level for each item.

How to Control your Stock Levels

a) Regularly count your stock

- Proper shop layout and display will assist you in counting your stock.
- Draw a timetable when you should carry out stock-taking.

b) Record your stocks

Ensure proper stock records are kept.
Use stock-cards when recording your stock.

Example of a stock card

Items: OMO medium (packets)

Re-order level **100**

<u>Date</u>	<u>Particulars</u>	<u>In</u>	<u>Out</u>	<u>Balance</u>
2/3/01	Bought Omo-medium	500	-	500
4/3/01	Cash sales	-	100	400
6/3/01	Sales	-	50	350
9/3/01	Sales	-	150	200
10/3/01	Sales	-	100	100

EFFECTIVE CREDIT MANAGEMENT

Why Sell on Credit?

Credit is offered with the understanding that the customer will honor it.

Advantages of Selling on Credit

- A credit sale serves as a way of attracting customers who might go to your competitors.
- Buyers would always like to buy more on credit because it eases their cash flow problems.
- An item though sold on credit is a sale, therefore credit sales increase the total volume of sales.

Disadvantages of Selling on Credit

- Credit sales tie up your business cash, which could have been used to purchase stock and meet other business needs.
- When you sell on credit there are chances that some customers might completely fail to pay, and this will definitely affect your business profitability and survival.
- You may use more money trying to follow up your debtors who have defaulted in payments, which may interfere with your initial investments.
- A lot of time is wasted chasing debtors, which may lead to stress.

How to Deal With Credit Problems

One way of dealing with credit problems is by developing a credit policy, which addresses the following factors:

a) Who should you advance credit to?

- Evaluate the would be debtor
- Appraise his/her personal background, character and ability to pay.

b) The amount of credit to advance

- Limit the amount of credit to be given out at any given time. This will depend on customer and what you plan to advance him without affecting your business.

c) Credit Period

- Establish the length of time you can allow out credit and make sure your customers are clearly informed.

d) An undertaking

- Proper business records should be kept for all credit transactions including the customer signing down if need be.

e) Security (collateral)

- This measure commits whoever is intending to buy from you on credit.

f) Debt collection

- Establish and design a clear debt collection policy.

Conclusion

If you don't want to become the worst enemy of your business, you must always manage your business cash, stock and credit efficiently and effectively. Over and above everything else discipline and shrewdness in your business will be paramount to being a good manager.

KEEPING PROPER BUSINESS RECORDS

Topic Objectives

At the end of the topic, the participants should be able to:

1. Explain the importance of keeping business records.
2. Enumerate the steps in designing a record-keeping system.
3. List the steps in recording business transactions.
4. Explain how the calculation of profits and losses for businesses is done.

Introduction

Any organization or business, irrespective of its size, is involved in many transactions (Business Activities). Every transaction affects the financial position of the business. A large number of these transactions make it difficult to memorize them. This calls for maintenance of adequate records so that at any moment reference can be made to them.

For a small business, very basic records will be required. However, as the business expands, you will be required to maintain more books.

Meaning of Record Keeping

Record keeping refers to the actual process of writing down business activities (transactions) for reference purposes and other uses in the books of accounts.

Users of Business Records

- **Owner/s** - if they want to know exactly how much profit/loss their business is making

Reasons for Keeping Records

Transactions involving money are usually numerous and unless you keep track of them, the business may not succeed. Hence, it is important to keep records of every business transaction.

Records provides the following information of transactions to the owner/s: -

- How much money has been invested in the business since it started (**capital**)
- How this **capital** was used
- How much money is coming into the business daily (**sales revenue**)
- How much money is going out of the business daily (**purchases & expenses & personal drawing etc**)
- How much the business owes outsiders (**creditors**)
- How much money outsiders owe the business (**debtors**)
- How much **profit/loss** the business has made in a given period.
- Helps in credit transactions.

- Helps in planning.
- A tool of control.
- Financial position of the business.

