

From  
the People of Japan

**Enhancing youth employability among Syrian refugees, IDPs and  
host communities in the Kurdistan Region of Iraq  
(Project No. 170173)**

## **ENTREPRENEURSHIP DEVELOPMENT TRAINING PROGRAMME**

### **MODULE ON MANAGING AND ESTABLISHING A BUSINESS - MODULE II**

#### **TRAINER'S GUIDE<sup>1</sup>**



**Erbil, Kurdistan Region of Iraq  
November 2018**

---

<sup>1</sup> This Training Guide is based on previous UNIDO EDP manuals developed in various projects e.g. Liberia, Uganda, Vietnam, Sudan, Solomon Islands, Zanzibar, and other countries.

## PROJECT BACKGROUND

The Kurdistan Region of Iraq (KRI) has a young and growing population with a median age just over 20, meaning more than 50% are less than 20 years old. As this young population reaches working age, it is estimated that over the next 20 years an average of 43,000 to 54,000 jobs per year need to be created to keep pace with the changing demographics.<sup>2</sup>

The large youth cohort in addition to the burden of hosting Syrian refugees adds to the deep economic problems of KRI, one of which is unemployment. For the Kurdish youth between ages 15 and 24, the unemployment rate is 24% for men and 69% for women<sup>3</sup>. Women's participation in the economy is only 14.8%<sup>4</sup>. Poverty levels have quadrupled since 2013 from 3% to 15%.

There is need to focus on generating sustained employment and livelihood opportunities, lack of which may lead to social instability and radicalization. The challenge is to turn the KRI youth bulge including the youth from the refugees and IDPs into a demographic dividend rather than a demographic burden; from a threat to social and political instability to a productive economic resource.

It is in this context, that UNIDO and the Career Development Centers (CDC) of Erbil Polytechnic University and Koya University is introducing entrepreneurship training to increase youth employability and promote youth led-business start-ups.

UNIDO is also in partnership with the Ministry of Education in introducing entrepreneurship training to the secondary vocational schools.

The project is funded with the generous support from the Government of Japan.

---

**This training guide has not been cleared by the United Nations Industrial Development Organization, which therefore does not necessarily share the views presented by the consultant.**

---

<sup>2</sup> KRG Youth Labour Market and Entrepreneurship Opportunities in the KRG Assessment; Save the Children May 2014

<sup>3</sup> Ministry of Planning of the Kurdistan Regional Government (2015 data)

<sup>4</sup> Ibid.

# MODULE ON ESTABLISHING AND MANAGING A BUSINESS

## Introduction

The Training on Entrepreneurship Development is one of the interventions of the project “Enhancing youth employability among Syrian refugees, IDPs and host communities in the Kurdistan Region of Iraq”. The project will conduct EDP training for the youth and young adults (ages 18-35 years) who have business ideas and, in the process, will help them develop and plan for their businesses. This training package has been adapted to the setting in the Kurdistan Region of Iraq.

## The Training Package

The Training has two modules. The first module is “Entrepreneurship, Work and Life Skills” and the second module is “How to Establish and Manage a Business”.

## Potential Users

This guide is designed for the graduates of the project’s Training of Trainers on Entrepreneurship Development who will be training the youth. Other training institutions and organizations not specifically targeting youth can also use the package with adjustments in the examples.

## Target Group

The target trainees for this training program are youth and young adults (ages 18 to 35 years old). The sessions are designed for trainees with functional level of literacy and numeracy.

## Methodological Approach

The methodological approach used throughout the session is “learning by doing”, emphasizing participatory training. This concept implies the active participation of the trainees. The role of the trainer is to act as a facilitator and not as a traditional teacher. The trainer elicits the existing knowledge of the participants and then deepens and/or broadens this knowledge through simulated learning activities and additional inputs.

The following learning and teaching strategies are also used to encourage interaction and team work among the trainees:

Role play	Learner led activities	Simulated learning activities	Small group discussions
Dyads	Question and Answer	Brainstorming	Team/group activities

## Module Aim

The aim of this module is to help the trainees internalize the entrepreneurial concepts as part of work and life skills to increase their employability<sup>5</sup> either through employment and/or self-employment.

---

<sup>5</sup> Employability can be defined as: ‘a set of achievements – skills, understandings and personal attributes – that make graduates more likely to gain employment and be successful in their chosen occupations, which benefits themselves, the workforce, the community and the economy’ Professor Mantz Yorke (2004) ‘Employability in Higher Education: what it is - what it is not’, Higher Education Academy/ESECT

**Trainer role / skills**

This module relies on the trainer's role as a facilitator but will also carry out typical teaching roles such as: observing, assessing, setting learning objectives, supporting trainees, etc. For successful delivery of this module, the trainer should be fully prepared before conducting the sessions. The trainer must show a great deal of understanding of the concepts of traits/behaviors and processes associated with successful entrepreneurial performance and life skills.

The trainer is encouraged to make further modifications to the materials by providing additional examples. The trainer should think of examples familiar to the trainees to illustrate points made during the sessions since learning is further enhanced from the trainees' own experiences.

The combination of training methodologies emphasizes trainees' finding solutions, answers and ideas for themselves. When the trainer has set a framework around an activity, the trainer will facilitate a self-directed learning. Trainees will remember and internalize the concepts faster when they are actively involved with the learning.

## **PARTS AND SESSIONS**

### **PART 1: SCANNING THE ENVIRONMENT FOR BUSINESS OPPORTUNITIES**

- Session 1: Generation of Business Ideas
- Session 2: Business Opportunity Selection
- Session 3: Introduction to Business Planning
- Session 4: Elements of a Small Enterprise Management
- Session 5: Preparing the Introduction section of a business plan

### **PART 2: MARKET PLANNING AND MANAGEMENT**

- Session 6: The Marketing Concept
- Session 7: Doing a Simple Market Survey
- Session 8: Know Your Customers, Competitors and Products (Goods or Services)
- Session 9: Pricing and Terms of Sales
- Session 10: Advertising and Promotion
- Session 11: Other Marketing Considerations
- Session 12: Forecasting Sales
- Session 13: Preparing a Marketing Plan

### **PART 3: PRODUCTION AND TECHNOLOGY**

- Session 14: Introduction to Production and Technology
- Session 15: Production Process
- Session 16: Premises, Location, Machinery and Equipment
- Session 17: Other Production Elements
- Session 18: Quality Management
- Session 19: Product Costing
- Session 20: Production and Technology Plan

### **PART 4: MANAGEMENT AND ADMINISTRATION**

- Session 21: Introduction to Management and Administration
- Session 22: Managing Human Resources
- Session 23: Pre-operating Activities and Administration
- Session 24: Management and Administration Plan

### **PART 5: FINANCIAL PLANNING AND MANAGEMENT**

- Session 25: Managing Business Finance
- Session 26: Estimating Capital Requirements
- Session 27: Sources of Funds
- Session 28: Profit and Loss Statement
- Session 29: Cash Flow Statement
- Session 30: Balance Sheet
- Session 31: Financial Analysis
- Session 32: Cash Budgeting
- Session 33: Record Keeping in Business
- Session 34: Business Start Up Activities
- Session 35: Business Insurance, Government Regulations and Taxes
- Session 36: Other Elements of a Business Plan
- Session 37: Packaging a Business Plan
- Session 38: Presentation of a Business Plan

### **ENTREPRENEURSHIP DEVELOPMENT TRAINING PROGRAMME EVALUATION FORM**

### **REFERENCES**

**PART****1**

## Scanning the Environment for Business Opportunities

	<b>Sessions</b>	<b>Objectives</b>
1	Generation of Business Ideas	Scan the environment, generate business ideas and, assess and select the best choices.
2	Business Opportunity Selection	Assess and select business opportunities
3	Introduction to Business Planning	Explain the meaning, importance and the components of a business plan
4	Elements of a Small Enterprise Management	Explain the sizes and factors used to determine the sizes of businesses in Kurdistan Region, distinguish between different legal forms of businesses in Kurdistan Region, explain management in the context of a small enterprise, explain the functions and tasks of management in a small enterprise, and explain how the family can support or be a challenge in one's business.
5	Preparing the Introduction section of a Business Plan	Demonstrate preparing the introduction part of the business plan

# SESSION 1

## GENERATION OF BUSINESS IDEAS

1.5 hours 

### OBJECTIVES

By the end of this session, the trainees will be able to generate business ideas, assess and select their best choice business ideas.

### TRAINING MATERIALS

- \* Flip Chart 1-1: Session Objectives
- \* Flip Chart 1-2: The Business Environment
- \* Flip Chart 1-3: How to scan the environment
- \* Flip Chart 1-4: What is a business Idea
- \* Flip Chart 1-5: Questions for generating business ideas
- \* Flip Chart 1-6: Sources of Business Ideas
- \* Flip Chart 1-7: Factors determining the choice of business idea.
- \* Flip Chart 1-8: Other areas from which to generate business ideas for micro and small business.
- \* Flip Chart and markers

## SESSION GUIDE

### 1. Introduction

- a. Tell the trainees. This session will enable them to scan the environment and generate business ideas, assess and select their best choices. Show Flip Chart 1-1, which shows the session's objectives. Explain. If they if they already have a particular business idea in mind, this session will help them make sure whether or not they have the right business idea. However, if they do not yet have any business, this session will help them look at possible business ideas from which they can later assess and select their business opportunities.

### 2. Presentation and Activities

- a. Guide the trainees to brainstorm and discover the environmental factors that affect business operations. Compare their answers with Flip Chart 1-2 and guide them to beef up their list.
- b. Guide trainees to discuss and find out how the business environmental factors would affect "What business they can start".

- c. Trainees discuss and come up with ways of scanning the environment to get the information they can use to find out the businesses that they can do. Flip Chart 1-3.
- d. Guide trainees to discuss and come up with the meaning of a business idea and generating business ideas. Compare and enrich their responses with Flip Chart Flip 1-4.
- e. Divide the class into small working groups. *Then discuss the rules for group work discussions. These include: i) No criticism of the group members' ideas are allowed; ii) Quantity is more important than quality; iii). No limitations; iv) The wilder the idea, the better; v) No shyness and vi) Every group member must participate.* Using the training workshop venue and its immediate surrounding areas as their environment, ask each group of trainees to practice scanning the environment and generating business ideas. Each group has 10 minutes for this activity. Each group should write the business ideas it has generated on a flip chart.
- f. After 10 minutes of group discussions in (e) above, request each group to post its answers on the board then count the business ideas. The group with the highest number of business ideas generated will get a prize. *(The rest of the class will clap for it).*
- g. Tell trainees to go back to their respective groups. Read instruction while showing Flip Chart 1-5. Answer one question from each of questions 1 and 2. Allow 15 minutes for this exercise. Groups report the business ideas they have generated.
- h. Discuss. Possible sources of business ideas. Show Flip Chart 1-6
- i. Tell trainees. Given that they have so far generated many business ideas; they need to select only a few for purposes of further assessment to choose which they can develop into a business. Guide the trainees to brainstorm and come up with the factors that they can use to determine their best choices. Write their answers on the board. Relate their answers with the factors of market, location, competition, skills and knowledge. Discuss these factors one by one and point out that these factors are also referred to as qualities of a good business idea. Show Flip Chart 1-7.
- j. Emphasize that before deciding on the type of business to start or expand, a fifth factor should be considered; **personality fit**. Clarify that the business they propose should fit their personal interests and professional needs in order to maximize their chances of success when doing it
- k. Present Flip Chart 1-8: List of potential areas from which to generate business ideas. Ask the trainees to choose the areas of their interest and practice generating business ideas during their free time.
- l. Tell trainees. From the many business ideas that you have so far generated and will still generate, identify three to five business ideas that appeal to you. Use the factors identified in Flip Chart 1-7. You will use this in the next session.

### 3. Summary

- a. Summarize the topic. Tell trainees. Generating a business idea is the first step in the journey of starting a business. Entrepreneurs are always scanning their environment in order to find information that would enable them to generate new business ideas. As future entrepreneurs they should always be interested in finding out what business you can possibly do. Use the factors in determining the best business idea to assess and select possible businesses that you can do.





## **Session: Generation of Business Ideas**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Generate business ideas
- ❖ Assess their business ideas
- ❖ Select their 3 – 5 best choice business plans



### **The Business Environment consists of:**

- Government programs
- Government policies and regulations affecting your community
- Economic, social and cultural conditions in your community
- Technological developments in the type of industry you are thinking of starting a business in.
  
- Political situation in the country
- Natural Environment i.e. land, forests, water, air, etc.
- The people that can be the business customers
- Competitors or the existing businesses
- Suppliers (of goods and services)
- Distributors and Dealers



## How to Scan the Environment

**It may be done in either of the following ways:**

- Observe what is happening in and around your community and country
- Listen to the radio, read newspapers, watch television
- Participate in meetings, workshops, parties, trade fairs
- Visit existing businesses to see what they are doing
- Go to markets to see the products being sold
- Inquire in your community to find out the existing problems and unmet needs.
- Finding out the resources that are locally available.

Studying or scanning the business environment means getting the information that would help you find answers to some questions like:

- What are the government's programs, policies, and regulations affecting micro and small businesses?
- What incentives and assistance does the government give to micro and small entrepreneurs?
- What are the government priorities in the types of business and in the areas of the country to be developed?
- What are the current and future economic conditions in the country affecting your village and potential business?
- What are the social and cultural traditions and practices that will affect your potential business?
- What are the technological options in the type of industry you plan to start?
- What are the peoples' problems or unmet needs that you could address by starting your business?



1-4

## **What is a Business Idea?**

- A response of an entrepreneur for solving an identified problem or meeting identified needs in his/her community using a business
- A possibility that could be turned into a business opportunity after assessing it.

Generating business ideas therefore is a process of observing given situations or happenings and coming up with ideas or thoughts that stand a chance of becoming businesses to address those and other situations/happenings.



## Business Idea Generation Exercise

**Question 1:** What businesses would you start and do if:

- a) There are many school children in your community.
- b) There are many fishermen in your community
- c) There are tourists in your community
- d) There are married couples and their families in your community
- e) There are many government officials in an area where you live and work

**Question 2:** If the following basic raw materials were available in your area, what businesses would you start and carry out using them?

- a) Timber
- b) Livestock
- c) Fish
- d) Fruits and vegetables
- e) Tourism facilities



## **Examples of the Sources of Business Ideas**

- i) Existing businesses in the community
- ii) Available information
- iii) Existing products
- iv) Totally new businesses / dreams/ fantasies
- v) Community's unmet needs or problems
- vi) Existing local resources
- vii) Events e.g. festive seasons, wedding functions, back to school days, political campaign days, etc.
- viii) One's technical expertise / profession, interests
- ix) One's hobbies
- x) Government programs, policies and priorities



1-7

## **FACTORS TO USE WHEN ASSESSING AND SELECTING ONE'S BEST BUSINESS IDEAS**

- 1) MARKET
- 2) LOCATION
- 3) COMPETITION
- 4) SKILLS AND KNOWLEDGE
- 5) PERSONALITY FIT



1-8

## **OTHER AREAS FROM WHICH TO GENERATE BUSINESS IDEAS FOR MICRO AND SMALL BUSINESSES**

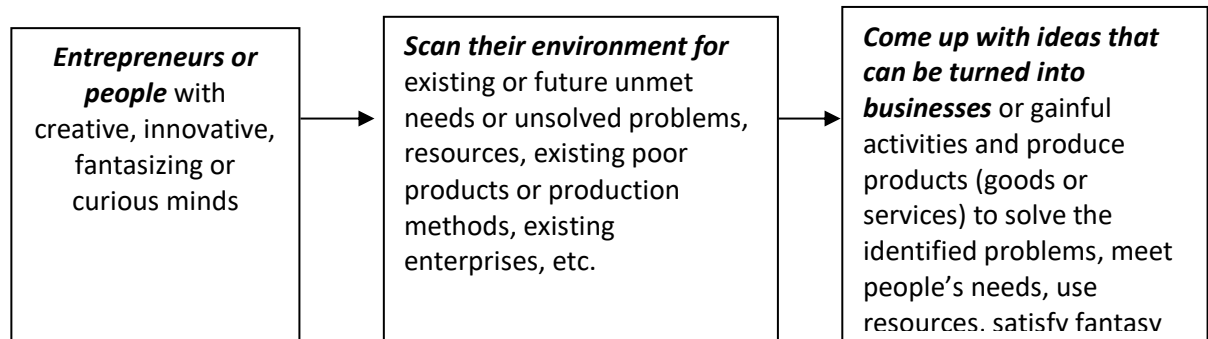
- PRESERVING OF FRUITS AND VEGETABLES
- PRESERVING OF FISH AND OTHER MARINE PRODUCTS
- FISH AND SEA FOOD PRODUCTION
- FLOUR MILLING AND STARCH PRODUCTION
- PRODUCTION OF FEED MEAL FOR PIGS AND POULTRY
- WOOD AND BAMBOO BASED PRODUCTS MANUFACTURING
- MANUFACTURING COCONUT-BASED PRODUCTS
- PRODUCTION OF MINERAL-BASED PRODUCTS
- MANUFACTURING TEXTILE-BASED PRODUCTS
- METAL FABRICATION (SHEET METAL AND IRON)
- MANUFACTURE AND REPAIR OF EQUIPMENT, TOOLS AND IMPLEMENTS
- REPAIR OF ELECTRONIC EQUIPMENT AND ACCESSORIES
- PROVISION OF PROFESSIONAL SERVICES E.G. MEDICAL, PHOTOGRAPHY
- PREPARING AND SERVING FOOD, BAKING, BUTCHERY AND PROCESSING MEAT
- BEAUTY CARE
- PRODUCE BUYING AND SELLING
- MOTOR VEHICLE/CYCLE REPAIR
- FARMING (LIVESTOCK, POULTRY, PIGGERY, CROPS)
- TRANSPORT
- TRADING
- TEACHING/TRAINING
- SERVICES LIKE TOUR GUIDING, HOSPITALITY, DRIVING, SECRETARIAL  
INTERNET CAFÉ, MUSIC PRODUCTION

## TRAINER'S NOTES

### Meaning and sources of business ideas

A business idea is defined as anything that an entrepreneur may come up with as a result of scanning his/her environment that has a possibility of being developed into a business. Also, the responses or the means and ways which people or businesses use to solve identified problems or meet existing or perceived needs are known as business ideas. Figure 2 below summarizes how entrepreneurs generate business ideas.

**Figure 2.2: The entrepreneurial business idea generation process**



Business ideas are also entrepreneur's dreams about possible businesses basing on given situations. They represent dreams and wide thinking aroused by different situations and scenarios. They are the starting point of the journey to starting a business or any gainful activity. Once assessed and ranked for the most liked ones, the top most ranked business ideas become business opportunities or opportunities to be developed into gainful activities. These choices are further subjected to market survey/research and planning in order for the entrepreneur to come up with a business plan that establishes the feasibility and viability chosen business opportunity.

The process of generating business ideas starts from the different points e.g. identification or recognition of unmet needs, existing problems which need to be solved, production processes which need to be improved, entrepreneurs and other people's fantasies and luxurious needs, etc.

### Qualities of a good business idea

There are qualities which give a general indication as to whether a business idea is good (for developing into a business or not) and these include the following:

- There should be an actual market or potential demand for the products that will be produced.
- The business that can be started ought to have capacity to generate profits.
- The business that can be started should be able to access or get factor inputs (e.g. raw materials, labor and capital) it requires for its operations.
- There should be technology and skilled manpower to start and operate the business that is to be based on the business idea identified.
- The business to be started should be legal and should be socially and culturally acceptable within the community it is to be located or serve.
- The business operations should not disrupt the operations of other activities e.g. though a disco and video business may be profitable within a schools' neighbourhood, it may not be acceptable by the community as it will disrupt the education of its children.

## SESSION 2

### BUSINESS OPPORTUNITY SELECTION

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to identify and select their business opportunities.

#### TRAINING MATERIALS

- \* Flip Chart 2-1: Session Objectives
- \* Flip Chart 2-2: The Meaning of a business opportunity
- \* Hand Out 2 (a)
- \* Hand Out 2 (b)
- \* Flip Chart and markers

### SESSION GUIDE

#### 1. Introduction

- a. Tell trainees that this session builds on the work they did in Session 1. By this time the trainees should have selected their 3 to 5 options using the factors discussed in the first session.
- b. Show Flip Chart 2-1. Present the session objectives. Tell trainees that this session will enable them to further assess your best business ideas. Explain that if they already have a particular business opportunity idea in mind, this session will help them make sure that it is indeed a good business opportunity.

#### 2. Presentation and Activities

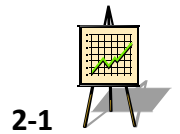
- a. Guide the trainees to recall the importance of generating business ideas. Reiterate. Generating business ideas is the foundation for identifying and selecting business opportunities.
- b. Ask the trainees what they understand by the term “business opportunities”. Write their answers on the board and compare and enrich their responses with what is suggested in Flip Chart 2-2.
- c. Point out that while selecting their 3 – 5 best business ideas (or options as done in Session 1); they were essentially preparing themselves for identifying their business opportunities.



- d. Tell trainees. Now that they have identified their 3 – 5 best business ideas using the 5 factors discussed in session 1, this time they will subject their ideas to more rigorous assessment. Give Hand Out 2 (a). Explain the instructions carefully. Guide trainees as needed/
- e. When the trainees finished scoring their business ideas, give Hand Out 2 (b). Tell trainees. Review the total scores you have given each business opportunity. Using the Hand Out rank your business ideas according to the scores starting with the highest one. The top ranking ideas are their best selected business opportunities.

### **3. Summary**

- a. Summarize the topic. Remind trainees. The process of generating business ideas and the whole process of assessing and reassessing the ideas is meant to enable them to select a business opportunity, which stands a chance of success in a market place.
- b. Continue. Tell trainees. Try to develop a mindset of generating business ideas in every situation or opportunity. To do this, you need to develop a positive attitude. You can also seize the opportunity to solve other people's problems. Come up with a business providing goods and services that will solve the problems and for which people will be willing to pay for the goods or services.



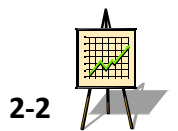
2-1

## **Session:** Identifying and selecting Business Opportunities

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Identify business opportunities
- ❖ Assess business opportunities
- ❖ Select business opportunities



2-2

## **Meaning of a Business Opportunity**

- A business opportunity is a chance of entering into a viable business by identifying and exploiting gaps in the market.
- A business opportunity is also a set favorable of circumstances that creates a need for a new product (goods or service) and therefore, provides a chance for one to start a business that has real demand and can therefore succeed.
- An attractive business idea that an entrepreneur accepts for investment after applying a feasibility and viability test using the 5 main assessment factors (see Flip Chart 2-3).

2 (a)



### ASSESSING YOUR BUSINESS IDEA

	SCORES			Total Score
	Very Good	Good	Fair	
BUSINESS OPPORTUNITY AND FACTORS	3 Points	2 Points	1 Point	
<b>1. Business Opportunity:</b>				
Market				
Location				
Competition				
Skills and Knowledge				
Personality Fit				
<b>2. Business Opportunity</b>				
Market				
Location				
Competition				
Skills and Knowledge				
Personality Fit				
<b>3. Business Opportunity</b>				
Market				
Location				
Competition				
Skills and Knowledge				
Personality Fit				
<b>4. Business Opportunity</b>				
Market				
Location				
Competition				
Skills and Knowledge				
Personality Fit				
<b>5. Business Opportunity</b>				
Market				
Location				
Competition				
Skills and Knowledge				
Personality Fit				



**2 (b)**

## Selecting a Business Opportunity

After assessing all your 3-5 best business ideas using your criteria rank them according to their total scores (beginning with the highest and ending with the least scoring). The highest scoring business idea then becomes your business opportunity.

No.	Business Idea	Score
1		
2		
3		
4		
5		

**Business Opportunity .....**

## **Trainer's Notes**

### **Business Opportunity**

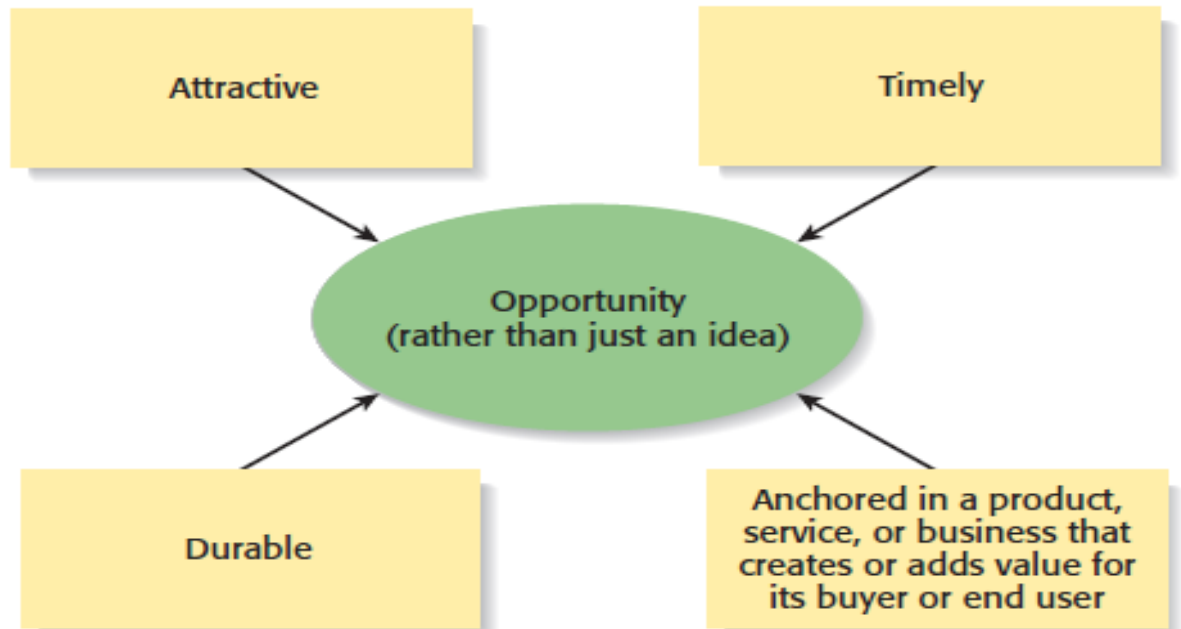
A business opportunity is a prospect or chance of entering into a viable business activity by identifying and exploiting gaps in the market. The identified chances that can be turned into real and profitable business activity are referred to as business opportunities. On the other hand, an opportunity is also a favorable set of circumstances that creates a need for a new product (good or service) and therefore a business. For it to qualify to become a business opportunity, the selected 3 – 5 best business ideas must be further assessed to confirm:

- That there exists real demand (market) for the products to be produced
- A business to be established will provide a high or acceptable return on investment i.e. selling prices that will exceed costs and thus enable the business to make high profits to give the entrepreneur a good return on his/her share capital invested in the business
- The business products can effectively compete in the market
- The business will be able to meet the entrepreneur's objectives and goals for going into business
- Availability of resources (affordability) needed to start and operate the business
- Existence of the required technical skills to operate the business.
- Meets the entrepreneur's personal interests and abilities

The following circumstances create a need for a new product (good or service) and are therefore a good source of business ideas and later on opportunities:

- Changes in Consumers' tastes
- Development of a new market area nearby
- Expanding population
- Peace and stability in regard to personal security and that of business and property
- Weakening competitors
- Government policy such as promotion of teaching sciences in secondary schools
- Political and seasonal events like election campaigns, Christmas, Easter, etc.

#### Four major qualities of a good business opportunity



#### Other qualities of a good business opportunity include:

- Existence of actual market or potential demand for the products of the business that may be started basing on the business opportunity. In other words, there should be enough people or institutions willing or with a capacity to buy the business's products at the set prices once they are produced.
- Profitable i.e. the business that can be started should have capacity to generate profits. The products that are to be produced should be sellable in sufficient quantities and at prices that will enable the business to make profits.
- The business that can be started should be able to access or get factor inputs it requires for its operations. These include capital, labor, raw materials, energy, transport and communication facilities, etc.
- There should be technology and skilled manpower to start and operate the business that is to be based on the business opportunity identified. The technology should not only be available but it should also be robust and affordable by the entrepreneur.
- The business to be started should be legal and compatible with the social, cultural and religious norms of the community in which it is to be located or to serve.
- The business should be acceptable in the community
- The business should not harm or pollute the environment.

## SESSION 3

### INTRODUCTION TO BUSINESS PLANNING

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the meaning and importance of a business plan; identify the different components of a business plan and explain the different components of a business plan.