Reasons for Failure to Keep Records

- Lack of knowledge and know-how
- Dislike for desk work
- Laziness on the part of some business persons
- Lack of time for record keeping
- Need to keep business facts secret
- Fear of income tax
- Lack of commitment and appreciation of record keeping

Starting record –keeping system

- Record keeping refers to process of storing business information to facilitate proper business management. The process of record-keeping will depend on: -
 - ◆ The size of the business.
 - ◆ The information needed by the owner/s.
 - ◆ The control needed.
 - ◆ The kind or the type of business.
- Whatever the size of the business, the record-keeping system should be: -
 - ◆ Simple.
 - ◆ Quick and easy to use.
 - ◆ Easy to control.
 - ◆ Help in business decision-making.

Types of Records

Cash-in /Cash-out records

Every person in business will be interested in knowing how much money is coming in and how much is going out of the business.

Money comes into the business through the following sources: -

- ◆ Sale of goods and services
- ◆ Payment by debtors
- ◆ Sale of assets
- ◆ Loan from creditors

Money goes out of the business through the following sources: -

- ◆ Payment for goods (purchases)
- ◆ Payment for business expenses
- ◆ Payment to creditors

The cash book has two sides: - **debit** (cash in) and **credit** (cash-out).

Example of a Cash book entries:

John started a business on 1st January 2004 with Kshs.100, 000.00 in cash. He deals in buying and selling of Mitumba clothes. Transaction were as follows:

January 2	Rent of store	Kshs.2,000
January 3	Cash purchase (5 @5,000)	Kshs.20, 000
January3	Transport	Ksh.200
January 8	Cash sales (4@ 6,000)	Kshs.24, 000
January 9	Credit sales (4 @ 5,500)	Ksh.22, 000
January 9	Transport	Kshs.200
January 14	Credit sales (2 @ 6,600)	Kshs.13, 200
January 15	Cash purchases (5 @ 5,000)	Kshs.25, 000
January 16	Transport	Kshs.220
January 16	Cash sales (4 @ 6,500)	Kshs.26, 000
January 24	Credit sales (2 @ 6,600)	Kshs.13.200
January 28	Debtors pays	Kshs.10, 000
January 29	Paid creditors	Kshs.20, 000
January30	Paid water	Kshs.210
January 31	Paid wages	Kshs.1, 500

Required: Record the above transaction in Johns Cash Book.

Example 2 of a Cash Book record

DATE	DETAILS	IN	OUT	BALANCE
1/1/94	Capital	100,000		100,000
2/1/94	Rent		2,000	98,000
3/1/94	Purchases		20,000	78,000
3/1/94	Transport		200	77,800
8/1/94	Sales	24,000		101,800
9/1/94	Transport		200	101,600
15/1/94	Purchases		25,000	76,600
15/1/94	Transport		220	76,380
16/1/94	Sales	26,000		102,380
28/1/94	Debtors pays	10,000		112,380
29/1/94	Creditors paid		20,000	92,380
30/1/94	Water		210	92,170
31/1/94	Wages		1,500	90,670

Using the above example, record the transactions in John's analyzed ledger.

Example of an Analyzed Ledger

Date	Details	Cash Book			Stock Book					
		In	Out	Bal	Purcha ses	Sales	Expens es	In	Out	Bal
1/1/94	Capital	100,000	-	100,000	-	-	-	-	-	-
2/1/94	Rent	-	2,000	98,000	-	-	2,000	-	-	-
3/1/94	Cash purchases	-	20,000	78,000	20,000	-	-	5	-	5
3/1/94	Transport	-	200	77,800	-	-	200	-	-	-
8/1/94	Cash sales	24,000	-	101,800	-	24,000	-	-	4	1

971794	Credit purchases	-	-	-	22,000	-	-	4	-	5
971794	Transport	-	200	101,600	-	-	200	-	-	-
1471794	Credit sales	-	-	-	-	13,200	-	-	2	3
1571794	Cash purchases	-	25,000	76,600	25,000	-	-	5	-	8
1571794	Transport	-	220	76,380	-	-	220	-	-	-
1671794	Cash sales	26,000	-	102,380	-	26,000	-	-	4	4
2471794	Credit sales	-	-	-	-	13,200	-	-	2	2
2871794	Debtors pays	10,000	-	112,380	-	-	-	-	-	-
2971794	Creditors paid	-	20,000	92,380	-	-	-	-	-	-
3071794	Water	-	210	92,170	-	-	210	-	-	-
3171794	Wages	-	1,500	90,670	-	-	1,500	-	-	-
		-	-	90,670	67,400	76,400	4,330	-	-	2

SOURCES OF BUSINESS FINANCE

Topic Objectives

At the end of this topic, the participants should be able to:

1. Identify the various needs for finance
2. Validate the needs
3. Select the appropriate sources of finance

Introduction

Many people dream of starting and managing their own business. Some do start a business and achieve their dream; others keep on dreaming. Why is this so? What separates the successful entrepreneur from the unsuccessful? Availability of Business finance is among the crucial factors that determine the success or failure of business.

The issue of finance will always keep coming in your business throughout its life. Some businesses have even collapsed because of lack of finances to meet their daily needs and/or for expansion.

This problem would be minimized if the owners knew the following:

- How much money the business requires.
- The cost of borrowing money, interest rates, other charges and terms given by those who lend money.
- Where to source the business finance.

What is Business Finance?

Business finance is the money one needs to start, run or expand a business.

Purpose of Business Finance

- To start a new business
- To expand an existing business
- To meet an emergency situation
- To boost the existing finances
- To meet normal operational costs

How Much Money does the Business Require?

Every business is different, but it is still possible to get a reasonable idea of how much cash your business is likely to need by estimating expenses and validating the same.

Estimating Your Expenses

There are certain expenses that virtually all businesses must incur. The following chart will help you estimate your typical expenses. (This is not an all-inclusive list. It provides some of the more typical expenses)

Office space rental	-----
Office equipment	-----
Office supplies	-----
Utilities (phone, electricity, water)	-----
Maintenance	-----
Advertising	-----
Labour	-----

Business licenses -----

A manufacturing business will also have specific expenses related to production. The following expenses, therefore, should also be considered: -

Raw materials -----
Machinery and equipment rental -----
Warehouse or factory space rental -----
Total estimated costs -----

Assessing your Financial Needs

Once you have determined your expenses, you will need to estimate what percentage of the funds you can supply yourself and what percentage you must find elsewhere. At this point, the figure may seem overwhelming. Don't be discouraged. It's much better to have realistically assessed your situation earlier than to rush into business before you've planned adequately.

Almost all businesses need outside funding and yours probably will not be an exception to the rule. You should prepare a month-by-month cash flow projection for the entire first year. If the projection is realistic, it will clearly show how much financing you need. Starting a new business can be risky, but it can also pay big rewards both in personal satisfaction and in economic return.

The Various Sources of Business Finance

Personal finance

- Personal savings
- Sale of personal assets.
- Group savings
- Merry-go-round.
- Retirement benefits
- Dividends from shares

Retained Earnings

These are part of the net profits that are ploughed back into the business.

Trade Credit from Suppliers

This is a case where you buy goods on credit. The person who extends that credit to you is simply financing you.

Co-operative Savings and Credit Societies

Financial Institutions

- Micro Finance Institutions

Donor Agencies and NGOs

There are many donor agencies and NGO's who operate in the country and are willing to give assistance to small-scale enterprises. The Ministry of Culture and Social Services,

Ministry of finance and Planning and Development normally have a list of various NGO's operating in the country. The NGO's include:

- Kenya Rural Enterprise Programmes (K-REP)
- Kenya Women Finance Trust (KWFT)
- National Council of Churches of Kenya (N.C.C.K)
- PRIDE (Kenya)

Others

- Shylocks
- Donations from friends and relatives
- Competitions e.g. charity sweepstakes

Lenders Requirements

Any bank or lender will always look at the following:

Purpose

You must be requiring money for a lawful purpose acceptable to the lending policy of that bank or financial institution.