#### TRAINING MATERIALS

- \* Flip Chart 3-1: Session Objectives
- \* Flip Chart 3-2: What is a business plan?
- \* Flip Chart 3-3: Why prepare a business plan?
- \* Flip Chart 3-4: Users and uses of a business plan
- \* Flip Chart 3-5: Components of a business plan
- \* Hand Outs 3 (a) – (c): Format of business plans for different types of businesses
- \* Flip Chart and markers

### SESSION GUIDE

#### 1. Introduction

- a. Tell trainees. In this session, they will be able to explain the meaning and importance of a business plan as well as identify and explain the different components of a business plan. Show Flip Chart 3-1.
- b. State. Trying to start a business without a plan is like trying to build a house without a blueprint. Emphasize that, while it is possible to start a business without a plan, the chances of success for operating the business are much greater if the entrepreneur has a business plan.
- c. Ask the trainees what comes to their mind when they hear the word “business plan”. Write their answers on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to discuss the meaning of a business plan. Show Flip Chart 3-2.
- b. Guide the trainees to discuss the reasons why an entrepreneur should prepare a business plan. Show Flip Chart 3-3.
- c. Ask the trainees who they think the users of a business plan are. Add on whatever is lacking in their answers and include in the discussion how the users use the business plan. Show Flip Chart 3-4.
- d. Explain that a Business Plan consists mainly of eight sections. Show Flip Chart 3-5. These include:
  - Executive Summary
  - Introduction
  - Marketing Plan
  - Production and Technical Plan
  - Management and Administration Plan
  - Financial Plan
  - Risk Assessment
  - Appendices
- e. Using Hand Out 3 (a), guide the trainees to briefly discuss the different components of a business plan of a production/manufacturing business. Tell trainees that they will learn about these components in more detail during the course of the training.
- f. Point out to the trainees that though largely similar, there are some slight variations in the business plan components depending on the type of the business; vending/trading, production/manufacturing and services. Let the trainees study Hand Outs 3 (a), 3 (b) and 3 (c) for manufacturing/producing, vending/trading and service businesses respectively to see the differences between them.

## **3. Summary**

- a. Summarize the different components and show to the trainees the Format of a Business Plan for different types of businesses (Hand Outs 3 (a) – (c). Tell them that they will be going through each of the different components of the business plan in-depth during the rest of the training modules. During these sessions, they will be able to gather the information they need to prepare their business plan.
- b. Also remind the trainees that as they get along with the rest of the training sessions, they should focus at relating whatever they will be learning to the business opportunities they selected in Session 2 with a view to gathering the information that will enable them to complete their business plans and successfully implement them.
- c. Emphasize to the trainees that at the end of each part (marketing, production, management and administration, and financial planning and management, they will be required to prepare the business plan components of those parts. Furthermore, point out that it is advisable for them to complete the part's plan before proceeding to the next part because they will need the plan for the next component.





## **Session: Introduction to Business Planning**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning and importance of a business plan
- ❖ Identify the different components of a business plan
- ❖ Explain the different components of a business plan



## **What is a Business Plan?**

A document containing the plan of action developed to implement your business opportunity. It mainly contains the:

- Marketing plan
- Production and technology plan
- Management and administration plan
- Financial plan

**A business plan is required for converting a business opportunity into a technically and commercially viable enterprise that satisfies its customers' needs and is profitable to the entrepreneur.**



## Why Prepare a Business Plan?

For you, the entrepreneur, preparing a business plan will give you a chance and opportunity to find out:

- Whether the business opportunity selected is indeed is the right business for you
- Whether your business is feasible and viable i.e. it generates sufficient return on investment of your time, money and effort and also satisfies the customers' needs.
- The appropriate level of operation you can have for your business
- The demands and intricacies of operating your business
- The capital required for investing and starting the business and how it will be raised.
- Potential problems likely to be faced during business implementation and finding the preventive actions to put in place to counter them
- Potential opportunities of business implementation and take advantage of them



3-4

## Users and Uses of a Business Plan

Users	Uses
<b>The entrepreneur (You)</b>	<b>Guide in operation</b>
<b>Bank creditors</b>	<b>Support of loan application</b>
<b>Business partners</b>	<b>Decision to invest</b>
<b>Business employees</b>	<b>Guide in operations</b>
<b>Government</b>	<b>In case the entrepreneur is seeking some support or special considerations</b>



3-5

## Components of a Business Plan

- i) Executive Summary
- ii) Introduction
- iii) Marketing Plan
- iv) Production Plan
- v) Management and Administration Plan
- vi) Financial Plan
- vii) Risks Assessment
- viii) Appendices



## Hand Out 3 (a)

### **A BUSINESS PLAN FORMAT FOR A MANUFACTURING/PRODUCING BUSINESS**

#### **I. EXECUTIVE SUMMARY**

#### **II. INTRODUCTION**

#### **III. MARKETING PLAN**

- a. Products (Goods) offered
- b. Customers
- c. Competition
- d. Pricing
- e. Terms of Sales
- f. Advertising and Promotion
- g. Distribution Strategy
- h. Other Marketing Elements
- i. Projected Sales
- j. Marketing Expenses

#### **IV. PRODUCTION PLAN**

- a. Production Process
- b. Premises and Location
- c. Machinery and Equipment
- d. Plant Capacity
- e. Labor Requirement
- f. Raw Materials
- g. Packaging Materials
- h. Utilities
- i. Factory Overhead Expenses
- j. Production Cost

#### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- a. Key Personnel and Other Staff
- b. Pre-operating activities
- c. Timetable for implementing pre-operating Activities
- d. Office Facilities
- e. Administrative Expenses
- f. Pre-Operating Expenses

#### **VI. FINANCIAL PLAN**

- a. Total Business Costs
- b. Financing Plan
- c. Projected Profit and Loss Statement
- d. Projected Cash Flow Statement
- e. Projected Balance Sheet
- f. Projected Cash Budget
- g. Financial Analysis
- h. Financial Assumptions

#### **VII. RISK ASSESSMENT**

#### **VIII. APPENDICES**



## **A BUSINESS PLAN FORMAT FOR A VENDING / TRADING BUSINESS**

### **I. EXECUTIVE SUMMARY**

### **II. INTRODUCTION**

### **III. MARKETING PLAN**

- a. Products (goods) Offered
- b. Customers
- c. Competition
- d. Pricing
- e. Terms of Sales
- f. Advertising and Promotion
- g. Distribution Strategy
- h. Other Marketing Elements
- i. Projected Sales
- j. Marketing Expenses

### **IV. PROCUREMENT PLAN**

- a. Procurement process
- b. Business Premises and Location
- c. Procurement Costs

### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- a. Key Personnel and Other Staff
- b. Pre-operating Activities
- c. Timetable for implementing pre-operating Activities
- d. Office Facilities
- e. Management and Administrative Expenses
- f. Pre-Operating Expenses

### **VI. FINANCIAL PLAN**

- a. Total Business Costs
- b. Financing Plan
- c. Projected Profit and Loss Statement
- d. Projected Cash Flow Statement
- e. Projected Balance Sheet
- f. Projected Cash Budget
- g. Financial Analysis
- h. Financial Assumptions

### **VII. RISK ASSESSMENT**

### **VIII. APPENDICES**



## **A BUSINESS PLAN FORMAT FOR A SERVICE BUSINESS**

### **I. EXECUTIVE SUMMARY**

### **II. INTRODUCTION**

### **III. MARKETING PLAN**

- a. Products (Services) Offered
- b. Customers
- c. Competition
- d. Pricing
- e. Terms of Sales
- f. Advertising and Promotion
- g. Distribution Strategy
- h. Other Marketing Elements
- i. Projected Sales
- j. Marketing Expenses

### **IV. PRODUCTION PLAN**

- a. Production process
- b. Business Premises and Location
- c. Production Capacity
- d. Equipment
- e. Utilities
- f. Overhead Expenses
- g. Production Costs

### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- a. Key Personnel and Other Staff
- b. Timetable for implementing pre-operating Activities
- c. Office Facilities
- d. Management and Administrative Expenses
- e. Pre-Operating Expenses

### **VI. FINANCIAL PLAN**

- a. Total Business Costs
- b. Financing Plan
- c. Projected Profit and Loss Statement
- d. Projected Cash Flow Statement
- e. Projected Balance Sheet
- f. Projected Cash Budget
- g. Financial Analysis
- h. Financial Assumptions

### **VII. RISK ASSESSMENT**

### **VIII. APPENDICES**

## Trainer's Notes

### Introduction

Trying to start a business without a plan is like trying to build a house without a blueprint. While it is possible to start a business without a plan, your chances of success for operating your business are much greater if you have a business plan.

A business plan enables you, the entrepreneur, to decide and prepare what has to be done and how things are to be done for your enterprise. With a plan, potential problems that may arise during business operations are identified and anticipated with preventive action. Likewise, potential opportunities that may arise are identified so as to take advantage of them.



With a business plan as guide, you will be able to face the future challenges in operating your business. You will also have the confidence needed if you are going to approach banks for a loan.

### What is a business plan?

A business plan is a report containing the plan of action developed to implement your basic business idea. It contains the marketing plan and marketing strategy, production and technology plan, management and administration plan, and financial plan required for converting a business idea into a technically and commercially viable enterprise.

### Why prepare a business plan?

For you, the entrepreneur, preparing a business plan will give you a chance and opportunity to find out:

- Whether the business originally planned is the right business for you
- Whether your business is feasible, whether it generates sufficient return on investment of your time, money and effort
- The appropriate level of operation you should start your business (it is recommended to start small and gradually expand operation as you gain experience and as your market expands)
- The demands and intricacies of operating your business and decide whether you can cope with them
- Potential problems of business implementation and identify preventive action
- Potential opportunities of business implementation and take advantage of them

### Who are the users and what are its uses?

- **You, the Entrepreneur** - the business plan will serve as your guide in operating your business.
- **Bank Creditors** – this will support your application for bank loan. The bank will evaluate your business plan before making a decision whether to lend or not to lend to your business.
- **Business Partners** – this will be read and evaluated by your potential business partner before he or she decides to invest in your business.
- **Business Employees** – It guides them in their routine management and operating activities as it shows targets and strategies for achieving them.

## **The components of a business plan**

### **Executive Summary**

This section summarizes the relevant parts of the business plan. It includes brief description of the marketing plan, production and technical plan, management and administration plan, and financial plan. It also includes brief profile of the entrepreneur and possible contribution of the enterprise to the local economy.

### **Introduction**

This section gives a brief introduction of the enterprise, the purpose in writing the business plan and the goals of the enterprise.

### **Marketing Plan**

This section gives an assessment of the market feasibility of the business. It provides information about the products or services to be offered, customers, competition, pricing, terms of sales, projected sales, advertising and promotion, distribution strategy, and projected marketing expenses.

### **Production and Technology Plan**

This section describes the production process, business premises and location, machinery and equipment, plant capacity, raw materials, labour requirement, factory overhead expenses like utilities, water, depreciation and cost of production.

### **Management and Administration Plan**

This section provides information about the owner and manager of the business and other persons who will assist the manager in running the business; their qualifications and functions; form of organization (e.g. single proprietorship, partnership or corporation) and legal status of business; implementation activities and timetable; office facilities; administrative expenses in running the day-to-day operations; and pre-operating expenses.

### **Financial Plan**

This section provides information about the total project requirement, sources of financing, projected Income Statement, projected Cash Flow Statement, project Balance Sheet and financial analysis of the business.

### **Risk Assessment**

This section provides information about how the entrepreneur comes-up with a strategy and plan of action of how risk situations can be overcome.

### **Appendices**

Appendices include any schedules, annexes and documents that support the business plan.

### **Business Plan Format**

Though it largely contains a similar message (feasibility and viability of the business), the way a business plan is presented / format varies with the nature of the business, the needs of the users, the size and level of the sophistication of the business. However, the format shown in Hand outs 3.1 and 3.2 are common for both manufacturing and vending/trading businesses.



## SESSION 4

### ELEMENTS FOF A SMALL ENTERPRISE MANAGEMENT

1.5hours 

#### OBJECTIVES

By the end of the session, the trainees will be able to explain the sizes and factors used to determine the sizes of businesses in Kurdistan Region, distinguish between different legal forms of businesses in Kurdistan Region, explain management in the context of a small enterprise, explain the functions and tasks of management in a small enterprise and, explain how the family can support or be a challenge in one's business.

#### TRAINING MATERIALS

- \* Flip Chart4-1: Session Objectives
- \* Flip Chart4-2: Sizes of businesses in Kurdistan Region
- \* Flip Chart4-3: Factors used to determine the sizes of businesses in Kurdistan Region
- \* Flip Chart4-4: The common legal forms of businesses in Kurdistan Region
- \* Flip Chart4-5: Meaning of management and the roles of a manager
- \* Flip Chart4-6: Management functions
- \* Flip Chart4-7: Management tasks
- \* Flip Chart4-8: Family support to one's business
- \* Flip Chart 4-9: Roles of spouse in one's business
- \* Flip Chart4-10: Challenges of involving a family in one's business.
- \* Hand Out 4 (a): The common legal forms of businesses in Kurdistan Region
- \* Hand Out 4 (b): The Advantages and Challenges of different legal forms of businesses in Kurdistan Region.
- \* Flip Charts, markers

## SESSION GUIDE

### 1. Introduction

- a. Tell the trainees that this session will enable them to explain the sizes and factors used to determine the sizes of businesses in Kurdistan Region, distinguish between different legal forms of businesses in Kurdistan Region, explain management in the context of a small enterprise, explain the functions and tasks of management in a small enterprise and, explain how their families can support or be a challenge in their businesses. Show the trainees Flip Chart4-1 for the session's objectives.
- b. Inform the trainees that after selecting their business opportunities and developing their business plans, they will have to start and manage the business activities efficiently and effectively in order for their businesses to succeed. Consequently, they need among others to decide on the size of the business that they can possibly start; the possible legal forms of businesses that they can use, and the roles they will have to play as owner managers. It may also be inevitable for their families to participate in their businesses. Therefore, they need to learn the support that their families can render to their businesses, what challenges this could bring and how to balance the two -the support and the associated challenges.

### 2. Presentation and Activities

- a. Guide the trainees to brainstorm and discover the different sizes of businesses in Kurdistan Region. Write their answers on the board. Show them Flip Chart4-2 and summarize the discussions by expounding more on when and how either of sizes of businesses can be formed.
- b. Ask the trainees to identify the common factors used to determine the sizes of businesses in Kurdistan Region? "Write their answers on the board. Showing them Flip Chart4-3 and then guide them to discuss and bring out the other factors they could have missed out. Conclude the discussions by pointing out that the sizes of business are not static but vary with the level of economic development in a country. For example, a large business in Kurdistan Region may be considered a medium sized business in Nigeria and a small business in the United States of America.
- c. Ask trainees to identify and list the legal forms of businesses in Kurdistan Region. Show them Flip Chart4-4 and guide the trainees to discuss and come up with the features of each legal form of business, how it is formed and the legal requirements that it must satisfy. Also give the trainees Hand Out 4 (a)
- d. Guide the trainees to brainstorm and discover the benefits and challenges of forming and operating one's business under either of the legal forms of business identified. Show Hand Out 4 (b)
- e. Guide the trainees to brainstorm and discover the other factors to consider when choosing the legal form of business to adopt for their businesses. Show Flip Chart 4-5.
- f. Ask the trainees to choose a legal form of business to operate their businesses under. Emphasize to them that for the rest of the course, they will use the legal form of business they have chosen in (e) above.
- g. Guide the trainees to brainstorm and discover the meaning of management, and the meaning and examples of management functions and tasks. Use Flip Charts 4-5, 4-6 and 4-7 to assist the trainees bring out the meaning of management, and what managers do and, the functions and tasks of management.

- h. Divide the trainees into 4 small groups and let 2 groups discuss and write a report on how family members support businesses while the other 2 groups discuss and report on the challenges entrepreneurs risk facing when they involve their family members in running their businesses. After 15 minutes of group discussions, let each group present its report to the rest of class for guided discussions. Allow 3 minutes for presentations and thereafter open the discussions.
- i. Guide the discussions to include the support of the spouse in a family business as well as the support of other family members. Explain that most micro and small businesses are family-owned and managed, and that this implies that family members have a significant role to play in the operations and building up the business. Use Flip Charts 4-8 to 4-10 to guide the discussions.
- j. Point out that since there are both benefits and challenges, there is as a result a need to create a situation of balance between the interests and goals of the business and those of the entrepreneur's family. Emphasize that the clash of interests, if not avoided, can cause a total failure in the operations of the business. Guide the trainees to brainstorm and come up with strategies they will put in place to strike this balance.

### **3. Summary**

- a. Explain to the trainees that many entrepreneurs think that their main problem in business is lack of capital. However, based on what actually happens in most micro and small businesses, this is often not true and many studies also confirm it. Such studies indeed show that the difficulties experienced by most micro and small entrepreneurs are not always the result of lack of capital but lack of knowledge and skills in managing their businesses properly. Many entrepreneurs also tend to neglect their management responsibilities and instead tend to be pre-occupied with the routine day-to-day activities of the business.



## **Session objectives:**

### **By the end of the session, the trainees will be able to:**

- Identify the sizes of businesses in Kurdistan Region
- Explain the factors used to determine the sizes of businesses in Kurdistan Region
- Distinguish between the different legal forms of businesses in Kurdistan Region
- Select a legal form for their businesses
- Explain management in the context of a small enterprise
- Explain the functions and tasks of management in a small enterprise
- Explain how their families can support their businesses.
- Describe the challenges they will face by involving their families in their businesses



4-2

## **Sizes of Businesses in Kurdistan Region**

- **Micro**
- **Small**
- **Medium**
- **Large**

*The sizes of business are relative and vary from one country to another. They also change over time. HOW?*



4-3

## **Factors used to determine the size of businesses in Kurdistan Region**

- Volume of periodical sales
- Capital invested
- No. of employees
- Fixed Capital assets employed
- Nature of premises used
- Level of automation
- Usage of energy



4-4

## **Common Legal Forms of Business in Kurdistan Region**

- i) Sole Proprietorship**
- ii) Partnership**
- iii) Limited Liability Company or Corporation**
- iv) Co-operative /Association**



Flip Chart 4-5

## **OTHER FACTORS TO CONSIDER WHEN DECIDING ON THE LEGAL FORM OF BUSINESS**

- **Your desire to “run your own show” and be the sole boss**
- **Your desire to involve your family members with the business**
- **Your confidence in your own skills and experiences**
- **The amount of funds required to set up your business**
- **Your local tax and legal regulations**
- **Your desire for the continuity of the business**
- **Procedures necessary to establish and operate your business**



## COMMON LEGAL FORMS OF BUSINESSES

### i) Sole Proprietorship

- This is the most common legal form used by micro and small entrepreneurs in Kurdistan Region.
- A sole proprietor is the owner of the business and the business is called a proprietorship
- As the name suggests, it is a one man/woman owned and operated business.
- As a sole proprietor, your business will be owned and operated by one person — you.
- The identity of the business is the same as that of its owner
- At law, the proprietor and his/her business are legally the same.
- No registration is required.

### ii) Partnership

- It is an association between 2 to 7 people who co-own a business. The business partners may contribute funds or other forms of resources including their knowledge and skills to start the business and have legal rights to it.
- It is a popular legal form of business between people with similar experience and interests, and complementary knowledge and skills in particular, professionals.
- A Partnership Agreement (Deed) is usually drawn up to guide the partners in course of operating their business.
- A partnership is easy to form and does not require registration.
- Is ideal for micro and small entrepreneurs who need to pool their resources and skills for starting and jointly operating a business.

### iii) Limited Liability Company or Corporation

- Is a legal business form owned by a group of individuals (2 up to 50 people if private and 7 up to un limited if public)
- While it is owned by a group of people, it has a separate and distinct legal identity and enjoys limited liability advantage.
- To form a limited liability company or corporation, it must be registered and approved by the relevant government agency, Ministry of Commerce and Industry.
- An agreement, called the “*Articles of Incorporation*”, states the power and limitations of this business entity.

**iv) Cooperative or Association**

- This is a non-profit organization formed solely for the economic and social benefit of its members.
- The basic difference between a corporation and a cooperative/ association is that the shares of all members in an association or cooperative are *equal (One member one vote regardless of the number of shares held)*.
- Some countries provide special incentives for the formation and operation of business cooperatives or associations. These incentives may include tax exemptions and special grants or assistance.





**ADVANTAGES AND CHALLENGES OF THE DIFFERENT LEGAL FORMS OF BUSINESSES IN KURDISTAN REGION**

**I) A SOLE PROPRIETORSHIP**

<b>Advantages</b>	<b>Challenges</b>
<ul style="list-style-type: none"><li>• The owner makes all the decisions and controls the business operations.</li><li>• The owner need not share the profits with anyone.</li><li>• A sole proprietorship is easy to form and less costly to operate.</li><li>• A sole proprietorship may also be a less expensive form due to possibly lower rates for individual income taxes.</li></ul>	<ul style="list-style-type: none"><li>• The owner has to bear all the pressures and risks of the setting-up and managing the enterprise.</li><li>• The owner bears all the losses suffered by the business including its liabilities.</li><li>• The entrepreneur is totally dependent on his or her own resources and skills. This may limit the business' growth</li><li>• Limited chances of continuity in the event of the death of the owner (as the two share the same identity)</li></ul>



**ADVANTAGES AND CHALLENGES OF THE DIFFERENT LEGAL FORMS OF BUSINESSES IN KURDISTAN REGION**

**II) A PARTNERSHIP**

Advantages	Challenges
<ul style="list-style-type: none"><li>• Brings together people with various skills and experience</li><li>• Enables more resources to be raised and invested into the business through combined investment</li><li>• Partners are able to contribute their best, because they eventually share in the profits or losses</li><li>• There may be some tax advantages in the partnership form</li><li>• Formation of a partnership agreement is relatively easy</li></ul>	<ul style="list-style-type: none"><li>• In this arrangement, trust among, and dedication of, all partners must be maintained for the success of the business.</li><li>• Disagreements may also arise because it is difficult to divide work among the partners. Finding the right partners; individuals with similar work ethic, strong skills and experience, and commitment – is key.</li><li>• It may be difficult to share the work equally among partners so that everyone is satisfied with their roles.</li><li>• A partnership may dissolve if one of the partners leaves the business. This may affect the continuity of the business.</li></ul>



**ADVANTAGES AND CHALLENGES OF THE DIFFERENT LEGAL FORMS OF BUSINESSES IN KURDISTAN REGION**

**III) A LIMITED LIABILITY COMPANY**

Advantages	Challenges
<ul style="list-style-type: none"><li>• The owners are not personally responsible for the debts owed by the firm beyond the amount of money they have contributed as their share in the corporation.</li><li>• The owners do not risk losing their personal belongings that are not part of their share in the company.</li><li>• Sometimes the corporate tax rates are lower than the individual tax rates and there are possible tax advantages. The company pays its own business and income taxes while the individual owners only pay for the income taxes that are due from their share of the profits.</li></ul>	<ul style="list-style-type: none"><li>• It is seen as a more complex legal form of business because of the ownership structure and operating requirements of the company.</li><li>• It is more difficult and usually more expensive to form and operate because it has to comply with additional regulations, such as filing of regular reports with the government. For these reasons very few small enterprises are organized in this form.</li><li>• Government authorities monitor the operation of corporations, collect reports and, when necessary, conduct visits to find out if business operations are conducted in accordance with its Articles of Incorporation.</li></ul>



#### IV) A CO-OPERATIVE/ASSOCIATION

Advantages	Challenges
<ul style="list-style-type: none"><li>• The owners are not personally responsible for the debts owed by the co-operative beyond the amount of money they contributed as their share capital in the corporation.</li><li>• The owners do not risk losing their personal belongings that are not part of their share in the co-operative.</li><li>• Sometimes they are exempted from paying Government taxes</li><li>• Sometimes, they enjoy Government support</li><li>• Easy to form and operate in particular by low income people.</li><li>• Co-operatives are a very effective tool/institution for mobilizing self-help initiatives among the people for the purposes of achieving their economic and social goals on their own.</li><li>• Assured of legal continuity beyond the lives of individual members</li></ul>	<ul style="list-style-type: none"><li>• It is more complex legal form of business because of the ownership structure and operating requirements that are similar to those of the company.</li><li>• It is more difficult and usually more expensive to form because it has to comply with co-operative laws and regulations</li><li>• One member one vote does not encourage people to put in more resources than others even when they have them.</li><li>• Leadership and operations are at times problematic as there is no individual responsibility.</li><li>• Close monitoring by Government authorities, which at times interfere with leadership, management and operations.</li><li>• Must be registered before operations</li></ul>



4-6

## Management Functions

- Planning,
- Organizing
- Executing (coordinating, leading/directing and staffing)
- Controlling



4-7

## Management Tasks

- Marketing
- Production
- Human Resource management
- Financial management



## **Family support to one's business**

***The presence of supportive family members can provide:***

- Opportunity for business growth
- Gives room for the family members to:
  - to collaborate and build team work
  - ensure trust among themselves
  - provide start-up capital and funds to cover other related costs
  - provide skilled and general labor at cheaper cost
  - provide moral and emotional support



4-9

## **Roles of a spouse in one's business**

***A Supportive spouse can provide:***

- Manpower
- Assist in the day-to-day operations of the enterprise
- Assist in the general management of the enterprise
- Contribute towards the success of small enterprises
- Assure continuity of the business



## Challenges of involving a family in one's business

- Family relations demand that a relative be hired by the enterprise even if the person is not qualified
- Relatives may request for financial assistance even when the financial position of the enterprise is weak
- Family expenses are drawn from the enterprise, thus affecting its financial growth
- Family members expect special treatment
- Family members have their own ideas of how to run your business, thus creating problems within your enterprise
- Keeping family issues separate from business issues can be difficult
- There exist pre-conceived notions about inheritance in the business

Close relationship between the family and the business, while necessary to the success of the business, may also give rise to conflicts. There is therefore a need to create a situation of balance between the interests and goals of the business and those of the entrepreneur's family

## **Trainer's Notes**

### **Types of Business in Kurdistan Region**

There are many different types of businesses being or can be done in Kurdistan Region but the common ones include agribusinesses, manufacturing businesses, service businesses, trading businesses and extraction businesses.

#### **a) Agribusinesses**

Businesses, which produce or deal in agricultural related products, are known as agribusinesses or agricultural businesses. Agribusinesses deal with crop production, livestock and poultry rearing, fisheries, provision of agricultural support services, buying and selling of agricultural products.

#### **b) Manufacturing Businesses**

Businesses, which process and change the form or add value to their inputs or raw materials to make other products, are known as manufacturing businesses. Examples of such businesses include businesses like soap making, brick making, carpentry, pottery, mat and basket weaving, tailoring, welding, juice extraction and soft drinks production, clothes or textiles making, production of cement etc. In some manufacturing businesses, the raw materials used may remain almost the same but may have their values significantly improved or their life span or shelf life increased (e.g. pasteurizing milk or processing it). In other manufacturing businesses, the materials they use may be reduced into small sizes that customers want while others may be packaged to improve their appearance, presentation or handling.

#### **c) Trading Businesses**

Trading businesses engage in buying and selling of goods. Common examples of trading businesses include kiosks (booths), retail tables, hawkers (boys or girls), grocery shops, retail shops, supermarkets and wholesalers. Such businesses may be buying their products locally or they may be importing them from outside Kurdistan Region. Others may be buying their products locally and selling them outside Kurdistan Region (exporting).

Trading businesses know what their customers want and where those goods can be purchased or sourced from. They then buy those products and stock them for their customers. They normally do not change the form of the goods they buy and sell. However, they may repackage the goods into the quantities or sizes demanded by their customers.

Wholesaling trading businesses buy and sell their products in big quantities. Usually they sell to other businesses that then resell whatever they have bought or use them in their production processes.

Retailing trading businesses (both large and small) sell in small quantities or units to their customers. Common examples of retailing trading businesses include super markets, grocery shops, market vendors (who sell their goods in the market places), hawkers and kiosks.

It should be noted that trading businesses also differ in sizes. There are large ones like wholesalers. Though retailers are usually smaller than wholesalers, there are large scale retailers who operate big and many shops. Examples of such trading businesses include supermarkets, departmental stores/shops or chain stores. Grocery shops, market vendors, kiosks and hawkers follow in a descending order of size.

Except where they operate e-commerce or telephone ordering and delivery services, most trading businesses are usually located close to their customers or areas where they can be easily accessed by their customers.



#### **d) Extraction Businesses**

Some businesses involve gathering and selling natural resources. Such businesses may be cutting natural trees and selling firewood or timber, drilling and selling oil, mining and selling different minerals, etc., quarrying and selling stones. Together, these are called extraction businesses. To extract means to get out. Therefore, all that these businesses are doing is to get their products e.g. wood, oil, stone, etc. from the natural environment and selling them to their customers. Common business activities carried out in the extraction industry in Kurdistan Region include logging for timber and the gravel stones.

#### **e) Service Business**

Businesses, which provide services as their products, are known as service businesses. A service is an intangible (not physical) form of a product that satisfies a customer's need. Examples of service businesses include transport businesses (by buses, Lorries, taxis, motorcycle, boat, aero planes, etc.), beauty salons, legal firms, medical clinics, fishing, money exchange, education, communication, etc. Service businesses are in most cases easy to start and manage because the major capital investment required is the technical expertise of their owners and their staff.

Generally, service businesses have unlimited opportunities since the peoples' needs are constantly growing and changing. The growth in other types of businesses also creates demand for more or new service businesses. Some common businesses operating in the service sector of Kurdistan Region include mobile telephone communications services like Korek Telecom and Aciacell, internet services, banking, insurance, foreign exchange, courier services, custom broking, auditing and financial consultancy and legal services by law firms.