Amount

The amount you ask for must be within the stated need and the ability to pay back.

Repayment

Repayment method will be determined by the applicant's source of income. But generally, the bank will try not to overburden you to the extent where you might fail to operate the business.

Terms

Terms will depend on the policy of the lender. You can, however, negotiate the terms. Terms will include:

- Repayment period
- Interest rates
- Grace period, if any

Security

The lender will also require you to give some security, or undertaking that you will actually repay. If you fail to repay (default), the bank can recover their money by disposing off the securities. The securities can be in form of title deeds for land and buildings, life assurance policies, share certificates, fixed deposit certificates, chattels, mortgage, e.t.c.

Five "C's" of Credit Analysis

- **Capacity to repay** – most critical
- **Capital** – money you have personally invested in business; indication of extent of personal risk if business fails
- **Collateral** – additional forms of security or guarantees provided to lender
- **Conditions** – focus on the intended purpose of the loan relative to the current economic environment
- **Character** – general impression you make on the potential lender or investor

Rules of Negotiating for Business Financing

- Prepare a comprehensive business plan.

- Be prepared to explain uses and benefits of the proposed loan.
- Speak to the appropriate person.
- Do not overstate your financial strength. Be realistic.
- Give complete information about your business.
- Seek a lender with whom you feel comfortable.
- Negotiate interest rates and fees.
- Give an impression of confidence and competence.
- Carefully check all terms of the agreement.
- Dress conservatively.

Conclusion

Financial boosting in your business is important for normal operation and growth of business. Therefore it is necessary to critically assess your financial needs and also seek the appropriate and affordable sources of finance. Always seek additional funds only when you think that you must go for it and that without it, the business will collapse.

PREPARATION OF A BUSINESS PLAN

Topic objectives

At the end of this topic, participants should be able to: -

1. Outline reasons for preparing a business plan
2. List down the various parts of a business plan.
3. Prepare the marketing, the organization and management, production and financial plans.
4. Identify the key risk areas of a business.

Introduction

It is important for people who are in business and those who are aspiring to start new ones to prepare business plans. The plans act like yardsticks when one is operating the business because it will show whether one is actually realizing the goals and objectives of the business. Where the business is likely to be supported externally especially through financing, the financiers would want to be convinced that they are putting their money into a worthy cause and one which is able to repay what they have advanced with minimum difficulty. This topic illustrates a step-to-step process of preparing a business plan.

What is a Business Plan?

It is a document prepared by an entrepreneur in preparation for starting or expanding a business. It outlines details of the business activities. Starting of a new business is like taking a journey into the unknown. Therefore, details written down about the business will act as a **route map** or **guide** for the journey.

Reasons for Preparing a Business Plan

Business plans assist one in: -

- Thinking about the business as a whole
- Pointing at needs that may be overlooked
- Giving a framework for decision making
- Providing a yardstick against which actual future performance of the business can be measured.
- Spotting problems and finding solutions before hand
- Setting reasonable objectives and figuring out how to achieve them
- Communicating business ideas to relevant parties

When to Prepare a Business Plan

You should prepare a business plan when: -

- Starting a new business
- Planning for expansion of a business
- Applying for a loan

Parts of a Business Plan

The following are the major parts of a business plan: -

- Executive summary
- Business background and objectives
- Marketing plan
- Production plan
- Financial plan
- Organization and management
- Action plan for critical risks and problems
- Conclusions on the business plan
- Appendices

The Executive Summary

It is a brief summary of the entire business plan and it includes:

- Business description and objectives,
- Marketing plan,
- Organizational plan
- Operational/Production plan
- Financial plan
- Critical risks/problems and
- Action plan for the critical risks and problems

Business Background

This refers to the history of the business in terms of location, industry, and products/services concept. This part describes: -

- The enterprise sector in which you intend to do your business.
- The location where you intend to run your business
- The product /service in terms of the unique features and give key factors that will make them succeed.

Business Objectives

There are two types of business objectives in a business plan that must be stated clearly before starting or expanding a business. There are: -

(i). The Overall Business Objective

State in brief the goal or aim of starting the Business in short and long term (within the next one year and more than one year of running your business).

(ii). The Specific Business Objectives

These objectives of the business must be **SMART**.

That is: -

S - Specific

M- Measurable

A - Attainable

R – Realistic

T – Time bound

The key areas to be included in the objectives are: -

- Sales
- Profitability
- Market share
- Product quality
- Time frame (Duration required to achieve the goal)

MARKETING PLAN

Marketing plan should have the following: -

The Market

Describe your market and what market is to be reached in future. Also describe the market in terms of sales, profits, growth rate and changes that are likely to take place (trends).

Target Market Segment

Describe the following: -

- Prospective customers
- Your market share
- List of current customers
- Location of the customers

Competition

Describe the following: -

- Expected future competition
- Weakness of competitors
- Strength of competitors
- The strategy for dealing with competition

Other factors to consider include: -

- Economic factors e.g. inflation
- Seasonal changes in sales
- Government influence
- Social factors e.g. income, age, sex, and religion e.t.c.

Marketing Strategy

Describe your product mix strategy

- Show how you are going to price your products/services (pricing strategy)
- Describe your proposed credit policy (credit strategy)
- Describe ways you intend to use to reach customers (distribution strategy)
- Describe methods used to promote products/services (promotional strategy)
- Describe how you will advertise your products/services

PRODUCTION PLAN

This part is only necessary when the product to be sold has to be produced through processing or manufacturing. It shows what is to be done in developing and producing the product. It has the following parts: -

Production Process

- Present the basic stages of production either in list form or a flow-chart.
- Give a brief explanation at each stage
- Explain why you must produce instead of sub-contracting

Production Requirements

Describe the following: -

- Raw materials
- Supplies
- Labour
- Legal requirements to abide by e.g. health, factory act, permits e.t.c.
- Quality assurance
- Plant and layout
- Machines and equipment
- Transportation

ORGANIZATION AND MANAGEMENT PLAN

The quality of the management team is very important in any business. The team should demonstrate its commitment to the business and exhibit requisite skills to ensure that the plan is properly executed. It is, therefore, prudent to have the following in place: -

An organization chart

- Indicate how you intend to staff various departments and sections
- Describe the key personnel, their duties, responsibilities and qualifications
- Show how to remunerate your employees
- Also indicate other collaborating organizations

FINANCIAL PLAN

This part is important in the evaluation of an investment opportunity by anyone who wants to finance your business is through the financial plan. It also serves as an operational plan for managers of the business and lays out what you require from financiers.

It involves the preparation of the following statements: -

- a. Pre-operational Costs
- b. Repair, renovations and painting
- c. Counters and shelves
- d. Furniture
- e. Cost of installation
- f. Machines
- g. Tools and equipment
- h. Provision for time before starting to make profits
- i. Legal and professional fees
- j. Licences and permits
- k. Deposits for utilities e.g. water and electricity
- l. Opening stock
- m. Signs (sign board and Names)
- n. Advertising for opening
- o. Insurance
- p. Goodwill (where applicable)

Get the total costs of all the above items and include the following;

- Monthly expenses like personal expenses, wages, rent, advertising, water, transport, supplies (purchases), maintenance, and loan repayment, miscellaneous e.t.c.
- Fixed capital requirements of building, machines, equipments, counters and shelves, tools e.t.c.
- Working capital requirements of: -
 - i. Cash and stock
- Projections of profit and loss, cash flow and balance sheet. Each of them done monthly, quarterly and annually for a period of 3 years and with an explanation. They can be presented in a tabular form in the appendices.
- Owners contribution (capitalization)
- Required borrowing (desired financing)
- Break-even estimates
- Proposed method of repayment of borrowed finance