#### **Sizes of Businesses in Kurdistan Region**

In Kurdistan Region, businesses can generally be categorized into different sizes using various determinants developed by different institutions. Common among these factors include the following:

- Number of full time (non-family) employees
- Gross sales revenue or turnover within a given period
- Amount of share capital invested in the business or value of assets
- Volume of production or purchases
- Gross Income

#### **Number of people employed by the business**

Generally, the more the number of people employed by a business, the bigger the business is likely to be. Likewise, the fewer the number of employees that it has, the smaller it is likely to be.

#### **Volume of sales over a given period**

Businesses produce goods or services (products) for sale to their customers. Therefore, the more goods or services a business is able to sell to its customers, the bigger it is likely to be. Likewise, in ordinary circumstances, the fewer sales a business is making, the smaller it is likely to be.

#### **Gross Income**

Gross income is the aggregate of all income a business earns during a specific period. The larger the gross income of a business, the higher the potential to engage in more economic or income generating activities and expand. Gross income may also refer to total returns on investments/capital or revenue turnover.

### **Amount of share capital invested in the business**

The volume of operations of a business is to a large extent determined by the amount of share capital or the amount of resources that the entrepreneur or its owners puts or invests it. For example, the volume of sales that a business is making is among others determined by how much it is able to produce or procure and make available for sale. How much it is able to produce or procure depends to a large extent on the amount of funds that it has. Furthermore, the number of employees a business can hire is among others determined by the business' ability to pay them or provide them with operating logistics. It therefore follows that the amount of share capital invested in a business gives it capacity or ability to operate at a different levels e.g. the number of people it can employ, the amount of produce it can make and the volume of sales it can make over a given time and therefore determines the business' size.

Based on any of these factors, businesses in Kurdistan Region may be micro, small, medium or large enterprises in terms of size.

### **Micro businesses / enterprises**

These are businesses, which often:

- require very low capital to be started
- employ 0 - 3 people that may be family or none family members
- use simple or no technical equipment or machinery in their production processes
- have low sales over a given period
- have low gross income or annual turnover
- have few or no legal requirements to be started etc.
- operate from simple premises that are in most cases temporary.

Examples of micro businesses include kiosks (booths), hawking, groceries, road side bicycle repairs, motorcycle, road side shoes shine and shoes makers, backyard poultry farms, market vendors, etc.

#### **a) Small Enterprises**

These are businesses which:

- Operate from fixed places with permanent or semi-permanent premises.
- Employ 4 - 50 full time, non-family employees
- Require more capital to start when compared to micro businesses
- Sales or turnover per given period is relatively high when compared to micro enterprises or businesses.

Examples of small businesses include grocery shops and some supermarkets, livestock farms with less than 100 animals, poultry farms with less than 1,000 chickens, small bakeries, grinding and milling factories, making building blocks, motor vehicle repair garages, law firms, custom broking firms etc.

*Micro businesses when well managed can grow to become small sized businesses and this is indeed one of the ways that small businesses come up.*

#### **b) Medium Size Businesses**

These are well established businesses which operate in permanent premises. They employ 51 up to 200 non-family workers and use advanced technology to produce on a relatively large scale. They need a large amount of capital to be started. Such a business must be registered as a partnership or limited liability company with the government of Kurdistan Region. They may also be registered as co-operatives. Most medium sized businesses produce for the local markets although a good number of them also engage in exporting their products. Examples of medium sized businesses include big bakeries, beverage factories, mining, lumbering businesses, foam or mattress manufacturers, producers of packaging materials and transport operators (with many vehicles).

*Small businesses when well managed can grow to become medium sized businesses.*

### c) Large size Businesses

These are businesses, which usually result from sustained growth of medium size businesses. They have a very big or large capital outlay and may employ more than 200 people. The methods of production are more specialized and highly automated which enable them produce in large quantities. Large businesses operate from well-established and permanent premises. They are required by law to register as corporations or limited companies. They may also be registered as co-operatives. Most of them produce for both the local and foreign markets. Examples of large businesses in Kurdistan Region include Iron Company, Cements company, CEMENCO, Korec Telecom, Aciacell etc.

*Large businesses may result from medium sized businesses growing and becoming large. Small or Medium sized businesses may also merge (or join) to become large businesses.*

Table 1 below further shows how businesses can be categorized into different sizes using different factors that are commonly used for the purpose.

**Table 1: A quick guide to determining the sizes of businesses in Kurdistan Region**

Indicators of Business Size	Business size			
	<i>Micro</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>
<b>Manpower: No. of non-family employees</b>	0 – 3	4 – 50	51 - 200	Above 200
<b>Size of capital</b>	Any amount up to US \$ 3,000,	Between US \$ 3,001- 50,000	Between US \$ 50,001- 3,000,000	Above US \$ 3,000,000
<b>Size of loan</b>	Any amount up to US \$ 3,000	US \$ 3,001-7,000	US \$ 7,001- 100,000	Above US\$100,000
<b>Gross income or annual turnover</b>	Less than US \$ 10,000	US\$ 10,000- 300,000	US \$ 300,000- 10,000,000	Above US \$ 10,000,000

	<b><i>Micro</i></b>	<b><i>Small</i></b>	<b><i>Medium</i></b>	<b><i>Large</i></b>
<b>Registration</b>	Not necessarily enforced and therefore in most cases not registered.	May or may not be registered	Registered as a limited liability company or a co-operative	Registered as a limited liability company or a co-operative
<b>Legal form of business ownership</b>	Sole proprietorships, partnerships or local groups.	Sole proprietorships, Partnerships, co-operatives, or Limited liability companies.	Limited Liability Companies, Partnerships, co-operatives.	Limited Liability Companies, Co-operatives.
<b>Sales Volume</b>	Very low	Low	Relatively high	Very high
<b>Level of Technology applied</b>	None or just basic and simple improvisations.	Simple. But at times highly skilled entrepreneurs.	Modern with hired skilled labor.	Automated and highly skilled hired labor.
<b>Premises</b>	None or just temporary	Simple, semi or permanent	Good permanent premises	Specially designed and permanent premises
<b>Energy</b>	Not necessary. Relies most often on physical / muscle power	Basic for lighting, freezing and a few other applications, etc.	Uses a lot of energy.	Dependent on energy. Operations are mainly motorized

The size of businesses varies from country to country and Table 1 should therefore only be used for the purposes of giving a quick insight into the sizes that businesses can fall into. For example, what may be a large business as per Kurdistan Region's standards may be a medium sized business in Turkey, Iran or South Africa (which are economically more developed than Kurdistan Region) and a small business in Singapore, USA or Germany (which are very developed).

What you and the trainees need to note at this stage is that, entrepreneurs can start businesses of any size depending on their technical and resource abilities as well as availability of customers. However, most successful entrepreneurs start in a relatively small way (micro or small) but employ their entrepreneurial competences to manage them very well. As a result, the businesses grow and expand to become large. Trainees should therefore not be frightened from starting their businesses with whatever resources that they have and at whatever level. What matters most is their total commitment to their businesses coupled with effective application of their entrepreneurship competences to it.

### **The concept of small enterprise management**

In small enterprise, the owners are in most cases the "owner-managers". The owner-manager of a small enterprise is responsible for the day-to-day running of the enterprise. He/she plans and sets directions for the enterprise; undertakes risks and handles business uncertainty; and innovates, administers, and controls business operations.

The owner-manager coordinates and supervises the performance of the enterprise. He/she has to work hard to ensure that the business achieves long-term productivity level and attains maximum profit.

## Functions of Management

**Planning** – identify and prepare schedule of pre-operating expenses, schedule of administrative expenses to be able to budget for such expenses.

**Organizing** – develop a simple but efficient organization to achieve the objectives of the business. It involves finding the right people, grouping them into work activities, defining and delegating responsibility and authority, establishing relationships among them and motivating them.

**Execution (includes leading, coordination and staffing).** **Leading** is guiding the business in the direction to which you intend it to go; guided by objectives, policies and procedures, targets and budgets. **Coordination** covers a wide range of activities and involves the management of the day-to-day activities of the business to ensure that they take place in a more harmonized way. **Staffing** involves forecasting required manpower, recruitment, training and motivation of staff.

**Controlling** – The key to a profitable business is how well you can control operation. Business plan prepared should be updated every year.

## Tasks of Management

**Marketing Management:** Management has the responsibility to determine the needs of their customers; develop their competitive advantages; select specific markets to serve; determine how to satisfy those needs; and analyze how well they have serve their customers.

**Production and Technology Management:** This is management of the different factors of production, production processes and systems implemented to facilitate daily business operations.

**Human Resource Management:** This involves identification, hiring, motivation, training and orientation of staff, performance appraisal and termination of staff (if needed) to facilitate daily business operations.

**Financial management:** Management is expected to properly plan and manage their business finances.



them.

## Family support to business

### *Role of a family in business*

Most small businesses are family-owned businesses. This implies that family members have a significant role to play in managing and building the business. In this case therefore, the presence of a supportive family and its willingness to contribute to a business venture can provide opportunity for business growth and at the same time give room for the family members to collaborate, build team work, and ensure trust among

### *Support of the Spouse in a family business*

In a family business, normally the husband and wife form up a team to run their own business. A supportive spouse will contribute a lot to the growth and success of an enterprise by providing manpower willingly, assisting in the day-to-day operations of the enterprise and assist in the general management of the enterprise. It has been found that supportive spouses contribute to the success of small-scale businesses.

### ***Support of Other Family Members***

The support of other family members is significant to the survival and growth of a business venture. It is greatly required right from the start up stage, the take –off stage, and also at the maturity stage. During the start –up stage, family members may be in position to contribute to:

- Start -up capital and other related costs,
- Skills and general labor input at cheaper cost,
- Any accruing losses which can be more easily shared.

### **Challenges of family support to business**

The close inter-relationship between the family and the business, while necessary to the success of the small enterprise may also present conflicting interests. Instances of this nature can come when:

- family relations demand that a relative be hired by the enterprise even if the person is not qualified;
- relatives request for financial assistance from relatives when the financial position of the enterprise is weak;
- family expenses are high thus drawings from the enterprise are high affecting its financial growth;
- family members expect special treatment
- family members have their own ideas of how to run your business, thus creating problems within your enterprise
- keeping family issues separate from business issues become difficult
- there exist pre-conceived notions about inheritance in the business

There is therefore a great need to create a situation of balance or synergy between the interests and goals of the business in relation to those of the family and the enterprise. This synergy will enable the two parties to avoid a situation where the goals and interests of the business may differ or clash with the personal goals of the enterprise/family.

The clash of interests if not avoided can cause a total failure in operations of the business.

## SESSION 5

### PREPARING THE INTRODUCTION SECTION OF A BUSINESS PLAN

1.5 hour 

#### OBJECTIVES

By the end of this session, the trainees will be able to demonstrate preparing the introduction section of their business plan

#### TRAINING MATERIALS

- \* Flip Chart5-1: Session Objectives
- \* Flip Chart5-2: Format of an Introduction Section of a business plan
- \* Hand Out 5: Sample of an Introduction section of a Business Plan
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that in this session, they will learn how to prepare the introduction section of their business plans (Flip Chart5-1).
- b. Explain to that the introduction section of their business plan is the entry point for their business plan that will enable the readers to know the entrepreneur, his/her business and his/her business goals and objectives. The reader will also learn about the plan period.
- c. Ask the trainees to explain what they would like include in their introduction section of their business plans. Write their answers on the black board.

## **2. Presentation and Activities**

- a. Using Flip Chart 5-2, guide the trainees to review their answers in (c) above and add on as much as possible.
- b. Distribute Hand Out 5 and guide the trainees to discuss the contents of the introduction section of a business plan. Explain all areas that trainees may find unfamiliar.
- c. Ask the participants to prepare the introduction sections of their business plans.

## **3. Summary**

- a. Conclude this session by referring back to the session objectives and by emphasizing to the trainees that for their business plans to be attractive to the readers, the introduction section must itself be very attractive and revealing about the business. Point out that being the “gateway” to the business plan makes the introduction section very important and that they should therefore pay particular attention to it.





## **Session objectives:**

**By the end of the session, the trainees will be able to:**

- ❖ Demonstrate preparing the introduction sections of their business plans.



## **The format of the Introduction Section of the Business Plan**

- ❖ Bio data of the business
  - Name of business
  - Type of business (whether manufacturing, service, extraction, agribusiness or trading business)
  - Legal form of business (whether single proprietorship, partnership or limited company)
  - Status of business (whether new or existing)
  - Owner, manager and partners in the business
- ❖ Purpose in writing the business plan
- ❖ Business goals (SMART)
- ❖ Time frame for achieving the business goals.
- ❖ A brief history of the enterprise (where the business already exists).
- ❖ Uniqueness of the business
- ❖ The Business plan period (e.g. three, four, five, etc years).

A sample of an Introduction Section of a Business Plan

**SAMPLE**  
**“INTRODUCTION”**  
**Dara Leather Processing (DL)**

Dara Leather Processing (DLP) is a single proprietorship whose principal business is making and selling of footwear(kalash) and leather products. The business is owned and managed by Mr. Dara The purpose of this business plan is to outline the business’ goals for the next three years and the actions that will be taken to achieve its goals. DLP’s goals are to:

- Start manufacturing and sales by March 2014
- Achieve profitability after six months of operation

DLP is a start-up business that will be operating from the Water Front Area, Dokan City. The business aims to produce good cheap Kalash and leather footwear that will be affordable to the poor people in Kurdistan. The business will use locally produced leather and wool that is relatively cheap and easy to source within the region.

## Marketing Planning and Management

Session	Topics	Objectives
6	The Marketing Concept	Explain the difference between selling and marketing and explain the marketing concept
7	Doing a Simple Market Survey	Conduct a simple market survey and analysis
8	Know Your Customers, Competitors and Products	Identify their customers and competitors, and explain the different physical and qualitative characteristics of their products or services
9	Pricing and Terms of Sales	Compute the unit price of their products and establish their terms of sales
10	Advertising and Promotion	Explain the importance of advertising and promoting their enterprise
11	Forecasting Sales	Compute their projected sales based on the market survey
12	Other Marketing Considerations	To decide on distribution strategy and other marketing elements
13	Marketing Plan	

## SESSION 6

### THE MARKETING CONCEPT

1.5 hour 

#### OBJECTIVES

By the end of this session, the trainees will be able to distinguish between selling and marketing and explain the marketing concept.

#### TRAINING MATERIALS

- \* Flip Chart6-1: Session Objectives
- \* Flip Chart6-2: Marketing and Selling
- \* Flip Chart6-3: Elements of the Marketing Concept
- \* Flip Chart6-4: Marketing Planning Cycle
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that in this session, they will learn to distinguish between selling and marketing and explain the marketing concept (Flip Chart6-1).
- b. State to them that marketing plays a vital role in successful business ventures. Emphasize that how well they market their business products and their businesses will ultimately determine the degree of their business success or failure.
- c. Ask the trainees to explain if there is a difference between selling and marketing. Write their answers on the board.

#### 2. Presentation and Activities

- a. Using Flip Chart 6-2 explain what marketing is and the difference between selling and marketing.

- b. Ask the trainees to identify the market for their products (goods or services). Explain that “Market” refers to all the people or institutions that need a product and are willing to buy it.
- c. Introduce and briefly discuss the marketing concept. Show Flip Chart6-3.Tell the trainees that the marketing concept includes:
  - Determining the needs of their customers (Market Research)
  - Developing their competitive advantages (Market Strategy)
  - Selecting specific markets to serve (Target Marketing)
  - Determining how to satisfy those needs (Marketing Mix)
  - Analyzing how well they have served their customers, and then return to step 1 (Marketing Performance)
- d. Tell the trainees that to stay competitive, they should develop a marketing program built around the marketing concept. Explain to them that the marketing concept directs them to focus their efforts on identifying, satisfying and following-up customers’ needs for a profit and that the concept rests on the importance of customers to their business. Furthermore, explain that their business policies and activities should be aimed at satisfying their customers’ needs which will enable them to obtain a profitable sales volume.
- e. Present Flip Chart6-4 and guide the trainees to discuss the Marketing Planning Cycle.

### **3. Summary**

- a. conclude this session by referring back to the session objectives and by emphasizing to the trainees that for their businesses to stay competitive, they should develop a marketing plan built around the marketing concept which focuses at satisfying the customers’ needs which ultimately enable them to attain profitable sales volumes.

## **Session: The Marketing Concept**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Distinguish between selling and marketing
- ❖ Explain the marketing concept



## **MARKETING AND SELLING**

### **MARKETING**

- Set of business activities designed to produce, price, promote and distribute satisfying goods and services to customers.
- Results into customer satisfaction and entrepreneur's profit realization
- Is based on the customer concept

### **SELLING**

- Activity of marketing
- Is getting your products (goods or services) sold
- Is based on the product concept



6-3

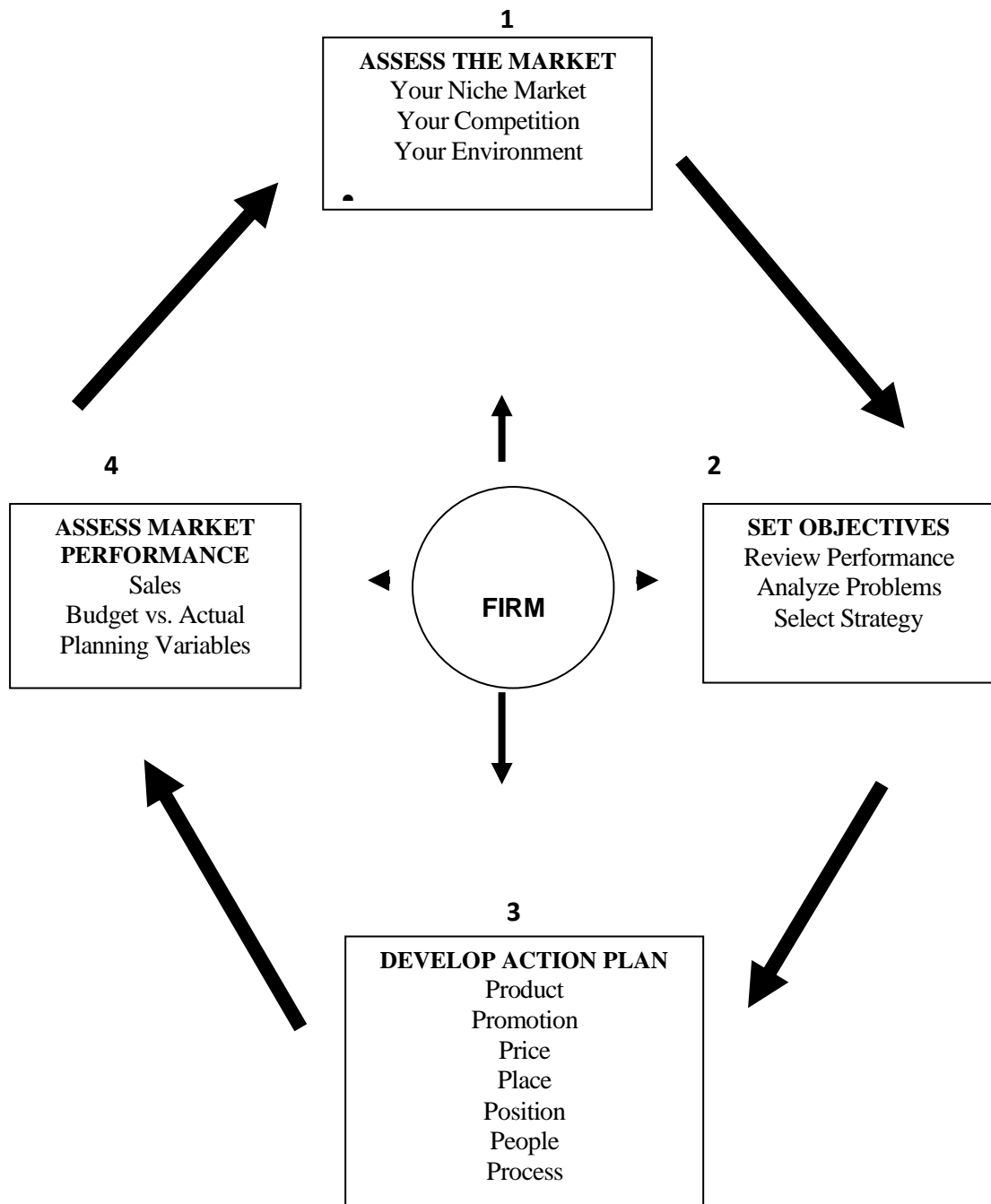
## ELEMENTS OF THE MARKETING CONCEPT

1. **Market Research:** determining the needs of your customers
2. **Market Strategy:** developing your competitive advantages
3. **Target Marketing:** selecting specific markets to serve
4. **Marketing Mix:** determining how to satisfy those needs
5. **Marketing Performance:** analyzing how well you have served your customers



6-4

## MARKETING PLANNING CYCLE





## **Trainer's Notes**

### **Introduction**

Marketing plays a vital role in successful business ventures. How well you market your business and its products will ultimately determine your degree of success or failure. This depends on the ability of the small enterprise to maintain a strong base of satisfied customers (that keep buying the products as well as recommending the business and its products to others) while continually increasing this base with new customers. Competition among the small-scale enterprise sector is very high because the products (goods and services) they offer are almost the same.

### **What is marketing?**

Marketing is a set of business activities designed to produce, price, promote and distribute satisfying goods and services to customers. It is the performance of activities that are necessary to get goods or services from the producer to the customer resulting to customer satisfaction and realization of profits on the part of the entrepreneur.

### **What is the difference between selling and marketing?**

Selling is an activity of marketing. It is based on the product concept while marketing is based on the customer concept. By this it means that selling is getting your products sold, while marketing is satisfying a customer's need through your products.

### **Who is Your Market?**

A market is all the people or institutions that need a product and are willing and able to buy it. Note that even if they are in need of the product and willing to buy the product, but they are not able to buy or afford it, then such a group of people is not your market.

A good market is where there are many people or institutions that are willing and able to buy your products at profitable prices over a long period of time.

### **The Marketing Concept**

To stay competitive, you, the small-scale entrepreneur, should develop a marketing programme built around the marketing concept. The marketing concept directs you to focus your efforts on identifying, satisfying, and following-up customer's needs for a profit. This concept rests on the importance of customers to your business. Your business policies and activities should be aimed at satisfying customers' needs while obtaining a profitable rather than a maximum sales volume.

To use the marketing concept, your business should:

- a. Determine the needs of your customers (Market Research)
- b. Develop your competitive advantages (Market Strategy)
- c. Select specific markets to serve (Target Marketing)
- d. Determine how to satisfy those needs (Marketing Mix)
- e. Analyze how well you have served their customers, and then return to step 1 (Marketing Performance)

## SESSION 7

### DOING A SIMPLE MARKET SURVEY

1.5 hours



#### OBJECTIVE



By the end of this session, the trainees will be able to conduct a simple market survey.

#### TRAINING MATERIALS



- \* Flip Chart7-1: Market Survey
- \* Handout 7 (a): Market Survey Guide
- \* Handout 7(b): Market Survey Questionnaire – 1: The Potential Customers
- \* Handout 7(c): Market Survey Questionnaire – 2: The Potential Competitors
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- a. Tell the trainees that before proceeding with their business opportunity and spending too much time and money on it “at times unnecessarily”, it would be wise and advisable for them to do a simple marketing survey or research. The results of their market survey will help them find out whether there is real market for their business products and therefore whether they should go ahead with their business opportunity or not.

##### 2. Presentation and Activities

- a. Ask the trainees what they understand by “Market Survey or Market Research” Write their answers on the board.

- b. Explain to them that Market Research or Survey is finding answers to the following questions in respect to the business they would like to start: (Show Flip Chart 7-1)
  - Who will buy and use my products (customers)?
  - Why will they buy my products (customer wants)?
  - Where are they presently buying from (competitors)?
  - Approximately how much do they buy (potential sales)?
  - If I was to start my business, what would be my estimated sales (sales forecast)?
- c. Guide the trainees to thoroughly discuss the above questions so that they understand the underlying message they contain.
- d. Reiterate that a market survey does not have to be sophisticated and expensive. Give the trainees examples of where to get the required information for each of the questions for the market survey.
- e. Give the trainees the Market Survey Guide as a basis for developing their own market survey. Read each question and clarify any issues raised. Tell them that this is the guide they will use in the market survey that they will conduct on their own guided by Hand Out 7 (a).
- f. Tell the trainees that after they have conducted their individual market surveys, they are to prepare individual reports summarizing the results of their market survey by answering the questions in the market survey guide. Tell them that they can use Hand Out 7 (b) to record and summarize their findings regarding potential customers while Hand Out 7 (c) is for potential competitors. The reports will be presented and critiqued in the next session.

### **Second Meeting:**

After the trainees have carried out their market surveys, ask them to summarize the results of their market survey and to individually report their findings to their respective groups. Allow at least 5 minutes for presentation and 5 minutes for critiquing. Adjust the schedule as necessary.

After each one has presented, gather the trainees into a plenary. Ask them to share the lessons learnt from the conduct of the market survey in relation to their chosen businesses.

### **3. Summary**

Summarize the session by stating that a market survey is important in determining whether they should go ahead with their initial business opportunity or not.

### **NOTE FOR THE TRAINER**

1. The duration of session has one and a half (1.5) hours is divided over two days i.e. 1 hour for introduction and 0.5 hours plus part of their free time for preparation and discussion of marketing survey experiences.
2. The trainees will have to do much of the work during their free time

# MARKET SURVEY /RESEARCH

<p><b>MARKET SURVEY</b></p> <p><i>OR</i></p> <p><b>RESEARCH</b></p> <p><b>IS FINDING ANSWERS TO THE FOLLOWING QUESTIONS:</b></p>	<ul style="list-style-type: none"> <li>• Who will buy and use my products (customers)?</li> </ul>
	<ul style="list-style-type: none"> <li>• Why will they buy my products (customer wants)?</li> </ul>
	<ul style="list-style-type: none"> <li>• Where are they presently buying from (competitors)?</li> </ul>
	<ul style="list-style-type: none"> <li>• How much do they buy (potential sales)?</li> </ul>
	<ul style="list-style-type: none"> <li>• What are my estimated sales (sales forecast)?</li> </ul>



# MARKET SURVEY GUIDE

## 1. Who are your Customers? - Identify their

- Age
- Income level
- Occupation
- Family size
- Marital status
- Residence
- Interests and hobbies
- Special interests, etc.

## 2. What are the Customers' Wants?

- Is the product needed for limited time?
- How often are the products required?
- Are customers looking for quicker service?
- Do customers want guarantees with the products?
- Will customers come frequently or seldom?
- Are customers looking for wider distribution or more convenient locations?

## 3. Competition

- What is the competitor's market share?
- How much sales volume do they do?
- How many similar firms exist?
- What attracts customers to them?
- What strengths do they advertise?

## 4. Trends in the Market Place- Are there:

- Is the population in my target area rising, stagnant or declining?
- Is my target market growing or declining?
- Any Legal or regulatory developments that may enable or prohibit my business operations?
- Changes in economic situation? Are more people getting employed? Do people now have more disposable income?
- Are there cheaper goods being sold or likely to come on to the market?
- Are there lifestyle changes?
- Does my product fit into the current lifestyle of my target market?
- Is my product greatly affected by technological changes notably ICT?
- What other major development or event is likely to affect the market for my product?

## **5. Choosing the Right Price**

- Can my target customers afford to buy my product (goods or services)?
- How high are the prices being asked for the product I intend to provide?
- How high are the prices being asked for the similar or substitute products to the one that I intend to provide?
- What combinations will appeal to my target market?
- Low price, high quality? Why?
- Low price, low quality? Why?
- High price, high quality? Why?

## **6. Choosing the right promotion strategies**

- To encourage my target customers to buy my products, what will I emphasize:
  - My personalized services?
  - My prices?
  - The Quality of my products?
  - Assured supplies all the time? etc.
- What kinds of promotions are my competitors using?
- What kind of promotion will I use?



Hand Out 7(b)

## MARKET SURVEY QUESTIONNAIRE-1: THE POTENTIAL CUSTOMERS

IDENTITY				QUESTIONNAIRE				
Customer Number	Gender	Age	Occupation	Do you buy this product?	Where did you buy it?	Approx. How much per month?	Price per Unit?	Recommended improvements on the Product
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
Process	Count	Average	Count	Count	Count	Average	Average	Describe
	M=			Yes =				Attach a paper describing the improvements
	F=				N=			
					NR=			



### MARKET SURVEY QUESTIONNAIRE-1: THE POTENTIAL COMPETITORS

Suppliers Name	Address Location/Telephone	Years in Business	Ownership	Approx. Monthly Sales	No. of Employees	Strengths
Process	Note	Average	Count	Average	Average	Describe



## **Market Research<sup>6</sup>**

### **Aim of Market Research**

The aim of market research is to find out whom the customers are, what customers want, where and when they want it. This research can also expose problems in the current product or service, and find areas for expansion of current services or products to fill customer demand. Market research should also encompass identifying trends that may affect sales and profit levels.