Profit and Loss Projection template

Particulars	Jan		Feb		March	
	Budget	Actual	Budget	Actual	Budget	Actual
Sales						
<u>Less:</u>						
Cost of Good Sold						
Gross Profit						
<u>Less</u>						
Expenses						
Salary						
Rent						
Power						
Insurance						
Traveling						
Bank charges						
Interest						
Personal						
Drawings						
Net Profit						

Balance Sheet Projection template

Particulars	Jan.		Feb.		March	
	Estimate	Actual	Estimate	Actual	Estimate	Actual
Liabilities						
Capital						
Profits						
Creditors						
Assets						
Building						
Motor vehicle						
Furniture						
Cash in hand						
Cash at bank						
Stock						
Debtors						

Cash Flow Projection template

Particulars	Jan.		Feb.		March	
	Estimate Budget	Actual	(Estimate) Budget	Actual	(Estimate) Budget	Actual
Opening balance						
Inflow						
Sales						
Receipts from debtors						
Capital						
Others						
Cash available						
Outflow						
Salary & Wages						
Rent						
Power						
Traveling						
Bank cheques						
Personal drawings						
Others						
Closing balance						

CRITICAL RISKS AND PROBLEMS

This section identifies the potential risks to the business. It shows your preparedness in dealing with unforeseen events such as: -

- Failure to meet production deadlines
- Problems with supplies and distribution
- Sales and projections not attained
- Unforeseen business trends
- Unforeseen economic, political, social, and technological developments
- Management inexperience
- Competitive price cutting
- Capital shortages and cyclical fluctuations

ACTION PLAN

This is your action programme showing what is to be done, by whom, when and how long it will take. It is normally presented in a table and reviewed from time to time. e.g.

Critical Risk/Problem	Month 1	Month 2	Month 3	Comments/Remarks
Repairs & Renovations				
Deposit for Utilities				
Business Registration & Licenses				

SUMMARY AND CONCLUSION

This is where you write the summary and conclusion of the business plan.

APPENDICES

Affix any tables, photographs, brochures, proforma projections, c.v.'s, start-up table, the organisation structure, the title deeds, plot maps, past performance records e.t.c.

CONCLUSION

There is no single correct format for business plans for all businesses. They vary depending on the nature and purpose for each business. Professional advice helps in fine-tuning a plan and gives the benefit of an independent opinion. Business owners should as much as possible prepares the first draft, which shows their vision and understanding of their business.

GUIDE FOR TRAINING DELIVERY

The training should have two main objectives:

1. To demystify business to business start ups by
 - Imparting understanding about the basic principles of business
 - Transferring relevant soft business skills that can be applied with ease
2. To give business owners a foundation which they can apply to review their businesses and re-strategize

The training delivery should be:

Very simple, in the following ways (as examples)

1. Should be highly participatory –
 - allowing participants to give their points of views and building upon these to deliver learning
 - using real examples from participants and 'real' people from their environment
 - identifying (randomly) and using participants who have some level of knowledge to 'train' or 'inform' the rest
2. Should be structured around a question and answer session with very limited 'lecture' type of training
3. Trainer should identify relevant topical issues on business for each group
4. Develop vividly illustrative examples/stories/narratives on how to lead the participants into exploring the idea more
5. Incorporate several ice breakers which are culturally relevant to the participants

Ultimately, the training approach should hinge on encouraging participants to view themselves as the bearers of the answers and solutions to their businesses and the main drivers of the training agenda. They should view themselves as collaborating with trainers in developing concrete business skills and solutions to existing problems with their businesses.

While trainers should expect participants to give several misplaced suggestions, they should adopt courteous techniques of re-directing participants without appearing to dismiss them e.g. by posing leading questions or giving examples which negate their points of view, gently.