Market research should give you more information, however, than just who your customers are. Use this information to determine matters such as your market share, the effectiveness of your advertising and promotions, and the response to new product developments that you have introduced into the market.

### **What information to look for:**

Who are your Customers?

What are your Customers' wants?

Who will be your Competitors?

What are the trends in the market place?

### **Where to get information**

Data can be obtained by the business' own research efforts through the following means:

- Telephone surveys
- Questionnaires
- Interviewing
- Observation
- Visiting shops or factories

Market Research does not have to be sophisticated and expensive. There are some inexpensive ways to collect this data that are easily accessible to small business owners such as:

### **Employees**

This is one of the best sources of information about customer's likes and dislikes. Usually employees work more directly with customers and hear complaints that may not reach the owner. They are also aware of the items customers request that the business does not offer. They can probably also give a good profile of the customer from their day-to-day contacts.

---

<sup>6</sup> Small Business Marketing Guide, Liraz Publishing Company, 1999

## **Customers**

Talk to the customers to get a feel for your clientele, and ask them where improvements can be made. Encouraging and collecting customer comments and suggestions is an effective form of research. By asking the customers to explain how the product could improve to fill their needs, constructive market research is done, as well as instilling customer confidence in the product.

## **Competition**

Monitoring the competition can be a valuable source of information. Their activities may provide important information about customer demand that were overlooked, and they may be capturing part of the market by offering something unique. Likewise, small business owners can capitalize on unique points of their products that the competition does not offer.

## **Company records and files**

Looking at company records and files can be very informative. Look at sales records, complaints, receipts, or any other records that can show you where your customers live or work or how and what they buy. The addresses in your delivery or cash receipts can allow you to pinpoint where most of your customers come from. With this kind of information, you can cross-reference the customer's address and the products they purchased. From this information, you will be able to check the effectiveness of your advertising placement. However, realize that this information represents the past. Present or future trends may mean that past information is too obsolete to be effective.

## **Market Research Caution**

Market research should not be an expensive exercise. You should use every available source of information you can get your data from. What is important is that you are aware of what to look for.

## SESSION 8

### KNOWING YOUR CUSTOMERS, COMPETITORS AND PRODUCTS

2.0 hours



#### OBJECTIVE



By the end of this session, the trainees will be able to identify their customers and competitors, identify and explain the physical and qualitative characteristics of their products and, explain the significance of knowing their product and non-product value to their business.

#### TRAINING MATERIALS



- \* Flip Chart 8-1: Session Objectives
- \* Flip Chart 8-2: Market Segmentation
- \* Flip Chart 8-3: Niche Market
- \* Flip Chart 8-4: Who is a Competitor in a Business?
- \* Flip Chart 8-5: Four Stages of Knowing the Competition
- \* Flip Chart 8-6: Benefits of Preparing a Competitor Analysis
- \* Flip Chart8-7: The Marketing Mix
- \* Flip Chart8-8: Product Physical and Qualitative Features
- \* Flip Chart8-9: Product Value and Non-Product Value
- \* Flip Chart8-10: How Your Customers Perceive Value
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Using Flip Chart8-1, tell the trainees that this session will enable them to identify, who their customers and competitors are, identify and explain the physical and qualitative characteristics of their products and, to explain the significance of knowing their product and non-product value to their businesses. Then ask them who they think the customers for their businesses' products (goods or services) are. Write their answers on the board.

- b. Link this session with the previous session on “Introduction to Marketing.” Tell the trainees that one of the marketing concepts is “Marketing Mix”. Remind the trainees that “marketing mix” refers to the 7 Ps of marketing that include Product, Price, Place, Promotion, Position, Process and People (consumers, competitors, suppliers and employees) Flip Chart8-7.
- c. Ask the trainees what they think are some elements of physical and qualitative characteristics of a product. Write their answers on the board.

## 2. Presentation and Activities

- a. Tell the trainees that to be able to fully define their customers (people who will buy and use their products), they should have information on their potential customers’ gender, age, income, occupation, family size, marital status, residence, and if possible; interests and hobbies, special interests, etc. Remind them that they should have gathered this information during their market survey/research exercise.
- b. Ask the trainees to take a look at the Market Survey Guide, specifically the questions on customers and customers’ wants. Point out that the questions in the Market Survey Guide require them to define who their customers are and what their customers want.
- c. Show and discuss Flip Chart8-2 on how the market is defined by different segments
- d. Show Flip Chart8-3. Guide the trainees to discuss the different market segments and emphasize to them the need and importance of correctly identifying their niche market.
- e. Point out to them that as micro and small entrepreneurs, they must correctly identify and properly target their market (Niche Market) in order for their businesses to survive given the stiff competition they usually face in the market.
- f. Ask them why should you target their markets? Write their answers on the board. Afterwards, explain that they should target their market to:
  - get the best results out of their limited resources i.e. time and money (because they cannot serve everyone in the market)
  - be able to offer something that their market is interested in, willing and able to buy.
- g. Ask them what they should do with their target market once they have identified it. Write their answers on the board. **Afterwards, tell the trainees that they should find out what is of interest to their target audience and design their products based on their customers’ interests and in particular, in a different way from how other businesses (competitors) are doing it.**
- h. Ask the trainees to again go over their Market Survey findings and Report and answer the question “who is my market”? As each trainee gives his/her answer, ask the other trainees whether the trainee has clearly defined his/her market.
- i. Ask the trainees who they think their competitors are. Write their answers on the board. Supplement their answers by presenting Flip Chart8-4, which contains the subject “Who is a Competitor in a Business?”

- j. Guide the trainees to discuss the following topics:
  - Monitoring Competitors. Tell them that by knowing their competitors, they will be able to predict their next moves, exploit their weaknesses and weaken their strengths.
  - The Four Stages of Knowing the Competition. Show Flip Chart8-5.
  - The Benefits of Preparing a Competitor Analysis. Show Flip Chart8-6.
- k. Remind the trainees that in the Market Survey, they had done a simple Competitor Analysis with the guide questions provided under the questions on “Competition”.
- l. Explain to the trainees that if they plan to manufacture/ produce or purchase their products, then their products will normally consist of several physical and qualitative features. Guide them to brainstorm and identify, and then discuss the physical and qualitative features or characteristics of their products. Show Flip Chart8-8 to guide the discussions.
- m. Emphasize to the trainees that choosing what product to offer to their customers means deciding not only on the quantity of the product but also on its characteristics and quality.
- n. Guide the trainees to brainstorm / discuss the following:
  - Distinguishing their products from others on the market; how will their customers recognize their products? What will make their customers to always be on lookout for their products? How will their products be unique from others in the market?
  - Meaning of Product Value and Non-Product Value (Flip Chart8-9): how profitable is it to customers to consume their products? What makes the customers feel that it is worthwhile for them to continue buying their businesses’ products? Guide them to come with an understanding that value comes in two forms; product value and non-product value.
  - What are the components of “value”? Components of Value; quality, service support, customer relationships, delivery and investment (Flip Chart8-10)

### 3. Summary

- a. Refer back to the session objectives then conclude discussions on this topic by telling the trainees that having the customers and the competitors fully defined will help them develop their specific marketing strategy to attract and maintain the target customers. Remind them that they have to be as specific as possible in defining their customers and knowing their competitors.
- b. Conclude this session by referring back to the session objectives and by reminding the trainees that the way to successfully compete is to determine their product value and non-product values to their customers since this will assist them to differentiate their products from those of the competitors.



## **Session: Knowing your Customers, Competitors and Products**

### **Session Objectives:**

By the end of this session, the trainees will be able to:

- Identify their customers.
- Identify their competitors
- Identify the physical and qualitative characteristics of their products
- Explain the physical and qualitative characteristics of their products
- Explain the significance of knowing their product and non-product values to their business

## MARKET SEGMENTATION

The market is defined in different segments such as:

- **Geographic:** Specialize products to customers who live in certain neighborhoods or regions.
- **Demographic:** Direct advertising to families, young professionals, or the occupation of consumers. Example, “latest electronic gadgets” may appeal to young people who are “crazy” about “latest” technologies. They could therefore be advertised on or via Face Book, Tweeter, SMS, Internet, etc.
- **Psychographic:** Target promotion to the opinions or attitudes of the customers (e.g. tradition, political or religious). For example, meat prepared the "halal" way is marketed to the Muslim communities; some garments 'colors appeal more to specific political parties in some countries, etc.
- **Product Benefits:** Aim marketing to emphasize the benefits of the product that would appeal to consumers who buy for this reason in particular (e.g. low cost, easy access, etc.)
- **Previous customers:** Identify and promote to those groups who have purchased the product before



## NICHE MARKET

It is a small segment of people whom you will be finding and offering solutions to their problems or assisting them meet their needs, and for whom your current product is perfectly suited.

All your business activities will be geared towards serving this specific group of people and doing so in a special and different manner/way from how other businesses are doing it.

The size of the niche market you choose is critical; if big, then your business' sales volumes could grow overtime, if small, your sales may remain static or even decline.





## Who is a Competitor in a Business?

Business competitors are other businesses:

- Offering the **SAME** products now
- Offering **SIMILAR** products now
- That could offer the **SAME** or **SIMILAR** products in the future
- That could **REMOVE THE NEED** for a product



## STAGES OF KNOWING THE COMPETITION

1. **Collecting information on the competitor through:**
  - Making Personal visits
  - Talking to customers
  - Studying the Competitors' Advertisements
  - Visiting Trade show displays
2. **Assembling, analyzing and interpreting information**

Analysis and Interpretation can zero in on:

  - New products being developed
  - New markets being tapped
  - New marketing promotion strategies being pursued
  - Pricing structures
3. **Communicating the information**
4. **Countering competitor actions**

Having identified what competitors are doing, you will now be able to plan counter measures to beat the competition.



8-6

## **BENEFITS OF KNOWING YOUR COMPETITORS**

- i) You will be able to discover your business competitive advantage and communicate effectively to win over customers.
- ii) You can come up with new ideas for improving your products.
- iii) You will be able to find out what other some customers' needs are not being met.
- iv) You will learn more about your market, market spending habits, and peak or lean periods.

# The MARKETING MIX

## (7Ps of Marketing)



**Position:** Where is your product placed among many other products?

**Process:** How does your product fit with technological changes/developments?

**People:** Your Customers, Suppliers, Workers and Competitors



8-8

## Product physical and qualitative features

- **PHYSICAL MEASUREMENTS** generally given in terms of length, width, height, volume, weight, etc.
- **DESIGN OR STYLE**, considering the consumers' preferences, aesthetic appeal, cultural factors and traditions, etc.
- **COLOR**, considering age and gender of customer, season of the year, tradition and cultural values of the consumers, trends in the color of certain products, etc.
- **PACKAGE OR CONTAINER**, which not only attracts the attention of customers but also protect the product from damage or deterioration.
- **BRAND OR PRODUCT NAME**, which is important to differentiate similar products from different manufacturers.
- **LABEL**, which should conform to certain laws and regulations, and be well designed to attract the attention of consumers.



8-9

## **WHAT IS A PRODUCT VALUE?**

Product value is any value you bring to your customer that directly relates to your product (good or service). A Product value typically results from an enhancement of your product (its technical contents).

## **WHAT IS NON-PRODUCT VALUE?**

**Non-product value is any value you bring to your customer that does not specifically relate to your product. This can include service support, customer relationships, delivery of products, etc.**



8-10

## **HOW YOUR CUSTOMERS PERCEIVE VALUE OF YOUR PRODUCT?**

- ITS QUALITY
- THE SUPPORT SERVICES YOU
- CUSTOMER RELATIONSHIPS
- DELIVERY
- INVESTMENT

## Trainer's Notes

### Marketing Strategy

With the information you have gathered in your market research, the next step is now to develop your marketing strategy. Use the information to determine areas where the competition does not adequately fill the consumer demand or areas where new product or different product promotion would capture part of the market. In developing your market strategy, you identify your business' competitive advantages.

The important thing to remember in your marketing strategy is that, you are not only selling the product but that you are also selling your business. Hence, the small entrepreneur has to develop a good business / corporate image among its customers.

### Corporate Image<sup>7</sup> (the value of a good name)

#### *What is a Corporate Image?*

Corporate Image is a dynamic and profound affirmation of the nature, culture and structure of the organization (Seven Howard, 1997). It communicates the organization's mission, the professionalism of its leadership, the caliber of its employees and its roles within the marketing environment.

It reflects the level of the enterprise's commitment to quality, excellence and relationships with various players that affect the business such as: the current and potential customers, employees, competitors, partners, government and the general public.

The Corporate Image comprises all the visual, verbal and behavioral elements that make up the organization. It is the actualization of the Entrepreneur's vision, mission and strategic plan for the enterprise.

It is the combination of the tangible and intangible perception the enterprise has of itself and how the public perceives it. It is the reason that justifies its existence and gives direction and meaning to the whole enterprise.

#### *What is Corporate Image Management?*

It is a discipline founded upon modern corporate identity practices and marketing premise that ***everything an organization does and does not do, affects the perception of that organization and its performance, products, services and affects its ability to recruit the financial, people and partnership resources it needs to attain its goals and objectives.***

For example, if you, the entrepreneur, have a good corporate image of meeting your financial obligations would have better chances of establishing a credit line with your supplier or financial institution. One other example: if you have established a corporate image of producing high quality maize flour, you would tend to have more customers than one who does not have this corporate image.

For your small enterprise to survive in this competitive environment, you should:

- Understand that the Corporate Image is a major strategic concern that can have a direct impact on the level of success the enterprise achieves through its other marketing and management efforts, and

---

<sup>7</sup> Corporate Image Management, Howard, Steven 1997

- Understand that a consistent Corporate Image needs to be integrated into the organization at all levels, from the management to the lowest paid staff. Everybody working in the enterprise should strive to project and protect the name of the enterprise.

Corporate Image Management provides a mechanism for the enterprise to differentiate itself from competition, to create recognized added-value to the products and services marketed or delivered by your business, and to attract and maintain customer relationship in order to prosper in an increasingly competitive market place.

### ***How is Corporate Image different from the Corporate Identity?***

The corporate identity is the visual representation of your enterprise. This visual representation is usually the logo or symbol. These are used to visually and graphically distinguish the enterprise from the other enterprises.

### ***How do I create my Corporate Image?***

As earlier said, the Corporate Image is the actualization of your vision of your enterprise. As such, you, the entrepreneur must first start with your vision. The vision is the dream that you want to achieve for your enterprise. It should answer the four questions:

- i) What is my enterprise all about?
- ii) What do we do?
- iii) For whom do we do it?
- iv) Why do we do it?

After you have developed your vision statement, think of the strategies on how you intend to achieve your vision. Below are some questions that you can think about in developing the strategies to achieve your vision.

- What are the core values of our enterprise? What are the principles and beliefs that guide our work and behavior, relationships and decision-making? (These core values do not change even if the external environment changes).
- How do we define our target market/customer?
- What do we offer the customers?
- What are our core competencies - set of skills, capabilities, and technologies? (These core competencies must make contribution to the customer-perceived value; it must be competitively unique).
- Describe your company's financial philosophy and structure (revenue sources, expense structure, investment)
- What are the competitive advantages of my enterprise? What are the competitive disadvantages?



Corporate image is what you want your customers to think of your enterprise. It is the major determining factor on whether or not the customer decides to conduct business with you and more importantly if the customer decides to enter into a long-term and mutually rewarding relationship with your enterprise.

It is positioning the enterprise as the product.

### Competitor Analysis<sup>8</sup>

In almost all cases, there will be other businesses, people or organizations offering similar products to similar customers. These are competitors of the enterprise. Their objective is the same as yours - to grow, make money and succeed. Effectively, the businesses are at "war" - fighting to gain the same resource and territory - the **customer**.



It is therefore important to understand the competitor:

- How he thinks?
- What are his strengths?
- What are his weak points?

### Who is a competitor in a business?

Business competitors are **OTHER ENTERPRISES OR BUSINESSES**:

- Offering the SAME product or service now
- Offering SIMILAR products or services now
- That could offer the SAME OR SIMILAR Products or services in the future
- That could REMOVE THE NEED for a product or service

### Monitoring Competitors

By knowing our competitors, we may be able to predict their next moves exploit their weaknesses and weaken their strengths.

Customers usually know the differences between companies - their good points and bad points. They know whether a company is cheaper than the other; and that a certain company has better after-sales-service or a better customer service. For a business to operate in a market and not know the same, and more, it is tantamount to losing a battle without even starting.

---

<sup>8</sup>Competitor Analysis. A. Weiss 1995-1999

### Knowing the competition involves four stages:

1. **Collecting information on the competitor** - information will come from a variety of sources, both within the organization and external to it. Sales representatives or workers who deal on a daily basis with customers are good sources of information.

What to address in your competitor analysis:

- **Names of competitors** - At first glance, this may seem like an exercise in list making. Remember to include all your competitors as earlier discussed.
- **Summary of each competitor's products** - This summary should also include their location, quality, advertising, staff, distribution methods, promotional strategies, customer services, etc.
- **Competitor's strengths and weaknesses** - It is important to see your competitor's strengths and weaknesses from your **customers' viewpoint** not yours. List their strengths and weaknesses. State how you will capitalize on their weaknesses and meet the challenges represented by their strengths.
- **Competitor's strategies and objectives** - This information might easily be obtained by getting a copy of their annual report. However, for small business, you will probably need to do some detective work or conduct an analysis of many information sources to understand competitor's strategies and objectives.
- **Strength of the market** - Is the market for your product growing sufficiently so there are plenty of customers for all market players? Or, is the market so tight you are selling primarily to your competitor's customers? (If so, you need to have a strong competitive advantage).

### Ideas for gathering competitive information

- **Personal Visits** - If possible, visit your competitor's locations. Observe how employees interact with customers. What do the premises look like? How are their products displayed? Priced?
  - **Talk to customers** - Your sales staff is in regular contact with customers and prospects. Your competition is also in contact with these people. Learn what your customers and prospects are saying about your competitor - and about you.
  - **Competitor's ads** - Analyze competitor's ads to gain information about their target audience, market position, product features and benefits, prices, etc.
  - **Trade show displays** - View your competitor's display with a critical eye and from a potential customer's point of view. What does their display say about the company? Even observing which trade shows or industry events competitors attend provides information on their marketing strategy and target market.
2. **Collecting, collating, interpreting and analyzing the information** - having collected the information, the entrepreneur should now collate all the information to give a total picture. The collated data should now be interpreted and analyzed. Interpretation and analysis can zero-in on new products or processes being developed, new markets that are being tapped, new marketing promotion strategies, pricing structures, etc.
  3. **Communicating the information** - information gathered should be evaluated and selectively communicated to all who need to make decisions on what customers, suppliers or other companies in the market are doing or likely to do. The worker in the workshop needs to know why the production processes have changed from what was always done if he is to believe in management. The salesperson has to be made full aware of the products strengths and weaknesses relative to the competition. If they do not have this information, they will be unable to answer objections and comparisons convincingly and thus are less likely to make the sale.

4. **Countering competitor actions** - having identified what competitors are doing, the entrepreneur will now be able to plan for counter measures to beat the competition.

### Benefits of Preparing a Competitor Analysis

- You will discover your company's competitive advantage - the reason customers do business with you instead of your competitor. Then you will be able to communicate your competitive advantage effectively to win potential customers.
- Analyzing current issues and your competitor's offerings may spur ideas for innovative improvements to your product offerings.
- You might find that there are some categories of customers whose needs are not being met.
- By observing actions of your competitors, you might learn more about your market. For example, does a successful competitor reduce prices during particular months or seasons? If so, what might that tell you about your market's spending habits?

### Target or Niche Marketing<sup>9</sup>

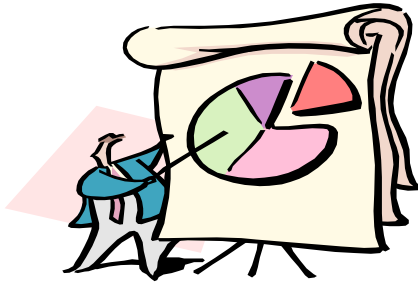
When you have developed your marketing strategy, determine with which customer group this would be most effective. Different marketing strategies appeal to different target markets. Apply the best combinations that will appeal to your target group. Your target audience is a very narrowly defined sub-segment of the total population that has characteristics in common. The market is defined in different segments such as:

- **Geographic:** Offer specialized products to customers who live in certain neighborhoods or regions. Example, Akre flour is sold more in some towns than in others.
- **Demographic:** Direct advertising to families, young professionals, or the occupation of consumers. Example, small knockdown furniture may appeal to young professionals who tend to be more mobile.
- **Psychographic:** Target promotion to the opinions or attitudes of the customers (political or religious, for example). Example: Food products prepared the "halal" way is marketed to the Muslim community.
- **Product Benefits:** Aim marketing to emphasize the benefits of the product or service that would appeal to consumers who buy for this reason in particular (low cost or easy access, for example)
- **Previous customers:** Identify and promote to those groups who have purchased the product before.
- It is important to clearly identify the market segment or niche that you will market to. To sell to people constructing houses or to "women" is not refined enough. What kind of people constructing houses or buildings? What is their income level? What kind of houses? Where are they located? What age of women? With what interests? With what income levels? Etc. You need to be specific otherwise you cannot develop your focused marketing initiative. You need, therefore to identify your niche market.

---

<sup>9</sup> [http://www.ibizcenter.com/marketing\\_niche\\_market.htm](http://www.ibizcenter.com/marketing_niche_market.htm)

## NICHE MARKET



**IT IS A SMALL SEGMENT OF PEOPLE, WHO YOU WILL BE FINDING AND OFFERING SOLUTIONS TO THEIR PROBLEMS, AND YOUR CURRENT PRODUCT IS PERFECTLY SUITED TO THIS TARGET GROUP OF PEOPLE**

- Do "people who own home qualify"? Well, it is not the entire population, but it is still far too broad. Can you define it geographically? By age? Number of residents? With or without children? Be specific. Ask the old questions: **who, what, when, where, why, which, what kind, how many?** Find a niche.
- The size of the niche you choose is critical. It must be large enough to have money. At the same time, it must not be so large as to be meaningless.
- You may start thinking of niche markets of people, professions or subject matters you already know. Are there specialty areas within your trade or industry or within your expertise that you might identify and service better than anyone doing now? Who works in that specialty area? Where are they located?
- Why should you target your market?

None of us have unlimited resources of time and money. To get the best results, we want to focus that time and money where it will do us the best. Experienced marketers have learned that you get the best response when you offer something that the person is interested in.

We are inundated with advertising today. We simply screen out everything except that which interests us. As marketers, we need to send very specific messages that will be of interest to the target audience.

Do not be afraid to narrow down your target market. The wider your target - the less you can focus on the specific needs of your customers. With a wide target you speak to them in generalities. People do not like general and universal talk - they do not respond to it. They respond only when they feel that you are talking with them, about them, and about their needs. When you try to talk to everyone, you actually talk to no one.

Choose a niche small enough that you can dominate. For example, if you are a tiny woodworking factory making one of a kind, high quality high priced furniture, you cannot be selling to everybody because the poorer sector of the furniture market cannot afford to pay the kind of furniture you produce.

Send your sharply focused message to people who identify with the message, and catch their attention. The chances of a favorable response are much greater. Marketing is ultimately a numbers game, with varying probabilities of success, depending on the methods used.

Marketing is a people game - helping people identify and clarify their problems and providing solutions to enhance people's lives.

### ***What do you do with your target audience?***

You find what is of interest to them and you design your offerings to those interests. You develop your Unique Selling Proposition that uniquely qualifies you to be the source of help to them or source of solutions to their problems.

How do we find out what is of interest to them or what their needs are? The first step is to identify a narrowly defined target market, and then find out what that group ultimately wants and needs. Then and only then do you go find the solutions to the target market problems and offer those to the group. This is a total reversal of what small-scale entrepreneurs had been always doing that is why they have marketing problems: "This is what we make. Now whom are we going to find who will buy it?"

The second is to try many different messages, measure the responses and eventually you may find out what works best, and by deduction, conclude that whatever it is that they are responding to must be what interests them.

## **Marketing Mix**

The seven P's of marketing (Product, Price, Place, Promotion, Position, Process and People) will help you reach your customers. All seven Ps are important elements and are referred to as the marketing mix.

### **Product**

Choosing what product (good or service) to sell means deciding its characteristics, quality and quantity. Your product normally consists of several physical and qualitative characteristics that include the following:

- Physical measurements or dimensions generally given in terms of length, width, height, volume, weight, etc.
- Design or style taking into consideration the consumers' preferences, aesthetic appeal, cultural factors and traditions, etc.
- Color taking into consideration age and gender of customer, season of the year, tradition and cultural values of the consumers, trends in the color of certain products, etc. Color preferences change from time to time and different customer groups prefer different colors.
- Package or container, which not only attracts the attention of customers but also protect the product from damage or deterioration.
- Brand or product name, which is important to differentiate similar products from different manufacturers. It should be easily remembered by the consumer and have a close association to the product.
- Label should conform to certain laws and regulations. It should be well designed to attract the attention of consumers.

### **Product Differentiation**

A product is an important marketing resource. What is the product that you are selling? What are its features? What is unique about it? Having something unique provides motivation behind advertising. While the ideas mentioned under market strategy apply here, another option is to change or modify the product or service. Additional attention may be given to a product if it has changed color, size, or style, while a service may draw similar attention by modifying the service provided.

Sales and promotional opportunities are generated by product differentiation through the value of the product as seen by the customers.

## ***How to Compete on Value<sup>10</sup>***

The way to compete is to determine your product value and your non-product value to the customer. This will differentiate your product from the rest.

The key to competing on value lies in two areas:

- You must understand that value can be defined only in terms of your customer's profitability. When you deliver value to your customers, you make them feel that it is worthwhile for them to do business with you.
- You must understand that value comes in two forms: product value and non-product value.

### **What is Product Value?**

Product value is any value you bring to your customer that directly relates to your product or service. Product value typically results from an enhancement to your product or service.

### **What is Non-Product Value?**

Non-product value is any value you bring to your customer that does not specifically relate to your product or service. This can include service support, customer relationships, delivery or products, etc.

## ***Your Customer's Perception of Value<sup>11</sup>***

Customers define value based on their unique set of criteria. They look at the value provided from you, their supplier, in a variety of ways. The five components of value are:

### **i) Quality**

How are you improving your product? Customers want you to be continually improving your core products that you are offering to them. Quality is the first and most important component value. An appropriate level of quality earns you the right to play in your market place.

Quality is not just how well your product works. The most subtle but effective criteria that define quality are called "moments of truth". A moment of truth is any interaction that the customer has with your business. For example, a moment of truth occurs when a customer is buying a chair from your shop and when he sits on it, the chair collapses!

Do your customers experience positive impression when they interact with your business? If you want to offer value to your customers, you must be aware of the fact that every contact your customer has with your company is a moment of truth. And that moment must be positive.

### **ii) Service Support**

This includes far more than just customer service. It is all of those business components and departments that support the sales promise to ensure that the customer receives exactly what the company committed to - if not more. Service support includes defined customer satisfaction levels, order cycle, team commitment to customer expectations, an empowered contact team, a systematic recovery process and warranties.

---

<sup>10</sup> Paul Goldner. How to Compete on Value May 2000

<sup>11</sup> Jerry Fritz, Your Customer's Perception of Value, September 1998

Service support is the extension of your commitment to the customer beyond the quality of your core product offering. Does your entire organization work together as a team? What lines of communication have you established in your organization? Every person in every department of your company must understand and contribute to the value the customer buys. Refer to corporate image management.

Service support also includes warranties. If a high-quality product has a warranty, which you earnestly stand behind, then trust and value are added to the sale of that product.

### **iii) Customer relationships**

Customers make it very clear that they like doing business with enterprises that employ professional and likeable sales people, order taking staff, customer service representatives, delivery personnel and others who have direct customer contact. The employees in your organization play a critical role in how the customer interprets your value.

### **iv) Delivery**

What are the ingredients that make up delivery? To satisfy or exceed the customer's expectations regarding delivery, your organization must focus on the eight "rights" of delivery. These, as defined or determined by your customer, include right time, right price, right destination, right condition, right quantity, right mode, right product and right packaging. How can you improve on these rights? Your answer to that question and the action you then take will help you to differentiate yourself from competition.

### **v) Investment**

Are the costs of your products and services competitive within the marketplace? Do your customers believe that they are getting a return on their investment when they do business with you? It must be clear to the customer that the investment he or she makes regarding your quality, service support, delivery and customer contact creates an appropriate package that is good value.

## **Selling the Value of the Company**

Below are questions to help you determine if you are selling the value of your company:

- i) **Do you emphasize what your product can do for the client rather than the product features?** Do you understand enough about your customers to apply your "solution" to their situation or problem?
- ii) **Do you probe for information by asking questions and then listening to the replies?** Have two or three probes ready for every major question you ask. Top-producing sales people show their expertise not by what they tell the customer, but by what they ask the customer. It is through thorough questioning that you can clearly understand what the customer wants. In turn, you provide the value that the customer truly needs through a one-to-one customization.
- iii) **Do you always follow through with each customer, supplying request information and answering questions?** A salesperson's job is not to sell, but to educate and understand, and then offer value when it is appropriate. Good sales people are consultants and more. They are experts regarding their trades. They ask skillful questions and probe for additional information. When they know what the customer needs, they ask themselves, "Can I meet or exceed the expectations the customer has described?"

- iv) **Do you focus on uncovering and then solving the customer's problems?** Focus on getting inside the customer's head so that you can understand exactly what he or she is facing. The first goal in any customer relationship is to build trust and rapport. The second step is to understand the customer's needs. The third part of the process, if appropriate, is to show how your organization can satisfy those needs.
- v) **Do you understand the different needs of each group influencing the purchase and how to meet them?** You have more than one person in a business making decisions today. Often, the bigger the organization, the more people or departments are involved in the decision. The value-added sales representative today must get inside the organization and determine who the buying influencers are and what their "stakes" in the purchase are.
- vi) **Do you project enthusiasm for your product or service?** If not, then find another product to sell.
- vii) **Do you increase sales by offering add-ons?** Make sure that anything you add on to the product increases the value, as interpreted by the customer. Do not add things to a product or service just because they are available. ***You do not sell customers anything. You provide what they need in their situation to help them***
- viii) **Are you willing to go extra mile to provide superior customer service?** Make sure customers truly want and need the service you provide, and that it is offered to them in such a way that they see its value.



## SESSION 9

### PRICING AND TERMS OF SALES

1.5 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to compute the right price for their products and establish their terms of sales.

#### TRAINING MATERIALS



- \* Flip Chart9-1: Session Objectives
- \* Flip Chart9-2: Marketing Objectives in Setting Prices
- \* Flip Chart9-3: Common Methods of Pricing
- \* Flip Chart9-4: Pricing Techniques
- \* Flip Chart9-5: Multiple Prices
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

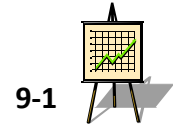
- a. Tell the trainees that this session will enable them to compute the right price for their products and establish their terms of sales (Flip Chart9-1).
- b. Alert them that how much they sell their products at is another important marketing decision they have to make. Remind them that some products sell because of their prices.
- c. Let the trainees brainstorm and discover what will guide them when they are setting their products' prices. Guide them to discover that before setting their products' price, they should first decide on their marketing objective.

## **2. Presentation and Activities**

- a. Present to and guide the trainees discuss the different marketing objectives. Show Flip Chart9-2.
- b. Present the common methods of pricing products. Show Flip Charts 9-3 and 9-4. Illustrate and give examples. Show Flip Charts 9-5
- c. After discussing each method, give trainees an exercise on computing prices.
- d. As additional information for the trainees, discuss the topic “Multiple Prices” (Flip Chart9-6). Also provide examples using the trainees’ particular businesses.
- e. Guide the trainees to brainstorm / discuss and find out how else businesses compete with one another. Guide them to come up with areas like terms of sales e.g. cash basis, cash and credit, deposit with any order, installment, consignment, accept returns and exchanges, lay-away, etc.
- f. Ask the trainees to explain how they will use either of the terms of sales to improve their businesses’ competitiveness.

## **3. Summary**

- a. Conclude the session by referring back to the session objectives and by emphasizing to the trainees that a sensible pricing policy and terms of sales significantly contribute to the sales performance of the business and ultimately its ability to generate profit.



## **Session:** Pricing and Terms of Sales

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Compute the right price for their products
- ❖ Establish their terms of sales



# Marketing Objectives in Setting Prices

## **MARKET PENETRATION OBJECTIVE:**

*The entrepreneur may set a relatively low price to stimulate the growth of the market and to increase his market share.*

## **MARKET SKIMMING OBJECTIVE:**

*The entrepreneur may set his price high to take advantage of the existence of buyers who attribute a high prestige value to the product and are willing to pay a higher price for it.*

## **EARLY CASH RECOVERY OBJECTIVE:**

*The entrepreneur may set a price that will lead to a rapid recovery of cash, either because of the cash needs of the business, short product life cycle or future uncertainties.*

## **SATISFYING OBJECTIVE:**

*The price is set to achieve a rate of return suited to the business objective and character of the entrepreneur.*

## **PRODUCT LINE PROMOTION OBJECTIVE:**

*The entrepreneur may establish a price that will promote sales of the entire product line.*



# COMMON METHODS OF PRICING

- **Cost Oriented Pricing**  
Price is set on the basis of product cost.
- **Demand Oriented Pricing**  
Price is based primarily on intensity of demand.

A higher price is charged when demand is strong and a low price when demand is weak even though the product cost is the same in both cases.

- **Competition Oriented Pricing**  
Price is determined mainly by the prices of Competitors for the same or similar products.



## PRICING TECHNIQUES

### **i) MARK-UP PRICING**

$$\text{ii) Selling price} = \text{Cost} + \frac{(\text{Cost} \times \text{markup \%})}{100}$$

### **iii) GROSS MARGIN PRICING**

$$\text{Selling price} = \frac{\text{Cost}}{100\% - \text{Gross Margin\%}}$$

### **iv) STANDARD RATES PRICING**



## Examples of the commonly used Pricing Techniques

1. **Mark-up pricing** – *Price is set based on the cost of the product plus additional percentage to cover overhead expenses and profit.*

Selling Price = Cost + (Cost x markup percentage)

Mark-up percentage is set by each enterprise depending on marketing objective.

**Example:** Product cost is ID 2,000

You want a mark-up of 150%. This means you want to earn 150ID for every 100ID you spend in producing and selling the product.

**Selling price = 2,000 + (2,000 x 150%) = ID 2,000 + 3,000 = 5,000**

2. **Gross margin pricing**- Price is set at a level that will allow a specified gross margin percentage of sales. Gross margin is also expressed as a percentage e.g. 40%, 10%, etc.

Selling Price =  $\frac{\text{Cost}}{100\% - \text{Gross \% margin}}$

**Example:** Product Cost is 2,000 ID

Gross margin is set at 40%. (This means that for every ID 100 sale of the enterprise, there is a gross profit of 40 ID)

Selling Price = ID  $\frac{2,000}{100\% - 40\%} = \frac{2,000}{60\%} = 3,333 \text{ ID}$



## Multiple Prices

- It is possible to have more than one price for the same product. For example, different prices are commonly based on volume purchased

*example: 10% discount on purchases exceeding ID 100,000, 15% discount on purchases exceeding ID 500,000*

- Prices may also be lowered to take into consideration lower expenses incurred in selling to particular customers

*Example: Pick-up price, delivered price*

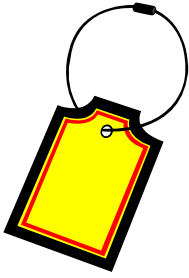
- Can also sell at different prices due to marginal cost pricing (or variable cost pricing  
*i.e. a price that enables you to recover your variable costs and leave you with a balance (contribution margin) to go towards the covering of your fixed costs)*

*However you need to be mindful about the likely impact of such prices to your existing customers.*

*This pricing technique is commonly used by hotels for guests arriving long past the prime time (e.g. after midnight) and for food remaining long after the meal times.*



## Trainer's Notes



### PRICING

How much to sell a product at is another important marketing decision the entrepreneur has to make. Some products sell because of their prices. A sensible pricing policy and strategy significantly contributes to profit generation. Before setting the price, however, the entrepreneur should first determine his/her marketing objective.



#### *What is the marketing objective?*

- i) **Market Penetration Objective** - The entrepreneur may set a relatively low price to stimulate the market and to increase his market share. The following conditions may favor setting low prices:
- a. The market appears to be highly price-sensitive
  - b. Unit production and distribution costs are reduced with increase in volume
  - c. Low price is intended to discourage actual and potential competition
- ii) **Market Skimming Objective** - The entrepreneur may set his price high to take advantage of the existence of buyers who attribute a high prestige value to the product and are, willing to pay a higher price for it. The premium price may gradually be lowered as the value attached to the product diminishes and the buyers become price conscious.
- iii) **Early Cash Recovery Objective** - The entrepreneur may set a price that will lead to a rapid recovery of cash either because of the cash needs of the business, short product life cycle or future uncertainties.
- iv) **Satisfying Objective** - The price is set to achieve a rate of return suited to the business objective and character of the entrepreneur. Some entrepreneurs may set prices that may maximize returns but accompanied by a lot of uncertainties, others may be satisfied with lower return but with less problems and difficulties.
- v) **Product line Promotion Objective** - The entrepreneur may establish a price that will promote sales of the entire product line. An example is a loss-leader pricing in which a popular product or main product item is priced lower or even at a loss to attract buyers to buy a whole set or induce a large number of buyers to buy other products of the enterprise.

#### *Common Methods of Pricing Products*

There are three common methods of pricing products:

- i) **Cost oriented pricing.** - The price is set largely on the basis of the product cost. Product cost is generally made up of the cost of materials, direct labor and other factory costs. The price covers the product cost plus profit (i.e. the money that you keep above what it costs you to make the product)

***The more commonly used pricing techniques based on cost are the following:***

- a. Mark-up pricing:** This is a pricing technique that sets the price based upon the cost of the product or service plus additional percentage to cover overhead expenses and profit. Mark-up is expressed as a percentage and is widely used by retailers and wholesalers.
- b. Gross Margin Pricing:** This is a pricing technique that sets the price at a level that will allow a specified gross margin percentage of sales. Gross margin is also expressed as a percentage.
- c. Standard Rates:** The use of standard rate requires the multiplication of some figure times a variable, usually the amount required to do a task. This method is often used by service businesses where time is the major expense. The rate is based upon prevailing rates charged by others.

**Example:**

Repair shop target sales is ID 6,400,000 per year

Direct Labour cost is ID 1,600,000

Average direct labour cost per hour is ID 160.00

Therefore, the entrepreneur should charge the following price for each hour of labour expended:

$$\frac{\text{ID } 6,400,000}{\text{ID } 1,600,000} = 4 \times \text{ID } 160 = \text{ID } 640.00 \text{ per hour of labour spent}$$

- ii) Demand oriented pricing.** - Pricing is based primarily on the intensity of demand. A higher price is charged when or where demand is strong, and a low price when or where demand is weak even though the product cost is the same in both cases.
- iii) Competition oriented pricing.** - Pricing is determined mainly by the prices of competitors for the same or similar products. The prices need not be the same. The entrepreneur may keep his prices higher or lower than those of the competitors in view of certain considerations but are mainly based on them.

## **MULTIPLE PRICES**

It is also possible for you to have more than one price for the same product or service you offer. The different prices are commonly based on volume (e.g. 10% discount is offered for purchases over ID 50,000 and 20% discount on purchases over \$100,000). Prices may also be lowered to take into consideration lower expenses incurred in selling particular customers (e.g. lower price for customers who pick up their purchases). You can also sell at different prices because of the use of ***marginal cost pricing***.

***For example:*** An enterprise engaged in the manufacture of soap incurs ID80.00 to produce a piece of soap, which it sells for ID160.00 per piece. The ID80.00 difference between the direct cost and the selling price goes to pay for the overhead and allow for some profit. If a large hotel offers to buy soap (in large quantity) at ID120 per piece, the enterprise could accept the offer. The reason would be: ***"It is true that the price is below the regular price of ID160.00. However, if the entrepreneur refuses the offer, he will not be able to make the extra ID40 per piece, which could contribute to cover overhead and possibly profit."***

If you decide to use variable cost pricing, consider the impact of such prices to existing customers.

## SESSION 10

### ADVERTISING AND PROMOTION

1.5 hours 

#### OBJECTIVE



By the end of this session, the trainees will be able to explain the importance of advertising and promoting their business products and their businesses.

#### TRAINING MATERIALS



- \* Flip Chart10-1: Session Objectives
- \* Flip Chart10-2: Forms of Advertising
- \* Flip Chart10-3: Promotional Activities
- \* Flip Chart10-4: Things You Don't Want to See on Your Business Cards
- \* Flip Chart10-5: Unique Selling Proposition
- \* Flip Chart 10-6: How to make your Unique Selling Proposition
- \* Flip Chart 10-7: How to make your Business Unique
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- a. Tell the trainees that this session will enable them to explain the importance of advertising and promoting their business products as well as their businesses Flip Chart 10-1.
- b. Ask them to brainstorm and come up with the meaning of advertising. Guide them to conclude by agreeing that advertising is getting the message about the business and its products out to the customers.
- c. Ask the trainees to give different forms of advertising, which could be adopted by micro and small entrepreneurs (SMEs). Write their answers on the board.

##### 2. Presentation and Activities

- a. Guide the trainees to briefly discuss the different forms of advertising they have identified and their applicability to SMEs. Show Flip Chart10-2.

- b. Ask the trainees to rank the different forms of advertisement they have identified in terms of their cost-effectiveness to SMEs. Guide them to conclude with the signpost and the business cards as being the most cost effective ones for SMEs.
- c. Let them design and display their signposts. Guide the class to review the signposts that they have made, discuss and agree on how their business signposts should contain and look like.
- d. End by emphasizing that the signpost should be clear, visible and attractive but that it need not be expensive. However, it should be able to give a prospective customer an idea on the products offered by the business. Point out that there are many businesses that do not have signposts and thus prospective customers do not know that such businesses exist and later on what products they offer.
- e. Also explain to them that one element of advertising is promotional activities. These activities not only advertise but also offer added incentives for customer patronage. As a result of such activities, customers buy more at a time, come back again or recommend the business and its products to potential customers. Show Flip Chart10-3.
- f. In their small groups, ask each group to prepare an advertising and promotion campaign for one of their members' business products. Allow 20 minutes for group discussions.
- g. Each group will present its advertising and promotion proposal. Allot five minutes per presentation. The other groups will give tips on how to improve the advertisement proposal and make it more suitable for their businesses. After each group has presented its advertising and promotion proposal, the trainees will judge which group had the best advertisement and reward it by **clapping**.
- h. Ask the trainees who among them has a business card. Let them discuss and find out how a business card would be a cost-effective way of advertising and promoting their businesses. Give them tips on "Things that should not be seen on their business cards." Show Flip Chart10-4.
- i. Tell the trainees that competition among micro and small enterprises (SMEs) is very high, thus there is a need to get their businesses differentiated by creating a Unique Selling Proposition or USP.
- j. Show Flip Chart10-5, which contains a definition of USP. Discuss the meaning of USP and give examples.
- k. Discuss with each participant how to make his/her own USP. Show Flip Chart10-6, which lists ways of making USPs and making their business unique.
- l. As an exercise, ask the trainees to prepare a one-paragraph statement of their respective USPs. Allow ten minutes for this activity. Then ask each one to say out loud the USP they have prepared for their enterprise.
- m. Point out that there are also other areas that they can build on to develop their USP. Show Flip Chart10-7.

### 3. Summary

- a. Conclude this session by referring back to the session objective and by telling the trainees that most small businesses do not allocate money for advertising and promotion but this should be an expense that they should not neglect. Emphasize that advertising and promotion tries to reach the largest number of people who can buy their products.



10-1

## Session: Advertising and Promotion

### Session Objectives:







**By the end of this session, the trainees will be able to:**

- ❖ Explain the importance of advertising
- ❖ Advertise and promoting their businesses and business products.



10-2

### ADVERTISING CAN BE DONE THROUGH

RADIO	
BILLBOARDS OR POSTERS	
SIGNPOST	
TELEPHONE BOOK	
BUSINESS CARDS	
BROCHURES	
<i>OTHERS MAY INCLUDE INTERNET, SMS, NEWS PAPES, BANNERS, ETC.</i>	



# Promotional Activities

2 for 1 offer

Special Prizes

Discounts

Give-away items

(You can give out slow moving items)

Raffle Tickets

Free Samples

Sponsorships

Attractive displays and lighting.

None product value e.g. customer care services,  
after sales services, etc.



10-4

## **THINGS YOU DON'T WANT TO SEE ON YOUR BUSINESS CARDS**

- CREASES AND BENT EDGES
- TYPING ERRORS
- SIGNS OF AGE
- A BLANK FOR YOUR NAME
- ANYTHING CROSSED OUT



## **UNIQUE SELLING PROPOSITION**

- It is that distinct and appealing idea that sets you and your business favorably apart from other competitors.
- It is what makes your enterprise or your products different from the others.





10-6

## HOW TO MAKE YOUR USP

1. Prepare a one-paragraph statement of your new USP. Identify what is unique about your product or your business.
2. Review your paragraph. Edit or remove the generalities. Focus on the most specific promise you could possibly fulfill.
3. Rework. Remove excess words or hazy statements.
4. Try out your USP on a person who does not know anything about your enterprise.
5. Read your USP to him or her and ask what he/she understands with the message.
6. Integrate your USP into every marketing aspect of your business, such as display, advertising, your signboard and your receipts.

## HOW TO MAKE YOUR BUSINESS UNIQUE

<b>HOW TO MAKE YOUR BUSINESS UNIQUE</b>	<ul style="list-style-type: none"><li>• Offering the lowest prices possible</li><li>• Having the highest quality possible</li><li>• Being the exclusive source for the product</li><li>• Giving the best customer service</li><li>• Having the broadest selection but complimentary products</li><li>• Giving the best guarantee for your products</li></ul>
---	--



## Trainer's Notes

### Advertising and Promotion

With a marketing strategy and clear objectives outlines, entrepreneurs use advertising to get the message out to their businesses' customers. Advertising can be done through:

- The radio
- Billboards or posters
- Signpost
- Telephone Book
- Business Cards.
- Brochures, leaflets, flyers, etc.
- SMS messages
- Internet
- News Papers
- Magazines
- Banners
- Sponsorship of popular events

For a micro or small entrepreneur, the most cost-effective means of advertising is the signpost and business cards. Unfortunately, there are many small enterprises that do not have a signpost thus prospective customers do not know that such an enterprise exists. The signpost should be clear and visible. It need not be expensive. However, the signpost should be able to give a prospective customer an idea on the services or products offered by the company.

Business cards help the entrepreneur in presenting a right image of the entrepreneur and the company. You are what you hand out. Here are some things you do not want to see on a business card:



#### ***Things You Don't Want to See on Your Business Cards<sup>12</sup>***

- **Creases and bent edges** - A business card with any types of folds or something like it has been in your pocket too long should never be given out. You might want to get a business card holder that fits into your pocket or purse, to protect the cards and make them appear special.
- **Typing errors** - Examine your business cards for typographical errors. Take a good look at your card before you start giving them out. Check all your contact information carefully. Does your phone number have all the correct digits?
- **Signs of age** - Look for discoloration, fading or yellowing. If any of these signs are present, get your cards reprinted. Nothing lasts forever. If they are too old, throw them out.
- **A blank for your name** - Never hand out a business card with your name handwritten on it - at least if you are really serious about doing business.
- **Anything crossed out** - Don't cross out somebody else's name or correct a typo error.

#### ***Promotion***

One element of advertising is promotional activities. These activities not only advertise but they offer added incentive for customer patronage. Some examples are:

---

<sup>12</sup> Bob Popyk, salesdoctors.com July 2000

- 2 for 1 offers - for every one product that is bought, the customer is given 1 free of the same product
- Special Prices
- Discounts based on cash payments, quantity purchased, repeat purchases, season / period / time the purchases are made
- Give-away items - the items you can give out are the slow moving items in your shop.
- Raffle tickets, etc.
- Try to reach the largest number of people with the money allocated to advertising and promotion. Many small businesses do not allocate money for marketing promotions. This is an expense that is more often neglected.
- There are also other ways of promoting your product. The non-product value that we discussed earlier maybe used to enhance your competitive advantage.



## Unique Selling Proposition (USP)

### What is USP?<sup>13</sup>

Competition among small businesses is very high. More often than not, everybody in the same trade offer the same kind of products and services. It is therefore important to be different. Distinguish your business or practice from all the rest. Make your enterprise special in the eyes of your customers or clients.

How do you get your business differentiated? - ***By creating a Unique Selling Proposition or USP!***

**A USP is that distinct and appealing idea that sets you and your business, favorably apart from other competitors. What makes your enterprise or your products different from the others?**

The long-term marketing and operational successes you will achieve will ultimately be helped or hurt by the USP you decide upon. The possibilities for building a USP are unlimited. It is best, however, to adopt a USP that dynamically addresses an obvious void in the marketplace that you can honestly fulfill.

***Remember: It is counterproductive to adopt a USP if you cannot fulfill the promise.***

Most business owners do not have a USP, only a "me too" - feeding solely on the sheer momentum of the market place. There is nothing unique - there is nothing distinct. They promise no great value, benefit, or service - just "buy from us" for no justifiable, rational reasons.

It is no surprise then that most small-scale businesses, lacking a USP, merely get by. Their failure rate is high, and they get only a small share of the potential business. But other than a possible convenient location, why should they get much patronage if they fail to offer any appealing promise, unique feature or special service?

Would you want to patronize a firm that is just "there", with no unique benefit, no incredible prices or selection, no service or guarantee? Or would you prefer a firm that offers you the broadest selection in

---

<sup>13</sup> Jay Abraham's Business Breakthroughs Newsletter, 1996

the country/district? Or one with every item marked up less than other competitors charge? Or one that sells the "Mercedes Benz" of the industry's products?

Can you see what an appealing difference the USP makes in establishing a company's perceived image or posture to the customer? The point is to focus on the one niche, need or gap that is most sorely lacking, provided you could keep the promise you make.

You can create hybrid USPs - combinations that integrate one, marketing gap with another. Before you decide on a USP, be sure you can deliver that USP through your whole organization. (Refer to Corporate Image Management). You and your staff must consistently maintain high levels of quality or services.

If you decide that the USP for your business offers the broadest selection of products or services "instantly available" or "always in stock", but in reality you only stock two out of the 20 items, then you are falling down on the essence of your USP promise, and your marketing will probably fail. It is critical to always fulfill the "big promise" of your USP.

Remember, the USP is the nucleus around which you will build your success, fame, and wealth, so you better be able to state it. If you cannot state it, your prospects won't see it. Whenever a customer needs the type of product or service you sell, your USP should bring your enterprise immediately to mind.

Clearly, conveying the USP through your marketing and business performance will make your business great and success inevitable.

### **Making your USP**

- i) With a paper and pen, prepare a one-paragraph statement of your new USP. Identify what is unique about your product or your business. At first, you will have trouble expressing it tightly and specifically. It may take two or three paragraphs or more. That is okay.
- ii) Review your paragraph. Edit or remove the generalities and persistently focus on the crispest, clearest, most specific promise you could possibly fulfill.
- iii) Then, rework it and remove away the excess words or hazy statements until you have a clearly defined, clearly apparent Unique Selling Proposition a customer can immediately seize upon.
- iv) Try out your USP on a person who does not know anything about your enterprise. Read your USP to him or her and ask what he/she understands with the message. If the person is able to explain what you want to convey, then the USP you had created would most likely convey the message. Do not test your USP on a person who knows what you do or sell. The feedback can be clouded.
- v) Integrate your USP into every marketing aspect of your business, such as display advertising, your signboard, your receipts, etc.

### **Making your Business Unique<sup>14</sup>**

Here are some areas that you can build on to develop your USP: (Refer to Product Differentiation for other ideas)

#### **Offering lowest prices**

Be careful, however, in using this as a USP because customers may assume that if you have the lowest price you also have the lowest quality. Remember also, that buyers who buy primarily on price tend to be very disloyal customers.

---

<sup>14</sup> Achieving Marketing Advantage through USP, [http://www.ibizcenter.com/marketing\\_usp.htm](http://www.ibizcenter.com/marketing_usp.htm)

If you have really the lowest prices available, tell your customers so and give them the ability to compare prices.

### **Highest Quality**

Having the best quality is a great competitive position from which to market. Not everyone will appreciate higher quality and some may indeed focus on price, but over time, quality usually wins out.

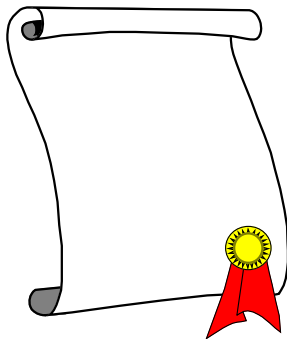
If you have the highest quality, be sure to sell the benefits of high quality. Tell the customers what highest quality products mean to them. How will it make them feel? What needs of theirs will be met?

### **Exclusive Source**

Being the exclusive source of something that people want and need is certainly a great marketing position. Achieving such a position may be another thing. When you position your business as an exclusive source, be sure to provide information about your product and also to ensure that you are indeed the source.

### **Best Customer Service**

Achieving truly world-class customer service will separate you from the rest. This is such a simple and profound business truth, yet few companies can achieve it. Opportunities always exist in this area.



Can you give not only personal attention, but also more personable attention than the competition? Can and do you spend time helping them choose the right product for their situation and needs?

Use a lot of testimonials to your customers because they are more believable.

### **Broadest Selection**

Define your niche market and offer them the broadest selection

### **Best guarantee**

Are your competitor's guaranteed conditioned upon a number of things such that the customer can rarely qualify? Let your customers know that your guarantee is unconditional. Let your customers know they have nothing to lose by doing business with you.

### **Examples of USP**

- Personalized service to meet your specific design needs for your doors and windows.
- Housing Interiors has 30 designs of sofa sets in price ranges from ID24,000 to ID 800,000. Orders delivered in one week.
- Appliance Repairs. We keep your appliances working. All repairs guaranteed for 3 months.
- We guarantee our work. Only original spare parts used in this Automotive Repair Shop.
- Salar shop company. All work guaranteed. We replace your furniture if they warp.
- Mahmood's Bakeshop. Only fresh bread sold.
- Ali's Haberdashery - We do rush orders for men's clothing. Guaranteed delivery in 24 hours.
- Ahmed's Chili Pickles - all natural and hygienically prepared.

All the above USP must be matched by the entrepreneurs' business actions at all times. The actions must always reflect the USP.

## SESSION 11

### OTHER MARKETING CONSIDERATIONS

1.5 hours 

#### OBJECTIVE

By the end of this session, the trainees will be able to decide on their distribution strategy and other marketing elements.

#### TRAINING MATERIALS

- \* Flip Chart11-1: Session Objectives
- \* Flip Chart 11-2: Product Characteristics
- \* Flip Chart11-3: Market Considerations
- \* Flip Chart11-4: Other Marketing Elements
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that this session will enable them to decide on their distribution strategy and other marketing elements. Flip Chart 11-1.
- b. Ask them to identify other issues which they still need to consider for the successful marketing of their business products. Write their answers on the board.

#### 2. Presentation and Activities

- a. If they did not identify distribution of their products as one of the issues, guide them to brainstorm and discover it. Ask those among them that are already doing business how they bring their products to the market or their customers.

- b. Explain that as part of marketing, they must decide how their products will move from their workshops/shops/places of work to their customers considering their business' resources, volume of sales, location, etc. Discuss the different channels of distributing products and point out that the channel of distribution to be adapted is influenced by cost, speed of distribution, market, and control by entrepreneur and, product characteristics. Guide the trainees to discuss Flip Charts 11-2 and 11-3.
- c. Guide the trainees to discuss the other marketing techniques that they can use to attract and/or maintain their customers. Refer to Flip Chart 11-4 on Hewler Repair Service for an illustration of "other marketing techniques".
- d. Point out to the trainees that any decision they make regarding marketing entails an expense. Ask them to identify marketing expenses that they would likely incur in course of marketing their products. Guide them to carefully identify, review and summarize for optimal use of their resources.
- e. Tell the trainees that after considering all marketing elements, the final step in marketing is to assess how they have served their customers. Explain to them that they are actually assessing their marketing performance and comparing their target sales with actual sales. They are also evaluating their decisions on the following:
  - Did advertising efforts reach the target group?
  - Were promotion activities timely?
  - Did customers respond to sales promotion, discounts, etc.?
- f. Ask them to evaluate how effective their marketing decisions are reflected in their market performance e.g. actual sales, customer satisfaction, profits, number of customers, etc.

### **3. Summary**

- a. Conclude the session by referring the trainees back to the session objective to confirm that they have achieved them.





11-1

## Session: Other Marketing Considerations

### Session Objectives:

**By the end of this session, the trainees will be able to:**

- ❖ Choose channels for distributing their products
- ❖ Explain the marketing techniques that they can use to attract and /or maintain their customers.
- ❖ Identify the marketing expenses for their products



11-2

**Product Characteristics would dictate that:**

Product	Channel of Distribution
Perishable products	Direct marketing to reduce spoilage
Bulky products ex: furniture	Direct to consumers to minimize handling and shipping distance
Non-standardized products	Sold directly by Entrepreneur due to difficulty of finding middlemen with required technical knowledge to handle product
Products that require installation	Direct by Entrepreneur or authorized dealers

## Market considerations would require that:

Large number of customers use	Long channels with many middlemen
High cost of serving small and frequent orders leads	Producers to rely chiefly on wholesalers
Some customers may be more readily induced to buy the products that are well displayed	Supermarkets



11-4

**SAMPLE**  
**“Other Marketing Elements”**  
**Hewler Repair Service**

**The company believes that its sales will be increased through the use of the following marketing techniques:**

- **24-HOUR SERVICE.** The company will provide emergency road service around the clock. This is an important strategy, since it has been observed that many vehicles break down in the highway along the town during the evenings and early mornings. One of the best ways of increasing sales is to provide on-the-spot services during these hours. Additional charges may be made to offset the costs.
- **UNIFORMS.** All company personnel will be neatly dressed and provided with uniforms. This is important because people do not always feel good letting just anyone drive their vehicles for which they have paid a lot of money.
- **WASHING AND CLEANING.** The company will provide car washing and interior cleaning services after a repair job is completed. One of the complaints in this business is that, once the job is completed, fingerprints and grease marks from the mechanic can be found all over the car.
- **EXTRA CHECK-UP.** Any additional defects noted in the vehicle will be brought to the attention of the owner. This, of course, will add to the sales of the company.
- **COFFEE OR TEA.** These beverages will always be available for owners waiting to pick up their vehicles that are still being repaired.