Key topics of interest

1. Why businesses fail
2. How to avoid business failure
3. Why businesses succeed
4. How to guarantee business success
5. Is my business the right one and what makes a business right
6. How can I know if my business is the right one
7. How can I determine and select the right business
8. What can I do if my business is not right

Suggestion: For all these topics, the participants should be invited to give their ideas and experience and then trainers should build on these

Sub-topics of interest

1. Selecting the right product and services to sell – how to
2. Related – what customers want, what customers don't like
3. Qualities of good customer service, effects of poor customer service
4. Product pricing – how to price and dangers of wrong pricing
5. Credit – how to manage it, when to allow it and when not to
6. Locating a business
7. Simple business records
8. Managing working capital or cash flow

Suggestion: For all these topics, the participants should be invited to give their ideas and experience and then trainers should build on these

Concepts that will require illustration and proposed method

1. Entrepreneurial skills

Suggestion: A simple exercise on entrepreneurial skills is to stage a 'gambling/betting' game and observe how each group or participant is willing or not willing to 'gamble', in terms of the amounts and the persistence.

2. Barter trade – when is it profitable and when is it a loss

Get participants to cite reasons for barter trade preference (e.g. lack of cash, traditions etc.)

Suggestion: Get different participants in a class to give specific and detailed examples of their most recent barter trade experience. They should give figures and values of the items and monies involved, the process and time lapse before disposal. For example if the trader gave 1 debe of maize for 1 goat, track and see how then he is able or unable to immediately get cash for the goat and what it 'costs' him to dispose the goat or to keep it. Explore the risks and detail the procedure of e.g. transporting goats to distance market or bringing them into one's herd.

Explore options of barter trade, where it is possible. By asking participants what else they can do to circumvent it e.g. instead of selling products in an area where people do not have money, why can't they engage in businesses where they can target external markets with spending power. Give examples of those conducting fish trade between Todonyang/Lowereng'ak and Kakuma .

3. Demonstrate that money depreciates – hence need to select workable, thriving businesses and avoid holding stock for too long or holding excessive stocks

Suggestion: Allow participants to track price changes in a common commodity for as far back as they can recall, as evidence of money depreciating. The ultimate conclusion being, 'what a shilling could buy yesterday, it cannot buy today'.

4. Demonstrate the main motive for business- profit

Select a few participants to share with class their business turnovers – sales volume and stock turnover. Allow the whole class to 'troubleshoot' i.e. determine why the business turnover is low (this will mainly be the case). Get the class to generate possible solutions

to this and assist them to appreciate the fact that theirs is a weak economy and inward focus of solutions may not be helpful.

(Refer to the report to get a good guide on what are the causes of low business turnover and possible solutions).

Suggestion: Get them to appreciate that there are several business options which could bring better returns if one is willing to be entrepreneurial and understand the risks. Use this as the entry point for convincing them to conduct diagnosis of their businesses and make appropriate decisions.

5. The effects of poor weighing on business loss or profit

Suggestion: Use containers brought by participants to weigh out assorted dry stuff and then use accurate weighing machine for these products to illustrate how their use of crude measuring devices can incur business losses or lead to customer exploitation.

6. How to differentiate currency

Suggestion: Use real notes to expose participants to different denominations and features of genuine notes. *(There are some centers where this may not be an issue – so establish first)*

Action planning session

This should guide participants to identify specific learning and skills that they need to apply to their businesses.

Examples

1. Diagnose business
2. Diversify business
3. Expand business
4. Dispense with or scale down certain practices e.g. credit, barter trade
5. Adopt certain practices e.g. keeping records (for those who can), plan, pricing, better customer handling

The action planning should not be done right at the end of the training but after each significant session. During the training sessions, as participants learn new concepts, trainers should persuade them to 'meditate' either aloud or inwardly on whether they are practicing the right business practices or the wrong ones. Encourage them to share their diagnosis of their businesses against the new learning, openly. This should prepare them to engage in the action planning.

Teaching aids

1. Weighing scale
2. Assorted dry stuff – sugar, tobacco, rice, maize, salt, cooking oil etc.
3. Currency in all denominations
4. A1 posters of denominations
5. ***Docu-dramas (would have been nice but limited time available for this)***