## **Trainer's Notes**

### **Distribution of Products**

A manufacturer or a wholesaler must decide how his / her products move from the workshop/warehouse/store/shop to the consumers. He may not have as many choices as large industries due to limited resources, small volume, market location, etc.

Between the entrepreneur and the final users are possible various marketing intermediaries - the retailers and the middlemen who can either be shops, wholesalers, or distributors for the entrepreneur's products.

The choice of the channels of distribution is influenced by cost, the speed of distribution, control by the enterprise, product characteristics and the market. For example, product characteristics would dictate that:

- Perishable products require more direct marketing to reduce spoilage.
- Bulky products like furniture usually require channels that minimize shipping distance and handling. So the company normally sells these direct to consumers.
- Non-standardized products are usually sold directly by the firm because of the difficulty of finding middlemen with the required technical knowledge or even interest to handle such product and.
- Products that require installation and/or maintenance services are usually sold and maintained directly by the firm or authorized dealers.

On the other hand, market considerations would require that:

- When the number of customers is large, manufacturers tend to use long channels with many middlemen on each level. The opposite is likely to happen when the number of customers is small.
- The high cost of serving small and frequent orders leads producers to rely chiefly on wholesalers; and
- Some customers may be more readily induced to buy the products that are well displayed as in supermarkets.

### ***Locating your Business Premises***

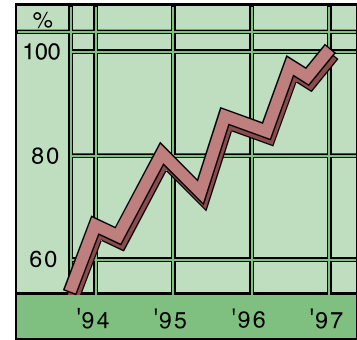
The entrepreneur has to decide on where to locate the business premises. The nature of the product is important in location decision. If the buyers buy the products largely on impulse, then the location must be at a place where there is a high customer traffic and visibility. On the other hand, location is less a concern for products and services that customers are willing to go out of their way to find (e.g. metal fabricator, machine shop, tailor, etc.)

### Assessing Marketing Performance<sup>15</sup>

After the marketing mix decision is implemented, the next step is to evaluate performance. Refer to the objectives of the marketing programme and monitor how well the decisions i.e. on the target market and the marketing mix are developing.

Evaluate objectives such as:

- Market share. Has the increased share been captured?
- Sales Volume. Was the target increase reached?
- Strategy. Did the combinations of the target markets and strategy work effectively? Which ones did not?



Also, evaluate the following decisions and others:

- Did advertising efforts reach the target groups?
- Were promotions made / done timely?
- Did customers respond to sales discounts, other sales promotional, etc?

Additionally, consider the following:

- Is the enterprise doing all it can to satisfy the customer?
- Do the employees make sure the customer's needs are truly satisfied, leading to the vital repeat purchase and customer loyalty?
- Is it easy for customers to find what they want at a competitive price?
- If these objectives were not reached, what were the reasons?
- If they worked well, what elements were most effective?

By evaluating performance after decisions, there is reference for future decision-making, based on past results. In addition, periodically assess customer's feelings and opinions toward the business and how well their needs are being satisfied. This can be done through surveys, customer comment cards, or simply asking them "How are we doing?" Assessing performance and asking for customer inputs brings us back around market research again. Your marketing plan is a continuous effort to identify and adapt changes in markets, customer taste, and the economy for the success of your small business.

---

<sup>15</sup> Market Assessment Summary, Small Business Marketing Guide, Liraz Publishing Company 1999

## SESSION 12

### FORECASTING SALES

1.5 hours 

#### OBJECTIVE

By the end of this session, the trainees will be able to identify different ways of forecasting their business sales and computing their projected business sales.

#### TRAINING MATERIALS

- \* Flip Chart 12- 1: Session Objectives
- \* Flip Chart 12-2: 5 Ways of Estimating Sales
- \* Hand Out 12(a): Pro-forma Invoice
- \* Hand Out 12(b): Sales Forecast Form
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that in this session, they will be able to identify different ways of forecasting their business sales and computing their projected business sales. Flip Chart12-1
- b. Point out to them that it is not enough for them to know their customers, what they want, and their competitors, but they also have to know the size of the marketing order to be able to estimate how much sales they are going to make.

#### 2. Presentation and Activities

- a. First, guide the trainees to discuss and come up with different ways for estimating their sales Show Flip Chart 12-2.

- b. Inform them that the purpose of estimating their sales is to help them answer questions like “how much do I expect to sell (per week, per month, or per cycle) based on my promotional activities?”, “Are my estimated sales realistic considering my target market?”
- c. Advise trainees that to project / estimate or forecast their Sales, they need to:
  - Be conservative and aim for a reasonable sales forecast.
  - Base their forecasts on their marketing survey on potential customers and competitors and what they believe they will sell given all the information they obtained.
  - Project their sales for at least three years (for a three-year business plan) with the first year projections being done on a monthly basis and for the subsequent 2 years on a quarterly basis.
- d. Using Flip Chart 12-2, Guide the trainees to practice estimating their sales forecasts using any of the suggested five ways.
- e. Using the Sales Forecast Form (Hand Out 12(b)), ask the trainees to project their sales for One year done on a monthly basis.

### **3. Summary**

- a. Refer back to the session objective. Remind them that there is no standard approach to estimating or forecasting sales since all figures arrived at are estimates. Point out to them that they need to ensure that their forecasts and assumptions are reasonable and justifiable.



## **Session: Forecasting Sales**

### **Session Objectives:**

**By the end of this session, the trainees will be able to:**

- ❖ Identify different ways of estimating their business sales
- ❖ Forecast their business sales



### **Five (5) WAYS OF ESTIMATING SALES**

- Pre-Selling Method
- Comparison to Similar Businesses or Competitors
- Market Share Method
- Based on the Capacity of your Proposed Factory
- Your Experience





12 (a)

**Sample #1 PROFORMA ORDER FORM**

**Nareen's Fish Fillet Enterprise**

Name of Customer: \_\_\_\_\_

Address: \_\_\_\_\_

Based on an estimated price of ID \_\_\_\_\_ per kilogram, I propose to buy about \_\_\_\_\_ kilograms per \_\_\_\_\_ (day/week/month).

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**Sample #2 PROFORMA ORDER FORM**

**Amin's Gift Shop**

Name of Customer \_\_\_\_\_

Address \_\_\_\_\_

Proposed Order:

<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Amount</u>
--------------------	-----------------	-------------------	---------------

_____			
-------	--	--	--

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date



12 (b)

# SALES FORECAST FORM

## Projected Sales (per month)

Product (good /Service)	Quantity	Unit Price ID	Amount ID
Total Sales			

## Projected Sales: Year 1 Quantity

Products/ Service	Quarter 1			Quarter 2			Quarter 3			Quarter 4			Total
	1	2	3	1	2	3	1	2	3	1	2	3	
Total Sales (Qty).													

## Projected Sales (in ID): Year 1 Amount

Products/ Service	Quarter 1			Quarter 2			Quarter 3			Quarter 4			Total
	1	2	3	1	2	3	1	2	3	1	2	3	
Total Sales (Qty).													

	Year 2		Year 3	
Quarter 1				
Quarter 2				
Quarter 3				
Quarter 4				
Total Sales	ID		ID	

## Explanation of Sales Forecast

(List all the assumptions used in projecting your sales)

---

---

---

---

## SESSION 13

### PEPARING A MARKETING PLAN

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to demonstrate preparing the marketing plan for their businesses.

#### TRAINING MATERIALS

- \* Flip Chart 13-1: Session Objectives
- \* Flip Chart 13-2: Format and contents of a Marketing Plan
- \* Hand out 13: Guiding questions for preparing a marketing plan
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the session by telling the trainees that this session will enable them to prepare the marketing plans for their business plans (Flip Chart13-1).
- b. Point out to the trainees that now that they have come to the end of the Marketing Part of their business plans, the next thing they have to is to prepare a Marketing Plan for their business plans.
- c. Ask the trainees what they need to include in their marketing plan part of their business plans and Write their answers on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to review their answers to ( c ) and add on as is necessary. Show Flip Chart 13-2 and let the trainees discuss each component of the Marketing Plan.
- b. Distribute Hand Out 13 and guide the trainees to discuss the questions under each component and enable them to develop answers to each of them.
- c. Ask the trainees to start preparing their marketing plans and attend to any queries they may have in course of doing this work.

## **3. Summary**

- a. Conclude this session by referring back to the session's objectives and emphasize that they need to complete their marketing plans before they proceed to the next Part of their Business Plans on Production and Technology Plan where they will have to plan to produce what they need to market.



13-1

## **Session: Other Marketing Considerations**

### **Session Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Demonstrate preparing the marketing plans for their businesses



13-2

### **Format of a Marketing Plan**

- A. **Target Market**
- B. **Products Offered**
- C. **Competition**
- D. **Product Pricing and Sales**
- E. **Advertising and Promotion**
- F. **Distribution Strategy**
- G. **Projected / Forecast sales**
- H. **Projected Marketing Expenses**



## THE MARKETING PLAN

### A. Target Market

- Who are your customers? Describe them as detailed as possible.
- Where are they located?
- What are their needs that are satisfied by your business products (goods or services)?
- How often and when do they purchase the products and services?
- Is your market growing? Steady? Declining?
- Is it large enough or can it expand over time?

### B. Products Offered

- What is your main product (good or service)?
- What percentage of your sales is this main product?
- What other products do you offer that are important to your business?
- What are the features about your products (including the non-product values) that distinguish you from your competitors?

### C. Competition

- Who are your main (up to five) nearest direct competitors?
- Who are your indirect competitors?
- What are the strengths of your competitors?
- What are the weaknesses of your competitors?

### D. Product Pricing and Sales

- What are your prices?
- What pricing strategies will you use? Why?
- How do your prices compare with those of your competitors? Are your products cheaper or more expensive? By how much? Show price comparison.

Product	Your Price (ID)	Competitor's (ID)	Difference (ID)

- How often will you review your prices?
- Do your competitors sell on credit, cash, installment, etc?
- What terms of sales are you going to adapt?

**E. Advertising and Promotion**

- What are your objectives in advertising and promotion?
- What promotional tools are you going to use and why did you choose them?
- How will you measure the effectiveness of your promotional strategy?

**F. Distribution Strategy**

- How will you distribute your product? Will you be marketing them directly or will you be using distributors/wholesales/retailers, etc.? Why?
- Will you have any sales representatives? If yes, how many? How much will you pay them? What geographical areas will they cover?
- What is your delivery capability? (Describe the type of delivery service you offer, lead time for orders, the delivery schedules, etc)

**G. Projected / Forecast sales**

- How much do you expect to sell every week/month/per cycle based on your promotional activities?
- Extend your forecasts / projections to a quarter and year
- Is this realistic in consideration with your target market?

**PROJECTED SALES**

Product	Quantity per week/month/cycle	Price (ID)	Amount (ID) per week/month/cycle	Number of weeks/month/cycles in a quarter	Quarterly Sales (ID)	Annual Sales (ID)
<b>Total Projected Sales</b>						

**H. Projected Marketing Expenses**

To effectively market your business products, you will need to carry out a number of marketing activities which will need you to incur expenses. Therefore, what marketing expenses do you think you will incur e.g.

- Will you be spending on radio promotions?
- Will you be incurring representation expenses?
- Will you be paying sales commissions?

- Will you be using business cards?
- Will you put up signposts, banners, etc?
- Will you print brochures, flyers, etc?

### Summary of Marketing Expenses

Marketing Expense	Unit Cost (ID)	Frequency/Qty per week/month/cycle	Total Per month	Total per Quarter	Total Per Year
<b>Total Marketing Expenses</b>					



## Production and Technology

Session	Topics	Objectives
14	Introduction to Production and Technology	Explain what is production; identify technical problems in production and explain the elements of production planning
15	Production Process	Explain the production process for their businesses and the importance of the flow Chart and prepare a simple flow Chart
16	Premises, Location, Machinery and Equipment	Explain the factors to consider in choosing a suitable business location, and the factors to consider when choosing suitable machinery and equipment for their business
17	Other Production Elements	Explain and identify other elements of production planning
18	Quality Management	Define quality in relation to the perception of the target market
19	Product Costing	Explain the meaning of cost, costing and its importance; calculate their product costs and selling prices
20	Production and Technology Plan	Demonstrate preparing a production and technology plan for a business

## SESSION 14

### INTRODUCTION TO PRODUCTION AND TECHNOLOGY

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the meaning of production, identify the typical challenges in production and identify the elements of production planning.

#### TRAINING MATERIALS

- \* Flip Chart 14-1: Session Objectives
- \* Flip Chart 14-2: Production defined
- \* Flip Chart 14-3: Typical Challenges in Production
- \* Flip Chart 14-4: Basic Production Elements
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the topic by presenting and discussing the session objectives (Flip Chart 14-1).
- b. Point out to trainees that the topic on production has different meanings to entrepreneurs depending on the type of businesses that they are doing. For example, to manufacturing and service businesses, production means producing goods and services for sale to customers. To vending/trading businesses, production means the whole process of purchasing and availing goods for sale to customers. On the other hand, in extraction business, production would mean the whole process of e.g. mining, quarrying, fishing or lumbering and getting the desired products for sale to their customers. In the case of agribusinesses, production would mean the whole process of producing crops or livestock for sale.
- c. Tell the trainees that after establishing their business customers' needs and in particular, the products that they need, they as entrepreneurs now have to work out how they will either produce or secure the products needed by their customers.
- d. This therefore brings them to the next important **Management Task of Production**.

- e. Explain that as entrepreneurs in manufacturing or service businesses, under production, their main concern would be the utilization of inputs (e.g. raw materials, labor, utilities, etc.) to produce the needed products (goods or services) in the right quantity, quality, at the right cost and time.
- f. Likewise, if it is a trading business, the entrepreneur's concern would be how and where to procure the needed goods from, at the right quantity, desired quality and at the right price and time.

## **2. Presentation and Activities**

- a. Ask the trainees what they understand of the term "production". Write their answers on the board. After you have exhausted answers from the trainees, Show them Flip Chart14-2, which shows the meaning of production from the point of view of different types of businesses.
- b. Using their existing small groups (formed on the basis of the similarities of the businesses they would like to undertake), ask the trainees to identify the problems they encounter or are likely to encounter in producing or procuring their businesses' products. Allow 15 minutes for discussions. Each group will then present the results of its discussions.
- c. After each group has presented, show Flip Chart 14-3, which shows the typical challenges that entrepreneurs face when handling the Production management task in their businesses. Discuss it in reference to their group answers.
- d. Point out that as owner-managers of their enterprises, they have to plan, organize, execute (i.e. lead, coordinate, direct) and control the production activities of their businesses in order for them to overcome (or circumvent) the challenges that they have identified. They also have to decide on the different technological alternatives to be used in their production activities. Show Flip Chart14-4, which contains the basic production elements. Guide the trainees to discuss the elements and develop common concurrence about them

## **3. Summary**

- a. In summary, refer back to the session objectives and then tell the trainees that their main objective in production is to ensure optimum utilization of resources, reduction of the cost of production, and improvement of their businesses' productivity.
- b. In the case of a buying and selling business, their main objective would be how and from where to procure the needed products in the right quantities, quality, cost and making them available at the right time.



## **Session: Introduction to Production and Technology**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning of production
- ❖ Identify the typical challenges in production
- ❖ Identify the elements of production planning



## MEANING OF PRODUCTION IN BUSINESS PLANNING

- In a manufacturing or service business, Production is the processing and/or assembling of raw materials by workers using machinery and equipment to produce a product (a good or a service) that meets the customers' needs.

It requires a set of *inputs* (raw materials, labour, machinery and equipment, etc) to yield a set of *outputs*.

- In a trading business, production would be equivalent to the whole process of identifying suppliers, procuring and getting the goods available for its customers.
- In an agricultural business, production would mean the whole process of producing crops or livestock for sale to customers.
- In an extraction business, production would mean the whole process of drilling, quarrying, fishing, lumbering, etc to get the products for sale to customers.

## Typical Challenges faced by Manufacturing or service businesses in course of producing their products

<b>INPUTS</b>	<b>PROBLEMS</b>
<b>Materials</b>	Availability, quality (e.g. defective materials), quantity, and cost
<b>Labor or Manpower</b>	Availability, quality (e.g. lack of skilled manpower, worker tardiness or absenteeism), cost
<b>Production Process or Methods</b>	Inappropriateness, tediousness, costly processes, obsolescence, and inefficiency
<b>Machinery and Equipment</b>	Inadequacy, inefficiency, maintenance (frequent machine breakdown), and cost
<b>OUTPUTS</b>	<b>PROBLEMS</b>
<b>Product (Goods or Services)</b>	Defects, poor quality, inability to meet delivery schedules, high cost of production and therefore costly products, delays in production and inability to meet the delivery schedules



14-3

## Typical Challenges faced by Vending/Trading businesses in Procuring their goods

Area	PROBLEMS
Suppliers	At times there no local suppliers for the required goods and they have to be imported which can be problematic for micro and small enterprises (SMEs)
Cost	The quoted prices for the required goods are at times very high leaving entrepreneurs no chance of earning a profit.
Quality of Products	At times the quality of the products is not up to the desired level and yet the entrepreneur has no control over it.
Timely availability of the goods	There may be stock outs when the entrepreneur fails to source the required goods on time.

## BASIC PRODUCTION ELEMENTS

<b><i>A PRODUCTION BUSINESS</i></b>	<b><i>A TRADING BUSINESS</i></b>
PRODUCTION PROCESS	ESTABLISHING THE NEEDED PRODUCTS AND THEIR QUANTITIES
<ul style="list-style-type: none"> <li>• PREMISES AND LOCATION</li> </ul>	IDENTIFYING THE SUPPLIERS
<ul style="list-style-type: none"> <li>• MACHINERY AND EQUIPMENT</li> </ul>	ESTABLISHING THE SUPPLIERS' SELLING TERMS AND CONDITIONS; PRICES, PAYMENT TERMS
<ul style="list-style-type: none"> <li>• PLANT CAPACITY</li> </ul>	DETERMINING BUSINESS LOCATION
<ul style="list-style-type: none"> <li>• LABOR REQUIREMENT</li> </ul>	DELIVERY TIME
<ul style="list-style-type: none"> <li>• RAW MATERIALS</li> </ul>	ESTABLISHING THE MANPOWER NEEDS
<ul style="list-style-type: none"> <li>• PACKAGING</li> </ul>	CARRY BAGS
<ul style="list-style-type: none"> <li>• POWER AND UTILITIES</li> </ul>	POWER AND UTILITIES
<ul style="list-style-type: none"> <li>• OTHER PRODUCTION ELEMENTS AND THEIR COSTS</li> </ul>	



## **Trainer's Notes**

### **Elements of Production Planning**

As owner-manager of your enterprise, you have to plan, organize, coordinate, control, direct, and evaluate the production activities of your business in order not to experience the challenges that entrepreneurs often face in their production activities. If you are in a manufacturing or service business, you also have to decide on the different technological alternatives to be used in your production such as:

- Production Process
- Premises and Location
- Machinery and Equipment
- Plant Capacity
- Labour Requirement
- Raw Materials
- Packaging
- Utilities
- Factory overhead expenses
- Production costs

## SESSION 15

### PRODUCTION PROCESS

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the production process for their businesses, explain the importance of a flow Chart and prepare flow Charts for their businesses' production process.

#### TRAINING MATERIALS

- \* Flip Chart 15-1: Session Objectives
- \* Flip Chart 15-2: Production Process
- \* Flip Chart 15-3: Flow Chart and its Uses
- \* Flip Chart 15-4: General Flow Chart
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell trainees that by the end of this session, they will be able to explain the production process for their businesses, explain the importance of a flow Chart and prepare general flow charts for their businesses' production processes (Flip Chart15-1).
- b. Guide the trainees to recall the functions of the owner-managers in enterprises. They should come up with planning, organizing, execution (leading, coordination, directing and staffing) and controlling. Inform them that they will have to perform all these functions when managing their businesses' production activities in order to ensure that they will always have the right products in the right quantities, right quality, at the right cost and time to satisfy their customers' needs. For manufacturing and service businesses, they also have to decide on the different technological alternatives that they can use in their production processes.
- c. Ask trainees to brainstorm and discover the meaning of "a production process". Write their answers on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to discuss their suggestions in respect to the meaning of a production process. Summarize the discussions by showing them Flip Chart15-2.
- b. Explain that a flow Chart is a graphical representation of the steps in the production process of an enterprise. It can also be used to show the steps involved in the procurement and receipt of goods for sale in a vending/trading business.
- c. Emphasize that a flow Chart is the simplest tool for investigating a production process (whether in the manufacturing or procurement of goods and services). Ask trainees to discuss and come up with the different uses of a flow Chart (Flip Chart15-3).
- d. Introduce the General Flow Chart (Flip Chart15-4).
- e. Ask the trainees to reflect on their businesses and, identify and list the different steps or activities involved in producing/manufacturing or procuring their products. After they have done this, ask them to draw a General Flow Chart. Allow 20 minutes for the exercise.
- f. After all trainees have prepared their General Flow Charts, ask some trainees to present their General Flow Charts. The rest of the class should give comments and suggestions on how to improve the Flow Chart (wherever necessary).

## **3. Summary**

- a. In summary, refer back to the session objectives. Then tell the trainees that a Flow Chart is a simple tool for investigating manufacturing / procurement processes. By tracing the manufacturing/procurement sequence, the flow Chart pinpoints actions that can be deleted, combined, where bottlenecks are likely to occur and therefore be removed or rearranged to achieve efficiency.



## **Session: Production Process**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the production processes for their businesses
- ❖ Explain the importance of a flow Chart
- ❖ Prepare flow Charts for their businesses' production processes

## **Production Process**

### **1. A Production/Service Business**

Steps involved in producing your products:

- Stages of operation from
  - raw materials acquisition and preparation
  - labour recruitment
  - assembly
  - finishing and
  - quality control
- Can be described by using a Flow Chart

### **2. A Vending/ Trading Business**

Steps involved in procuring your goods:

- Determine the quantities and quality of the products needed
- Identifying a supplier
- Agreeing with the supplier on the terms and delivery including delivery time
- Ordering for the goods and paying for the for them
- Receiving and storing the goods delivered
- Getting the goods from the store
- Displaying the products in the shop
- Selling the Goods and receiving cash

# **A Flow Chart and its Uses**

## **Flow Chart**

- Is a graphical representation of the steps or activities in the production or procurement process
- Is a simple tool for investigating a manufacturing or procurement process

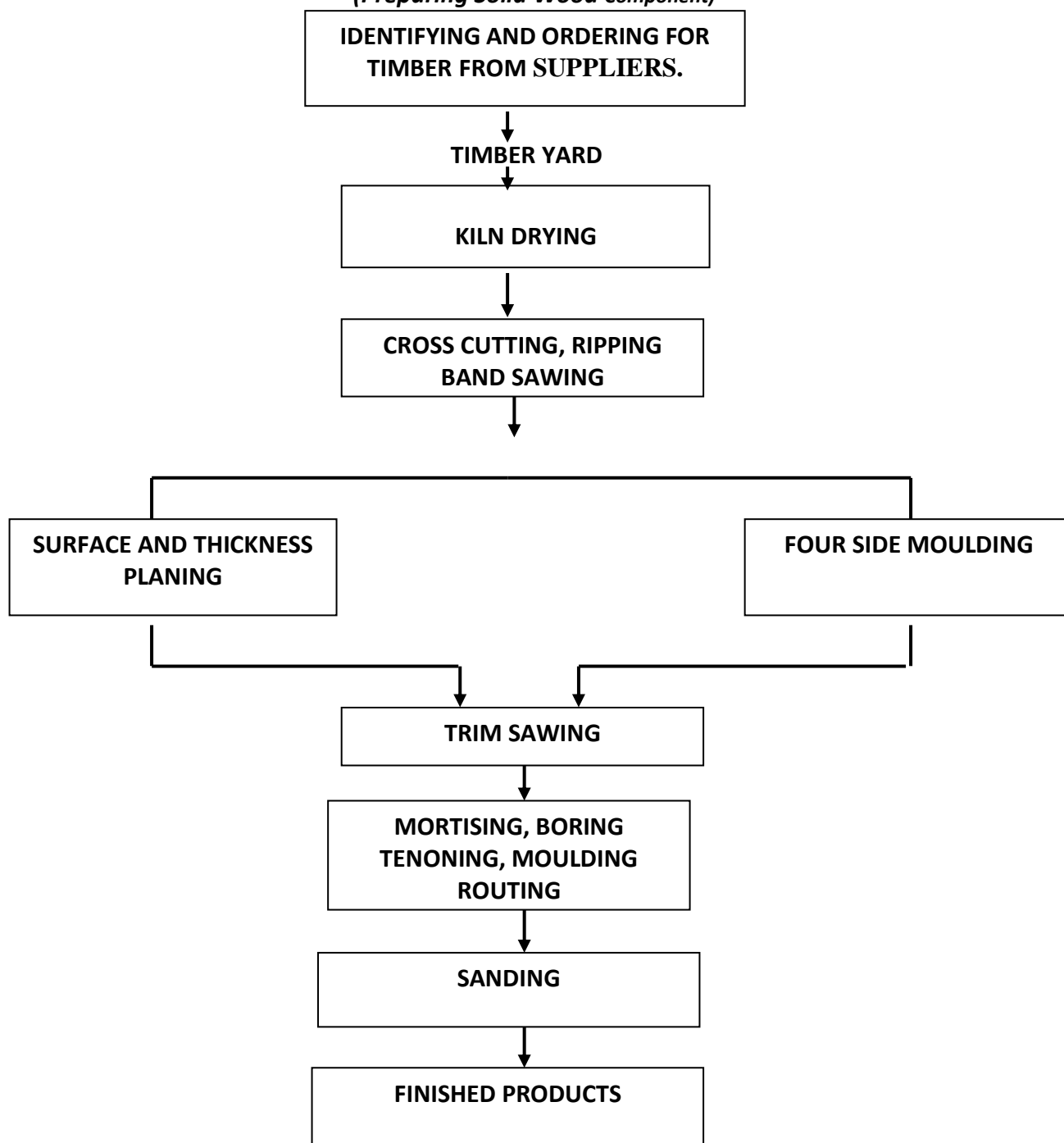
## **Uses**

- Have workers gain familiarity with the business' manufacturing process or flow of the procurement activities in the case of a trading business
- Improve the manufacturing process by tracing the process and determine steps that can be deleted, combined or rearranged to achieve efficiency
- Identify and remove production bottlenecks



15-4

**A SAMPLE OF  
A GENERAL FLOW CHART**  
*(Preparing Solid Wood Component)*



Arrow	→	= denotes progression from one activity to another as well as materials or persons handling them
-------	---	--

## Trainer's Notes

### Production Process

The production process refers to the steps involved in producing or procuring your goods or services. These are the stages of operation from raw materials acquisition, preparation, assembly, finishing, and quality control. In the case of a trading business, a production process would be equivalent to the procurement process that would involve all activities from identifying suppliers, agreeing with suppliers on the supply terms and conditions, ordering, receiving, storing and later on releasing the goods for sale.

Your production process can be described by using a flow chart.

### Flow Chart

A flow chart is a graphical representation of the steps in a production process of an enterprise. It pictures the different activities that take place, one after another, in one chart. The flow chart is the simplest tool for investigating manufacturing or procurement processes. By tracing the manufacturing or procurement sequence, it pinpoints actions that can be deleted, combined or rearranged to achieve efficiency.

### Uses of flow chart

The tool is used to:

**Have the workers gain familiarity with the manufacturing process?** Although you as the entrepreneur know your business' production process, having flow chart will provide the necessary guidance to your workers in ensuring uniformity and quality in the production process.

**Improve a manufacturing /procurement process.** A flow chart will assist you and your workers identify critical areas in which you can improve to achieve efficiency and productivity as well as ensure the quality of your products.

**Show improvements in a manufacturing / procurement process to yourself and your workers.** By contrasting the existing against the improved situations, flow charts are useful in convincing everybody concerned that changes may be needed.

**Identify production bottlenecks.** These bottlenecks can then be subjected to more detailed studies, for further improvement.

### Types of flow charts

Two types of flow chart can be distinguished: a general and detailed flow chart.

#### ***General Flow Chart***

This chart is an overall picture of the manufacturing process highlighting the relationships between the different steps of a process. (Refer to Table A for sample)



### ***Detailed Flow Chart***

A detailed flow chart is a microscopic version of the general flow chart. The main difference between the general flow chart and detailed flow chart is the level of description. The detailed flow chart gives a much more detailed picture of each step. The general flow chart only indicates the transport or movement of materials (or persons) from machine to machine, through the enterprise. The detailed flow chart also indicates the different tasks or activities involved in the process like inspection, storage and operation using symbolic language. The following symbols are used in detailed flow charts.

For the purposes of this training course, the trainees shall use the General Flow Chart.

## SESSION 16

### PREMISES, LOCATION, MACHINERY AND EQUIPMENT

1.5 hours 

#### OBJECTIVE

By the end of this session, the trainees will be able to explain the factors to consider when identifying and selecting suitable business premises and location, machinery and equipment.

#### TRAINING MATERIALS

- \* Flip Chart 16-1: Session Objectives
- \* Flip Chart 16-2: Checklist for Locating a Business
- \* Flip Chart 16-3: Guidelines for Selecting Machinery Equipment
- \* Flip Chart 16-4: Plant Capacity
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that this session will enable them to explain the factors to consider when identifying and selecting a suitable business location, premises, machinery and equipment. Show Flip Chart 16-1
- b. Guide the trainees to brainstorm and discover the factors to consider when selecting a business (i) locations (ii) site or premises and (ii) machinery and equipment. Write all their responses on the board. Guide them to generate as many answers as possible to each of the questions.

#### 2. Presentation and Activities

- a. Together with the trainees, group the answers in (b) above into broad categories. Show Flip Chart 16-2, which contains the checklist for choosing a business location, business premises as well as machinery and equipment.
- b. Put the trainees in small groups. Ask each group to discuss and come up with the reasons for the broad categories the factors to consider when selecting a business (i) locations (ii) site or premises and (ii) machinery and equipment they have created in (a).

- c. Emphasize that their decision on the location of their business should ensure that the cost of acquiring raw materials and other inputs as well as distributing products and disposing waste is minimized. Also emphasize that they may not have much choice in selecting a workshop that will be large enough for their businesses, and that what is important is that they should maximize the use of their workshop. Also point out that what they need to do is to maximize their plant layout so as to minimize the movement of people and materials during the production process.
- d. In the case of a trading business, point out that more or less similar factors will also apply except that its location needs to be in an easy to access area for its customers and that it should be secure and near other businesses (for complementarity) but not competition. For example, people coming to buy clothes may also buy some groceries from a provision store.
- e. Tell the trainees that in their choice of machinery and equipment, they will be guided by the answers to questions contained in Flip Chart16-3.
- f. Emphasize to the trainees the following:
  - While many micro and small entrepreneurs wish to get the most modern machines available, they should try to be cautious, since modern machines may not have the technical back-up support available in their village. The capacities may also be too large for the market that they want to serve. Their costs may also be unnecessarily high for the type of business the SMEs are or wish to undertake.
  - It is important that they realize that all they need is basic machinery and equipment that will enable them to start and operate their businesses. As their businesses grow, they can then gradually grow and expand to take on more sophisticated machinery.
  - While there may be a number of machinery suppliers in their area, they should identify a reputable supplier from where to buy the machines they need. These suppliers should carry spare parts and have technical back-up support in case major repairs will be required.
  - There is nothing wrong with purchasing a second hand machine provided that it is still in good working condition and the price compared to a new one is fair. It should be ensured, however, that spare parts are still available for such kinds of old machine. Some second hand machines are no longer in use due to obsolescence.
- g. Explain also that as the owner-managers of their enterprises, they should know their respective plant capacities and how much of these will be utilized. Show Flip Chart16-4. Plant full capacity refers to:
  - 100% utilization, which normally means that the equipment is working for eight hours a day, six days a week.  
 For example, one of the Tahini company may have the capacity to process 5,000 kilograms for 8 hours, 6 days a week. This would be the 100% capacity of the plant.
  - If this company processes only 3,000 kilograms for 8 hours, 6 days a week, then the plant is operating at 60% capacity i.e.  $3,000/5,000 \times 100\%$ .
    - This means that the manufactory is not being fully utilized. The entrepreneur should therefore try to get more customers or buy more sesame for producing more Tahini production.

- h. Caution the trainees that they should not to buy machinery and equipment with too much excess capacity because this will be an additional cost to them both at the time of purchase as well as during operations (e.g. consumption of too much fuel, higher repair and maintenance costs). This will also ultimately affect their businesses' productivity and profitability. Advise them that entrepreneurs that have excess machine capacity, they should look for more customers or probably hire out some of their machine time to other entrepreneurs.

### **3. Summary**

- a. In summary, ask the trainees to go over the factors that they will consider when choosing the location and premises of the businesses they are going to establish
- b. Also refer the trainees to the session objectives and then reiterate the need for them to maximize the utilization of their machinery and equipment in order for their businesses to increase their productivity and minimize their production costs.
- c. Likewise, entrepreneurs should always make full usage of any other business productive facilities be it rented shop premises, warehouses, motor vehicles, or business etc.



## **Session: Premises/Location**

### **Objectives:**

- ❖ Explain the factors to consider when identifying a suitable business location / premises
- ❖ Select business location/premises.
- ❖ Explain the factors to consider when identifying and selecting suitable machinery and equipment for the business
- ❖ Determine their plant capacity



16-2

## FACTORS TO CONSIDER WHEN CHOOSING THE LOCATION OF A BUSINESS

A PRODUCTION BUSINESS	A TRADING BUSINESS
<p>1. RAW MATERIALS</p> <ul style="list-style-type: none"> <li>• Availability of raw materials</li> <li>• Quality of raw materials available</li> <li>• Proximity of raw materials to be used</li> <li>• Cost of transporting the materials</li> <li>• Disposal of waste raw materials</li> </ul> <p>2. LOCATION OF TARGET MARKET</p> <ul style="list-style-type: none"> <li>• Distance from the main commercial area</li> <li>• Availability of public transport for customers</li> <li>• Location of competitors</li> <li>• Flow and traffic of people</li> </ul> <p>3. POWER AND UTILITIES</p> <ul style="list-style-type: none"> <li>• Immediate or potential availability of power and other utilities such as water</li> <li>• Power and utility cost; cost of installing power lines</li> <li>• Availability of communication lines</li> </ul> <p>4. LABOR/MANPOWER</p> <ul style="list-style-type: none"> <li>• Immediate or potential supply of labor, both skilled and unskilled</li> <li>• Availability of public transport for labor</li> <li>• Cost of labor in the community</li> </ul> <p>5. TRANSPORTATION</p> <ul style="list-style-type: none"> <li>• Cost of transport for the delivery of raw materials and finished goods</li> <li>• Availability of transport for customers and workers</li> </ul> <p>6. GOVERNMENT REGULATION</p> <ul style="list-style-type: none"> <li>• Zoning restrictions on industries and business</li> <li>• Town planning for future development</li> <li>• Incentives for small industries available</li> </ul> <p>7. PLOT AND BUILDING</p> <ul style="list-style-type: none"> <li>• Availability of plot or building to hire or purchase</li> <li>• Cost of leasing plot or building</li> <li>• Space for expansion</li> <li>• Cost of renovating an existing premise</li> <li>• Cost of constructing the building</li> </ul>	<ul style="list-style-type: none"> <li>• Easy access by customers</li> <li>• Ample parking space</li> <li>• Access to utilities</li> <li>• Existence of Infrastructure e.g. roads that bring and take customers</li> <li>• Existence of other businesses (best not direct competitors) which will pull potential customers</li> <li>• Security</li> <li>• Existence of institutions like schools, churches, banks, government departments/offices (these will provide or be customers)</li> </ul>

## **GUIDELINES FOR SELECTING MACHINERY AND EQUIPMENT**

- What machinery and equipment is required?
  - How many are needed?
  - What are their technical specifications?
  - Why did you choose them?
  - Who are the suppliers of the machinery and equipment?
  - Are they reputable?
  - Who has given the best offer?
  - What is the cost of the machinery and equipment?
  - How much is the transport cost to the factory, the insurance, the VAT, and installation charges?
  - What are the payment terms and conditions of the machinery supplier?
  - Are there support services available in the area?
  - Will they provide technical back-up support?
  - What about spare parts?
  - What tools will be needed?
- How much do the tools cost?

## Plant Capacity

- 100% capacity means that the equipment is working for:
  - 8 hours a day
  - 6 days a week
- Entrepreneurs should know their
  - Plant capacity and,
  - How much of this will be utilized
- *Caution:*  
Entrepreneurs should not buy Machinery and equipment with too much excess capacity
  - it is an additional cost (at purchase time as well during operations)
  - it will affect productivity and profitability



## Trainer's Notes

### Guidelines for selecting Machinery and Equipment

In your choice of the machinery and equipment, you will be guided by answering the following questions shown in Flip Chart 16-3 above.

You can use the table below to summarize the key information that you need in respect to the selection of machinery and equipment for your business.

**LIST OF MACHINERY AND EQUIPMENT**

List of machinery and equipment (including their specifications)	Quantity	Unit cost (ID)	Amount (ID)	Supplier	Terms of Purchase
<b>Total cost</b>					

While many micro and small entrepreneurs wish to get the most modern machines available, you should think twice about this, since modern machines may not have the technical back-up support available in your area. The capacities may also be too large for the market that you want to serve.

It is important enough that you opt for basic machinery and equipment required to start your business and then, as your business grows, you can gradually expand.

While there may be a number of machinery suppliers in your area, you should identify a reputable one from where to buy the machines you need for your business. The supplier should be carrying the machines' spare parts and should have technical back-up support in case major repairs are required.

There is nothing wrong with purchasing a second-hand machine provided that it is still in good working condition and the price compared to a new one is fair. You should ensure, however, that spare parts are still available for such kinds of old machine as some of such machines may no longer be in use due to obsolescence.

### Plant capacity

This refers to a 100% capacity utilization, which normally means that the equipment is working for eight hours a day, six days a week.

As the owner-manager of your enterprise, you should know what your plant capacity is and how much of your plant capacity will be utilized. You have to ensure that your plant capacity is more than the amount required for you to produce for your target market. Further, it is important that the quantities that you produce should tally with your projected demand and your marketing plan.

If the plant capacity is too much, try to look for other machines that have a smaller capacity. If there is none, then make plans on what to do with the excess capacity to ensure that machinery and equipment are used as much as possible. This will keep the workers in a steady rhythm and the equipment in good running condition. During periods where low capacity utilization is foreseen, attempts should be made to ensure that product development is undertaken so that new or improved products could be developed and then produced from the same plant.

As regards vending/trading businesses, their concern for capacity would be in respect to the size of their shops/show rooms or warehouses. If they are big enough, then the entrepreneurs can stock large amounts of their business products. However, like with the manufacturing businesses, the stock sizes should be in line with their marketing plans. Furthermore, the entrepreneurs should note that carrying a lot of stock may mean tying down a lot of their scarce funds in the stocks that they may not need immediately. The entrepreneur's ability to quickly replenish his/her stocks will also determine how stock he/she has to carry; if replenishment can be done fast and quickly, then the entrepreneur does not need to carry a lot of stocks and neither will he/she therefore need a big showroom, store/warehouse. If not, he/she will need to keep a big stock to avoid the embarrassing stock out situations. In such a case then, he/she will need a big a big showroom, store/warehouse

## SESSION 17

### OTHER PRODUCTION ELEMENTS

1.5 hours 

#### OBJECTIVE



By the end of this session, the trainees will be able to explain other issues to consider in production planning for their businesses.

#### TRAINING MATERIALS



- \* Flip Chart 17-1: Session Objectives
- \* Flip Chart 17-2: Other Production Elements
- \* Flip Chart 17-3: Labour Requirement
- \* Flip Chart 17-4: Raw Materials
- \* Flip Chart 17-5: Packaging Materials
- \* Flip Chart 17-6: Power and Utilities
- \* Flip Chart 17-7: Transport
- \* Flip Chart 17-8: Waste Disposal
- \* Flip Chart 17-9: Factory Overhead Expenses
- \* Assignments 17 (a) – (e) on labour requirements, raw materials, packaging materials, utilities and factory overheads,
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- a. Link this session with the previous sessions on the business' production process and, selection of premises and location, machinery and equipment. Tell the trainees that this session will enable them to identify the other issues or things to consider in production planning (Flip Chart 17-1).

## 2. Presentation and Activities

- a. Ask the trainees to recall the production elements they have already seen and handled under the Production Management Task. Furthermore, ask them to identify other issues or elements they think should be handled under production. Write their answers on the black board. Using Flip Chart17-2, guide them to discuss and come up with the elements covered.
- b. Briefly explain each of the elements listed in Flip Chart17-2 by referring to the relevant Flip Charts as shown below. As you explain these elements point out that they are all not applicable to each and every type of business. As you explain, ask the trainees to check and confirm whether or not these elements would be applicable to their businesses.
  - Labor Requirement (Flip Chart17-3)
  - Raw Materials (Flip Chart17-4)
  - Packaging Materials (Flip Chart17-5)
  - Power and Utilities (Flip Chart17-6)
  - Transport (Flip Chart17-7)
  - Waste Disposal (Flip Chart17-8)
  - Factory Overhead Expenses (Flip Chart17-9)
- c. Refer the trainees to the following assignments. Go through the questions one by one, explaining the different items and give them tips in how to answer the questions. Point out to the trainees that they have to refer to their businesses as the questions in the assignments below.
  - Assignment 17 (a): Labour Requirement
  - Assignment 17 (b): Raw Materials
  - Assignment 17 (c): Packaging Materials
  - Assignment 17 (d): Utilities
  - Assignment 17 (e): Factory Overhead Expenses
- d. Point out to the trainees that the above exercise should have helped them to determine their businesses' requirements in respect to labor requirement, raw materials, packaging materials, utilities, transport, waste disposal and factory overheads or their equivalents in the case of service, trading, extraction and agribusinesses.

## 3. Summary

- a. Explain to the trainees that, as with all the other production elements, entrepreneurs should ensure optimum utilization of the above resources to improve their productivity and profitability. It is therefore important that they properly determine and manage these production elements.



## Session: Other Production Elements

### Objectives:

- Explain other issues or things to consider in production planning (*Labour Requirement, Raw Materials, Packaging Materials, Utilities and Factory Overhead Expenses*)



## OTHER PRODUCTION ISSUES/ELEMENTS

- Labor Requirement
- Raw Materials
- Packaging Materials
- Power and Utilities
- Transport
- Waste Disposal
- Factory Overhead Expenses

## Labor Requirement

- Manpower in the factory
  - **Direct labor** – those who are directly involved in production
  - **Indirect labor** – those who are not directly involved in production, instead facilitate production
    - *supervisors, foremen, maintenance workers*
- You should always remember that labor is a cost to your enterprise.
- Be careful in deciding on number and skills of your workers
- Avoid the tendency to hire workers doing specialize jobs
- Introduce the concept of multi-skilled workers wherein workers are trained to do other jobs within the workshop. This ensures:
  - Smooth production flow even if some workers are absent
  - Reduction in number of employees to hire
  - Workers to be more productive



## Raw Materials

- After determining your production level, you are now ready to determine your raw materials requirement
  - **type, quality, quantity, cost**
- The choice of raw materials is very important in ensuring quality of product
- To ensure smooth flow of production, adopt a policy of maintaining a minimum stock level.



## Packaging Materials

### Packaging

- A manufacturing and marketing technique for containing, protecting, identifying and facilitating the sale and distribution of products.
- The package must maintain the purity and freshness of its contents and protect them from the outside environment.
- Must identify the contents, their quantity and must facilitate distribution.

Packaging Materials include ***paper, paperboard, cellophane, wood, textiles and plastics***

How to package (forms) the products include ***wraps, bags, pouch, cartons, boxes, cans, bottles, pails, barrels, bulk containers***



## Power and Utilities

- Power is very expensive and it should therefore be considered when deciding on the type and capacity of the machine that you intend to buy.
- Availability of power should be a primary consideration in choosing your business site particularly so if it is required by the business.
- When there is no existing power line, you may have to spend a lot of money to bring power to your business site.



## TRANSPORT

- A vehicle entails other extra expenses for your business like:
  - Depreciation
  - Repairs and Maintenance
  - Fuel and oil
  - Insurance
  - Salary of driver
- While it is prestigious to have your own vehicle, even if you can afford it, you should compare the:
  - Cost of purchasing and maintaining a vehicle against renting one.





## **WASTE DISPOSAL**

- **It is a good idea for you to be aware of your responsibility to keep your environment free and clean from pollution even if your enterprise is small.**
- **You can utilize wastes in making other products**

### ***Guide Questions in Ensuring Proper Waste Disposal***

- **What are the waste products of the business? How much waste is there?**
- **Can you convert them to other products that you can sell?**
- **How will you dispose of the waste products? How much will it cost?**
- **Are there any government regulations covering disposal of your waste products?**

## **Factory Overhead Expenses**

- **These are expenses incurred in production other than raw materials and direct labor.**
  - Indirect Materials (including factory supplies and packaging materials)
  - Indirect Labor (salaries of supervisor and foreman)
  - Benefits of workers
  - Rent of building
  - Depreciation Expense (of Machinery and Equipment)
  - Depreciation Expense (of building if owned)
  - Repairs and Maintenance (of Machinery and Equipment)
  - Insurance (of Building and Machinery and Equipment)
  - Utilities and Power
  - Tools Expense
  - Miscellaneous
  - Expenses



17-a

**ASSIGNMENT 17(a): LABOR REQUIREMENT**

- Will you be hiring production workers? What kind of skills should they have? What type of work will they do?
- How much will you pay for the wages and salaries of your workers? Will you pay other incentives and benefits like medical, meal, and transport allowances? Will you pay your workers on a time (weekly or monthly) or piece rate (measurable amount of work done) basis?
- Are workers available throughout the year? If not, what effect will this have on your business' production?
- What Labor and safety standards must be met?
- Prepare a schedule of Labor cost per week or per month or per production cycle (depending on the basis you are calculating it).

**SAMPLE**  
**“LABOUR REQUIREMENT”**  
**Karzan Footwear and Leather Goods Company**

Mr. karzan will hire five leather workers for his workshop. In addition, one foreman will be hired to help in production and to supervise the production operations. Skilled workers can be hired from the local village. Workers will be paid on a monthly basis.

The following will be the labor cost per month.

**Labor Cost (per Month)**

Nature/Position	No.	Salary per Month	Total Amount (ID)
<b>Direct Labor:</b>			
Leather Workers	5	ID600	3,000
<b>Total Direct Labor</b>			<b>3,000</b>
<b>Indirect Labor:</b>			
Foreman	1	ID8500	850
<b>Total Indirect Labor</b>			850
<b>Total Labor Cost per Month</b>			<b>3,850</b>

*In the case of a vending/trading business, the direct labour would not be required. What would perhaps be required would be the store keeper, drivers, and the people that load or offload goods or lift them from the stores.*



17(b)

**ASSIGNMENT 17 (b): RAW MATERIALS**

- What are the raw materials/inputs you need to make your goods your services? Include only the major materials and exclude the petty supplies like nuts and bolts and others that you can easily buy from several sources.
- Where will you buy the raw materials? Are they always available? For each of the materials, indicate the number of available suppliers, name of main supplier, and your reason for choosing the supplier (e.g. price, service, location, credit terms, fast delivery, etc.)
- What are the alternative sources of raw materials/inputs?
- Will you buy them on cash or credit? If you are buying on credit, how long is it for?
- What is the cost of the raw materials? What is the cost of transporting the raw materials?
- How much raw materials would you need per week, per month or per production cycle?
- How often will you order your raw materials? How much raw materials inventory should you keep in anticipation of the deliveries of raw materials to ensure the smooth flow of production?
- Prepare a schedule of raw materials cost per week, per month or per production cycle.

<b>SAMPLE “RAW MATERIALS” Dara Footwear and Leather Goods Company  Schedule of Raw Materials Cost (Per Month)</b>			
<b>Type of Raw Material</b>	<b>Quantity</b>	<b>Cost/Unit</b>	<b>Total A</b>
Hides ( <i>per bag</i> )	2 sq.ft.	ID 500	
Hardware ( <i>per bag</i> )			
Adhesive ( <i>per bag</i> )	2 quarts	50	
Threads ( <i>per bag</i> )	4 rolls	30	
<b>Raw Material Cost per bag</b>			
<i>Number of bags per month</i>			
<b>Raw Materials Cost per Month</b>			

*In the case of a trading / vending business, the above table would focus on the stocks of goods to be purchased for sale to customers.*



17©

## ASSIGNMENT 17 ©: PACKAGING MATERIALS

- What packaging materials will you need for your products?
- Where will you buy the packaging materials? Who are the suppliers? Are they readily available?
- How much packaging materials will you be requiring per week, per month or per production cycle? How much inventory should you keep in anticipation of deliveries or the next procurement?
- How much do the packaging materials cost?
- Prepare a schedule of packaging materials cost per week, per month or per cycle.

**SAMPLE**  
**“PACKAGING MATERIALS”**  
**Karzan s Leather Processing (KLD)**

Packaging materials to be used by KLD include boxes and paper bags. These are available from two suppliers in the market. To ensure continuous production, **two weeks inventory** of packaging materials, amounting to **ID 5,040**, will be maintained.

Details of the monthly requirement of packaging materials are as follows:

***Schedule of Packaging Materials Cost***

**(Per Month)**

Type of Packaging Materials	Quantity	Cost per Unit	Total Amount (ID)
Paper bags	2,880 bags	ID3.0	8,64
Boxes	240p pcs.	6.0	1,44
<b>Total Packaging Materials Cost</b>			<b>10,08</b>

*A trading business may not require packaging materials as described in the above case. However, a business may require “carry bags” which do not fall under the packaging materials categories.*

## ASSIGNMENT 17 (d): UTILITIES

- Will the business require electric power? Is it available? If it is, what is the projected electrical consumption per month?
- If a generating set is required and is powered by fuel, what will the fuel consumption be per month? Is fuel readily available?
- Will the business require water? Is it available? What will the water consumption be per month?

### UTILITIES COST (Per Month)

### Utilities Expense (Per Month)

Utilities	Total Amount (ID)
Power	3,000
Water	870
<b>Total Utilities Cost</b>	<b>3,870</b>

## ASSIGNMENT 17 (e): FACTORY OVERHEAD EXPENSES

- What factory overhead expenses do you expect to incur?
- How much will you spend for overhead expenses per week, per month or per cycle?
- Prepare a schedule of factory overhead expenses. These include: rent for building, depreciation of building (if the building is owned), depreciation of machinery and equipment, insurance on building and machinery and equipment, power, water, fuel and oil, packaging materials, repairs and maintenance, etc.

**SAMPLE**  
**“FACTORY OVERHEAD EXPENSES”**  
**Dara s Footwear and Leather Goods Company**

The following is the schedule of factory overhead expenses which are extracted from the other elements already seen in the above:

**Schedule of Factory Overhead Expenses**  
**(Per Month)**

Factory Overhead	Amount (ID) (1000)
Indirect Materials (these include Factory Supplies and Packaging Materials)	3,000
Indirect Labor (Salary of Foreman)	8,500
Depreciation Expenses (of Machinery and Equipment) - <i>assumed</i>	1,670
Depreciation Expense (of Building) - <i>assumed</i>	420
Repairs and Maintenance (of Machinery and Equipment) - <i>assumed</i>	1,500
Insurance of Machinery and Equipment- <i>assumed</i>	130
Utilities Expense	3,870
Miscellaneous Expenses	1,000
<b>Total Factory Overhead</b>	<b>20,090</b>

## Trainer's Notes

### Labour Requirement

Manpower in a manufacturing business' factory can be classified into direct and indirect labour. Direct labour is that which is directly involved in the production activities e.g. machine operators, material feeders, etc. Indirect labour is that which is not directly involved in the production activities but only handle those that facilitate or support the production activities (e.g. supervisors, foremen, maintenance workers, etc.).

Answering the questions in Assignment 17 (a) will help you determine the number and type of workers and the labour cost to be incurred by your business.

You should always remember that labour is a cost to your enterprise. As such, you should be careful in deciding on the number and skills of your labourers.

To the extent possible, employ multi-skilled laborers or train them to do other jobs within the business. When done, this will ensure smooth business operations in particular production activities even if some workers are absent. This can also reduce the number of employees that you need to hire and that your workers will be more productive.

### Raw Materials

After establishing the production level that you want to achieve (the volume of products that you must produce), you would be able to determine your raw materials requirements. The questions Assignment 17 (b) will assist you in finding out the type, quality, quantity, and cost of raw materials needed.

The choice of raw materials is very important in ensuring the quality of your product.

Most micro and small entrepreneurs lack working capital or operating funds. Purchasing raw materials sometimes becomes a bottleneck that affects production and delivery to customers. It is therefore important that you should adopt a policy of maintaining a minimum stock level to ensure a smooth flow of production. The use of available credit facilities to maintain such minimum stock level must be explored to the extent possible.

### Packaging Materials

Packaging is a manufacturing and marketing technique for **containing, protecting, identifying, and facilitating the sale and distribution** of products. Nearly all manufactured and processed goods require packaging during some phase of their production and distribution.

The package **must maintain the purity and freshness** of its contents and protect them from the outside environment. It must identify the contents and their quantity, and it must facilitate distribution.

Packaging is not normally given a lot of importance by micro and small entrepreneurs. However, good packaging can contribute to the competitive advantage of your business and enhance the quality of your product. For example, when furniture is delivered, you can cover it with plastic materials so that it is not scratched or damaged as it is transported to the buyer. Not many of the entrepreneurs do this. This will set your business different from your competitors.



The basic packaging materials include paper, paperboard, cellophane, wood, textiles, and plastics. Conventional **package forms** include wraps, bags, pouches, cartons, boxes, cans, bottles, pails, drums, barrels, and bulk containers.

The questions in Assignment 17 © will assist you in determining your packaging materials and their costs.

### **Power and Utilities**

In most businesses in particular manufacturing as well as those engaged in products of different products, power and other utilities can be very expensive. Entrepreneurs should therefore consider power and utilities when deciding the type and capacity of the machines and equipment (and later on the production technologies) that you intend to use in their businesses.

Where there is no existing power line, a business may have to spend a lot of money to bring power to the proposed site. As such, the availability of power should be a primary consideration in choosing your business site.

The questions in Assignment 17 (d) will guide you in determining your power and utilities consumption

### **Transport**

You should consider that while it is prestigious to have your own vehicle, and even if you can afford it, you should compare the cost of purchasing and maintaining a vehicle against renting one. A vehicle entails other extra expenses for your business, such as the depreciation cost of the vehicle, repairs and maintenance, fuel and oil, insurance, and the cost of paying a driver. You should add up all these costs and compare it with expenses that you will incur if you were to hire a vehicle for your transport needs.

### **Waste Disposal**

Even if the enterprise that you are planning is very small, it is still a good idea for you to be aware of your responsibility to keep your environment free and clean from pollution. Actually, you can utilize wastes in making other products. For example off cuts from timber can be made as a frame for upholstered furniture. Off cuts from window grills can also be made into some decorative items, etc.

The following questions will guide you in ensuring proper waste disposal.

- What are the waste materials of the firm? How much waste is there?
- Can you convert them to other products that you can sell?
- How will you dispose of the waste products? How much will it cost?
- Are there any government regulations covering the disposal of your waste products?

**Factory overhead expenses**

Factory overheads are expenses that are incurred in production other than raw materials and labour. These expenses include:

- indirect materials such as factory supplies and packaging materials
- the salaries of the supervisor and foreman
- the benefits of workers
- rentals for building
- depreciation of machinery and equipment and building (if owned)
- repairs and maintenance of machinery and equipment
- fuel cost of vehicles used to carry / ferry raw materials
- power and utilities
- Miscellaneous tools expenses.

## SESSION 18

### QUALITY MANAGEMENT

2.0 hours 

#### OBJECTIVE



By the end of this session, the trainees will be able to explain quality in relation to the perception of the target market.

#### TRAINING MATERIALS



- \* Flip Chart 18-1: Session Objectives
- \* Flip Chart 18-2: Misconceptions about Quality
- \* Flip Chart 18-3: What is Quality
- \* Flip Chart 18-4: Quality Control
- \* Flip Chart 18-5: Product Life Cycle
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that this session will enable them to explain quality in relation to the perception of their target market (Flip Chart 18-1).
- b. Show the trainees products of the same kind but produced by different enterprises. Ask them which of the products they consider to be better quality and why. Write their answers on the board.
- c. Based on the answers they have given, guide the trainees to discuss and conclude that each one has a different perception of quality.

#### 2. Presentation and Activities

- a. Explain to the trainees that many SMEs regard quality as a desirable objective but often consider the contribution of the systematic upgrading of the quality of their products to the profitability of their businesses as being *minimal*. Point out to the trainees that the biggest hindrance to upgrading quality in SMEs is the entrepreneurs' lack of knowledge of the required methods for achieving it as well as awareness of its economic benefits.

- b. Show Flip Chart18-2 and guide the trainees to discuss and come up with the different perceptions about quality with emphasis on the common misconceptions concerning the upgrading of quality.
- c. Show Flip Chart18-3. Explain to the trainees the meaning of quality. Emphasize to them that the quality needs of the customers have to be satisfied and that as entrepreneurs, this should always be their priority.
- d. Show Flip Chart18-4. Guide the trainees to discuss and conclude that effective quality control measures need to be exercised in all business activities all the way from customers, suppliers of the business' inputs or products (in case of a trading business), its production and management systems, marketing and then back to customers
- e. Follow up on (e) above by introducing the Product Life Cycle (Flip Chart18-4). Explain to the trainees the importance of an enterprise's Product Life Cycle approach in quality management.
- f. Point out that using the Product Life Cycle model will allow their enterprises to analyze and take measures for quality improvement in all relevant business activities.
- g. Guide the trainees to discuss and come up with practical measures to improve Quality Management in their businesses.

### **3. Summary**

- a. In summary, ask the trainees to explain the meaning of quality in their own words and come up with suggestions on managing quality for their small enterprises.

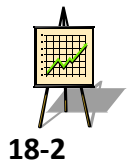


## **Session: Quality Management**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain quality in relation to the perception of the target market



## **MISCONCEPTIONS ABOUT QUALITY**

- Higher quality costs more!
- Quality improvement requires large investments!
- My staff is entirely to blame for the poor quality of my products!
- Quality can be assured by strict inspection!



18-3

## What is QUALITY?

All of the characteristics of a product that bear on its ability to satisfy its stated and implied needs i.e. Conformance with the customer's requirements!



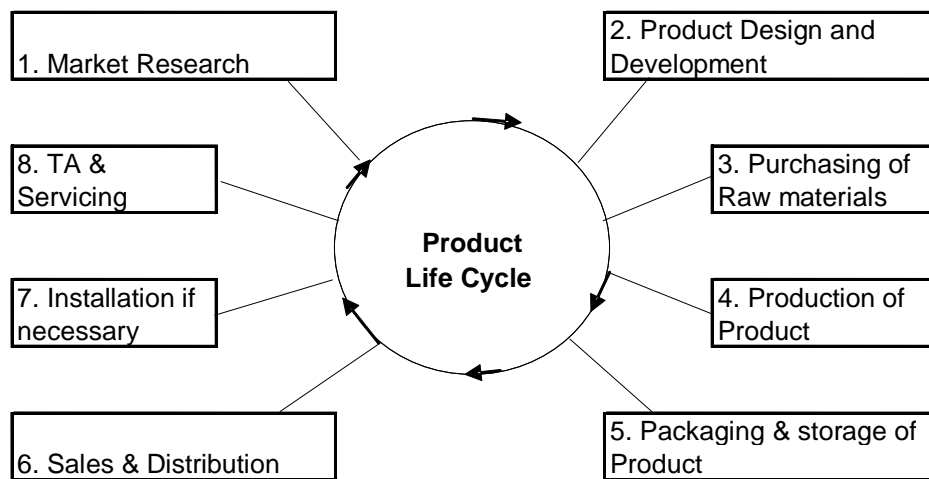
18-4

## Effective Quality Control

- Quality control is not an isolated activity that can be carried out by inspection alone.
- To be effective, quality control should encompass all stages of business operations i.e. marketing, product design, purchasing of raw materials, production of the products, packaging and storage, sales and delivery, installation, and technical assistance.
- Quality control must also cover both suppliers of inputs and customers of the products.
- It is important to understand the customers' needs and to obtain feedback on their perceptions of the products that they receive in respect to their quality.

# PRODUCT

## LIFE CYCLE



## Trainer's Notes

### Misconceptions on Quality

The biggest impediment to upgrading quality in a systematic way in many micro and small enterprises is the entrepreneurs' lack of knowledge of the required methods and tools, as well as the awareness of its economic benefits. Although many of the entrepreneurs regard quality as a desirable objective, they often consider the contribution of the systematic upgrading of quality of their production processes to the profitability of their business as marginal. This might be the result of a number of misconceptions concerning quality upgrading. Upgrading of quality in a systematic way – concerning both product and production process - is possible with little cost and investment. Outlined below you will find a discussion of a number of misconceptions concerning the upgrading of quality.

#### *i). Higher quality costs more!*

The current mechanisms for quality building and modern manufacturing processes have shown that high quality does not always cost more. To appreciate this fact, it is important to understand how quality is built into the product in the production process.

Firstly, quality can be defined on paper in the form of a design drawn up on the basis of the customers' needs. This means that understanding the market and finding out the needs of the customers is imperative and the starting point in quality management. Only when the design meets the wishes and needs of customers is the design translated into an actual product by the production process that will meet the customers' needs.

Secondly and simultaneously, the production process can be refined and improved (i.e. made more efficient and effective). This may lead to substantial reductions in production cost as well as improvements in the product quality. In other words, the quality of a product can be improved, while the cost of the product in real terms can be reduced.

#### *ii). Quality improvement requires large investments!*

Yes, it is true that with new investment(s) in equipment and tools, quality can be upgraded. Often new machines and tools can make a difference when quality is concerned. However, machinery and tools constitute only one component of the enterprise that can be subject to improvement. More can be done than merely putting in new investments. This becomes clearer when you consider a state-of-the-art enterprise with the newest machinery and tools, which makes products of a lower quality than an enterprise that uses old machinery and tools. **By themselves, machinery and tools are not sufficient to assure high quality.**

In most cases, quality can be significantly improved by standardizing the production process, creating awareness amongst workers about meeting customers' requirements, and enforcing technical discipline among workers. These are all methods to improve on quality without necessarily having to make investments. However, these methods require a commitment to quality by management and workers.

#### *iii). My staff is entirely to blame for the poor quality of my products!*

Entrepreneurs often blame the low quality of their products on the lack of quality consciousness and the poor work culture among their workers. However, many studies reveal that it is often the management of an enterprise that is the main bottleneck when an enterprise fails. Of course workers play a part in this as well, but it should be understood that workers can be held responsible only if management has:



- Properly trained the workers;
- Given the workers detailed instructions on what to do;
- Established the means to assess or verify the results of these workers action; and
- Done its best to create favorable working conditions for workers in terms of equipment and tools.

**iv). Quality can be assured by strict inspection!**

Quality control has been exercised for a long time by the inspection of products. Inspection was the first formal quality-control mechanism. Many entrepreneurs still believe that quality can be improved by strict inspection. However, it must be understood that **inspection only separates the good products from the bad ones**. Inspection by itself cannot improve the quality of a manufactured product. It doesn't lead to improved quality automatically. Moreover, defects may also be caused by mistakes in raw materials or in the design process. **This implies that inspection on the work-floor only could be too late.**

Therefore, quality control is not an isolated activity that can be carried out by inspection alone. To be effective, quality control should encompass all stages of the operations: marketing (or market research), product design, purchasing of raw materials, production of product, packaging and storage, sales and distribution, installation, and technical assistance. Furthermore, quality control must cover both suppliers of input materials and customers. In this respect, it is important to understand the needs of the customers and to obtain feedback on their perceptions of the product they receive.

**What is quality?**

The definition of Quality according to the International Standards Organization (ISO) reads as follows:

**Quality:** totality of characteristics of an entity that bears on its ability to satisfy stated and implied needs.

The definition leaves a lot of room for interpretation. However, it is clear that **Quality** is defined in terms of **stated and implied needs that need to be satisfied**.

For an enterprise, this means that the needs and wishes of the customer have to be satisfied.

For a worker, this means that the needs and requirements of his boss have to be satisfied. However, these needs and requirements will be the needs and wishes of the customer of the enterprise. In other words, it is also paramount for the worker to satisfy the needs and wishes of the customer.

**Can you now answer the question:** What is Quality? **Yes!**

**Quality is conformance with the customers' requirements. Yet, be aware, everyone's ideas constantly change. Customers' ideas change, and so the requirements for Quality (or rather perception of Quality). Quality appears to be a dynamic concept.**

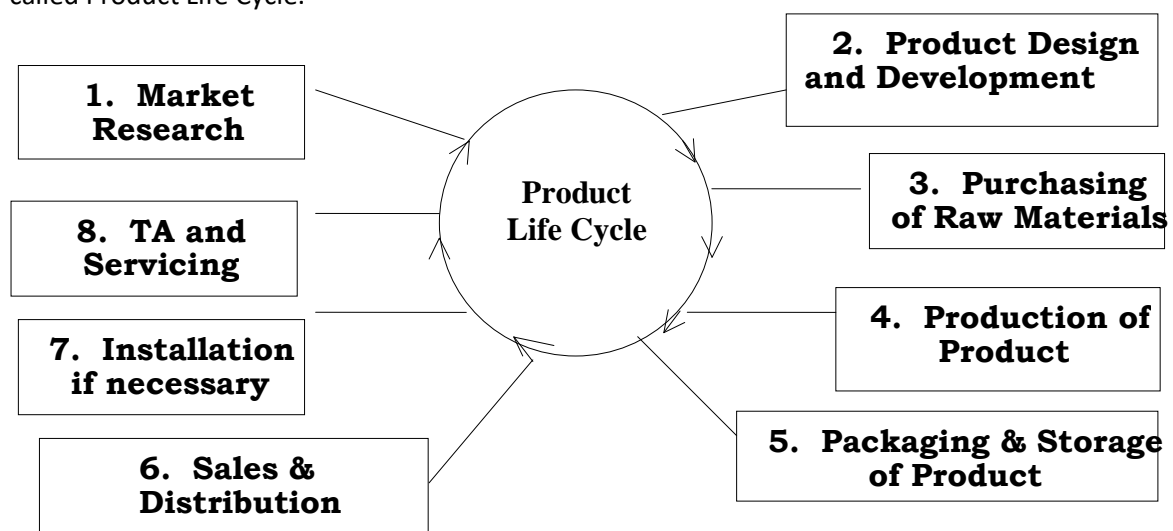
**Product Life Cycle**

In order to achieve a high-quality product, you should aim at having **ZERO** defects in all areas of your organization for all phases of the process. In the process of producing a product, the quality of the end product is influenced by activities in each phase of the production process. If low-quality raw material is purchased, it will not be possible to produce a high-quality product. If the design of a product is poor, you may not expect to end up with a high quality product.

The phases and enterprise activities that have an impact on quality are:

- Marketing and market research,
- Product design and development,
- Purchase of raw materials,
- Production of the product,
- Packaging and storage,
- Sales and distribution,
- Installation, and
- Technical assistance and servicing.

A schematic presentation of these activities is given in the figure below. The figure or model is called Product Life Cycle.



The Product Life Cycle merely views an enterprise from the angle of Production Management (Steps 2, 3, 4, 5, 7 and 8 in the diagram) and Marketing Management (Steps 1 and 6).

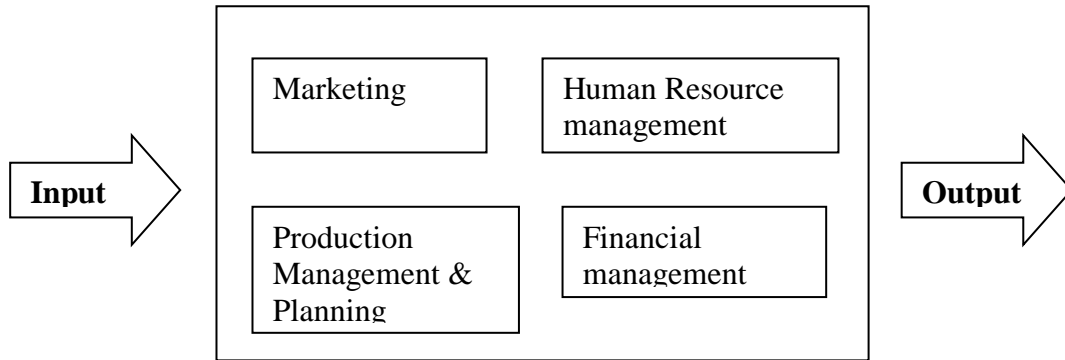
However, other angles can be chosen as well to analyze an enterprise. Two other “management” angles are Human Resource Management and Financial Management. These are also related to the upgrading of quality. Managing workers of an enterprise in such a way that they make useful contributions to the production process and the end product makes a significant difference as far as quality is concerned. Although more indirect, the same applies to Financial Management. Strict and proper financial management may lead to savings, which can be used for other useful activities within the enterprise that can contribute to upgrading of quality.

### Enterprise Activities Model

Another model that is useful when upgrading quality is concerned is the ‘input-process-output’ model. We will call this model the Enterprise Activities Model below. All work accomplished go

through a process. The outputs are the results of the process and are tangible or intangible. The process itself is a transformation that adds value. Every process involves people and/or other resources in some way. An output may be a table, chair, metal door, or transformer.

#### ENTERPRISE ACTIVITIES MODEL



What is important when we consider quality is that measurements to check quality can be done at inputs, processing and outputs levels. The model indicates that quality relates to each and every aspect of an enterprise, to the inputs, the process (comprising of Marketing, Production, Human Resources and Finances), and the outputs.

When managing manufacturing processes, two dimensions can be distinguished:

- Management of the structure and operation of the process itself within which the product flows.
- Management of the quality of the product within the structure of the process.

***How can Quality Management be accomplished in micro- and small enterprises in a more practical sense?*** Consider the following suggestions.

- Find out the needs and wishes of customers and translate them into product requirements. If you only sell window grills and you find that customers prefer metal doors, make sure that you start producing window grills and metal doors. After selling a product, find out the feedback from your customer. If needed, feed useful remarks or comments of a customer back into the requirements of your product. Various ways to collect customer reactions are available. You could design a product evaluation form to solicit for customer reactions. Another way could be to place a suggestion box at the counter in your enterprise with the request to customers to submit any comments or remarks concerning your product. Both ways show commitment in fulfilling the needs and wishes of customers.
- Describe each step of the manufacturing process. This means that each step of the process is documented and executed. Be as detailed as possible and keep it simple. Describing the process has various advantages. Some of the advantages are presented below.
  - Writing down what needs to be done during each production step ensures that specific knowledge of the production process remains within the enterprise. In case a worker with a lot of experience leaves the enterprise, part of his knowledge stays behind. A new worker will then be able to learn the process in the same way. As such, the manufacturing process can be followed consistently.
  - It is easier to improve the production process when all steps are recorded and documented in detail. If decisions concerning changes of the manufacturing process are required, they can be based on solid information.

- A documented production process will enable the entrepreneur to more easily formulate clear working instructions for his workers. Clear tasks can be described and consistency of performance ensured.
  - Set an overall standard for your product and accordingly formulate specific requirements for each step in your production process. The standard should at least meet the customers' needs and wishes, but it is better to go beyond the customers' needs and wishes. In each step of your production process, indicate **what** needs to be inspected or measured to check the requirements and indicate what the tolerance is.
  - Formulate **where** (use the two models presented in the former section) in the manufacturing process the inspection of quality should take place and to assign somebody to inspect. In this respect it is important to instruct this person **what** needs to be inspected exactly, **how** to inspect, **when**, how often it needs to be done, and **how to act** on the results of the inspection.
- Workers need clear instructions on **what to do** and **how to do it**. Moreover, they need guidance on the time they can spend on certain activities. Their boss must provide this information. Feedback on their performance is required in regular intervals. If needed, they should receive additional training.
  - Motivated workers will contribute effectively to the upgrading of quality. However, motivation is not something that can be made mandatory; it is a function of the work environment and management behavior. For workers to be motivated, it is necessary that they fully understand the benefits of the measures as described above. Involving workers when activities of the production process are reviewed will help them to identify with the new way of executing their activities. It is useless to impose a new way of working. Furthermore, genuine participation can be expected only if they are given sufficient opportunity to express constructive criticism and suggest methods for improvement. **Take your workers seriously**. If a practical suggestion is proposed, implement it immediately. When proven useful, commend the worker for his contribution. Workers should be encouraged to offer any solution that comes to mind, without the fear of being ridiculed.

## SESSION 19

### PRODUCT COSTING

3.5. hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to explain the meaning of cost, costing and its importance; calculate their products cost; and compute break-even point in ID sales and units, and selling price.

#### TRAINING MATERIALS



- \* Flip Chart 19-1: Session Objectives
- \* Flip Chart 19-2: Cost and Costing
- \* Flip Chart 19-3: Importance of Costing
- \* Flip Chart 19-4: Structure of a Product Cost
- \* Flip Chart 19-5: Group Work: Identify and Determine Your Costs
- \* Assignment 19: Production Cost
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Tell the trainees that by the end of this session, they will be able to explain the meaning of cost, costing and its importance, and calculate their products' costs. Show Flip Chart 19-1.
- b. Point out to the trainees that understanding the costs associated with producing a product (good or service) or buying a product is essential for the entrepreneur not only for the purposes of earning a profit but also to make sure that he or she does not lose money.
- c. Tell the trainees that as business owners, they need to know in detail what it costs to buy or make the products to sell to their customers.
- d. Ask the trainees what they understand by terms "cost" and "costing" Write their answers on the board.

- e. After they have generated sufficient responses, also ask them to explain the importance of costing to their businesses.

## **2. Presentation and Activities**

- a. Using Flip Charts 19-2 and 19-3, Guide the trainees to review and discuss their responses to what they understand by the terms “Cost” and “Costing” and, the importance of costing.
- b. Ask the trainees; what makes up a product cost? Guide the trainees to brainstorm and discover the components or elements of a product cost. Summarize this discussion by presenting Flip Charts 19-3 and 19-4 on the Structure of a Product Cost.
- c. Discuss the procedures for determining the cost of a product. Be sure that the discussions include the step-by- step procedures and give examples from the different types of products based on the trainees’ businesses. Refer to the Notes below.
- d. Show Flip Chart 19-5 to the trainees. Explain the guide questions to they are to answer during their group discussions. Divide the trainees according to the type of their businesses i.e. manufacturing / processing, agriculture, service, trading and extraction. Using the Guide questions in Flip Chart 19-5, ask them to identify and determine their business products’ costs.
- e. Guide the trainees to study and answer the questions in Assignment 19.

## **3. Summary**

- a. Summarize the session by referring back to the session objectives and reiterating that everything that they buy, produce or sell has a cost and the costs are either direct or indirect costs.
- b. Emphasize to the trainees that costing is important to them as entrepreneurs as well as their businesses because when they are able to accurately identify and calculate their costs, they will then be able to control them. It will also enable them to correctly price their products which will in the end determine their business’ profitability.

## NOTES FOR THE TRAINER

### A. COSTING FOR A MANUFACTURING /EXTRACTION/ SERVICE BUSINESS

*(NB: There may be some slight variations in the cost elements and procedures for determining the cost of these businesses products but the differences are minor and close alternatives can easily be found)*

Procedures in determining the cost of a manufactured product or a service:

1. *Determining the cost of Direct Materials.* Remind trainees of the following:

- Wasted materials are a cost to the enterprise. Therefore, they should always endeavor to optimize usage and avoid wasting their materials
- When materials are purchased for a specific job, the price and total costs are known.
- To be conservative, the higher costs of the materials should always be used for product costing purposes (i.e. in cases where material costs are fluctuating).

2. *Determining the cost of Direct Labor.* Under this topic, point out the following:

- If workers are paid on a piece-rate basis, the salary paid to the worker directly involved in producing the product is called Direct Labor Cost of the product.
- Direct Labor cost is determined by adding all the salaries and wages, including allowances and incentives, paid to workers directly involved in production of the product during the period (i.e. if they are paid on the basis of the time it took to produce a product). Alternatively, it may be all the payments made to the worker for making the product (i.e. if they are paid on a piece rate or the work done basis)

3. *Determine the Direct Costs* (also known as Prime Cost) by adding Direct Materials and Direct Labor Costs

4. *Determining the Indirect Costs or Factory Overheads.* Under this here, explain the two most common methods for charging factory overhead to products or jobs:

- Unit of Production Basis i.e. identifying and establishing the value of each of the overhead costs that went into the production of the product.
- Direct Labor Hour Basis: Since direct costs are usually easier to establish, peg your overhead costs to your direct labor costs e.g. overheads costs = a set percentage of the direct labor costs.

5. *Determine Production Cost* by adding Direct Cost and Indirect Cost.

6. *Determining Marketing and Administrative Cost.* To determine the Marketing and Administrative Cost per Unit, the trainees have to estimate the marketing and administrative cost for the period and the level of activity or volume of sales / production in the business and then apply the formula as appropriate using either:

- Units of Production Basis
- Direct Labor Hour Basis

7. *Determining Total Product Cost* by adding Production Cost and Marketing and Administration Cost.

8. Determine Selling Price by adding a desired mark up to the Total Product Cost

## B. COSTING FOR A TRADING BUSINESS

Emphasize that in a trading business, whether retail or wholesale, the main cost is the **PURCHASE COST OF THE GOODS OR MERCHANDISE FOR SALE**. Since traders do not manufacture, they do not have direct labor and factory overhead costs.

Procedures in determining cost of goods:

1. Determining the Cost of Goods or Merchandise: Point out that:

- The cost of the merchandise includes the amount paid to the suppliers for the goods bought plus the transport and insurance costs necessary to get the merchandise into the shop.
- When goods are purchased and sold right away, the cost of goods sold would already be known as it will be similar to the purchase price.
- When goods are purchased in bulk for storage, the prices of different orders are likely to vary, especially in a period of rising prices. In this case, they can apply the highest cost of the merchandise.

2. Determining Marketing and Administrative Costs per Unit. To determine this cost, the trainees have to estimate the Marketing and Administrative Cost for the period and the estimated goods to be sold, and then apply the formula:

$$\frac{\text{Estimated Marketing + Administrative Cost}}{\text{Estimated Goods to be sold (all materials in stock)}}$$

## C. Other Important Areas

**DEPRECIATION** – this is the process of allocating, in a systematic and rational manner, the cost of a capital asset (fixed asset) over the period of its useful economic life. The commonly used method to calculate depreciation is the STRAIGHT LINE METHOD which is as follows:

$$\frac{\text{Cost of the fixed Asset (less its scrap value)}}{\text{Estimated useful life of the asset}}$$

NB: Scrap value is the estimated sales value that can be got by selling the capital asset at the end of its useful life to the business

This will give the depreciation per year. Then divide this figure by 12 to get depreciation per month or by 4 to get depreciation per quarter

The useful lives of the fixed assets vary from asset to asset as well as in line with the business' policies. But the following is commonly used:



	<b>Fixed Assets</b>	<b>Useful period</b>
1	Computers and other electronic gadgets	3 years
2	Motor vehicles	5 Years
3	Furniture	5 - 10 Years (depending on the nature of the furniture)
4	Buildings	25 Years
5	Land	Not depreciated.



## **Session: Product Costing**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning of cost, costing and its importance
- ❖ Calculate their product cost
- ❖ Compute break-even point sales amount, units and selling price



## **What is Cost and Costing?**

### **Cost**

- All the money your business spends to make and sell its products.
- Everything you buy, produce, and sell has a cost.

### **Costing**

- The process of determining the amount of money that goes into buying, making, and selling a product

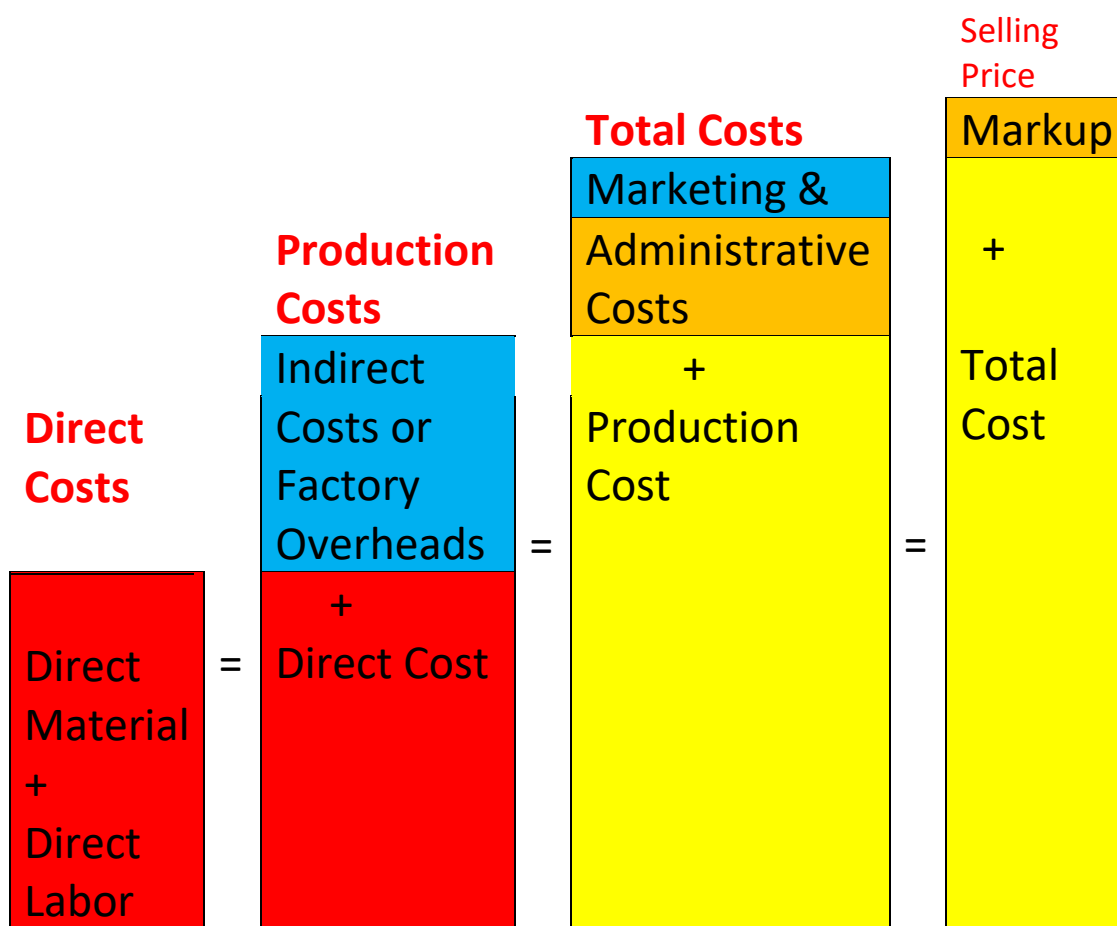
# IMPORTANCE OF COSTING

- **It enables you, the entrepreneur, to find out the cost of the product**
- **It helps you in determining the price of your product**
- **It helps you to know how much profit or loss you are making in your business**
- **It helps you to know which of your products cost too much and whether the costs can be improved.**
- **It helps you plan for the future growth of your Business. For example, you will need to know all your costs in order to handle your business financial plans.**



19-4

## STRUCTURE OF PRODUCT COST





19-5

## **Group Work:**

### **IDENTIFY AND DETERMINE YOUR COSTS**

- 1. What are your Direct Costs?**
  - **What are your direct material costs?**
  - **What are your direct labor costs?**
- 2. What are your Indirect Costs or Factory Overheads?**
- 3. What are your Factory Costs or Production Costs?**
- 4. What are your Marketing Expenses?**
- 5. What are your Administrative Expenses?**
- 6. What are your Total Costs or Full Costs (1+2+3+4+5)?**



1  
9

## ASSIGNMENT 19: PRODUCTION COST

- What will be your total production cost per week, per month, or per cycle?
- How much will be the cost of direct materials per unit (or per month)?
- How much will be the cost of direct Labor per unit (or per month)?
- How much will be factory overhead expenses per unit (or per month)?
- What will be your production cost for each product that you will be offering?

Production costs include cost of raw materials, direct Labor and factory overheads.

<b>SAMPLE</b> <b>"PRODUCTION COST"</b> <b>Dara Footwear and Leather Goods Company</b>		
Production cost per month and production cost per bag can be calculated as follows:		
<b>Production Cost</b>		
<i><b>Nature of Cost</b></i>	<i><b>Explanation</b></i>	<i><b>Amount (ID) (1000)</b></i>
Direct Materials	ID1,300per bag X 50 bags per month	65,000
Direct Labor	5 workers x ID6,000 per month	30,000
Factory Overhead Expenses	(See Schedule of Factory Overhead)	20,090
<b>Total Production Cost per Month</b>		<b>115,090</b>
<b>Production Cost per bag</b>	ID 115,090/50 bags per month	<b>2,301.8</b>

## **Trainer's Notes**

### **What is cost?**

- All the money your business spends to make and sell your products (goods or services).
- The amount of money (or in kind) you spend to produce and sell a product is cost while the amount you receive from the customer is price. *The difference (between Price and Cost) is profit.*
- Everything you buy, produce, and sell has a cost.

### **What is costing?**

This is the process of determining the amount of money (or any other value) that goes into buying, making, and selling a product or service. In other words, it is the process of determining how much it costs to produce and sell a product.

### **Why is costing important?**

- It enables you, the entrepreneur, to find out the cost of the product or service you offer.
- It helps you in determining the price of your product or service.
- It helps you to know which of your products or services cost too much and whether the costs can be improved.
- It helps you plan for future growth of your business – for example you will need to know all your costs in order to handle your business financial plans.

For the SME entrepreneur to manage effectively i.e. effectively control operations and make decisions accordingly, he/she has to understand costs and their implications to the operations.

Product costing is very important as Product Life Cycles are contracting while product development programs are expanding. Customers now require products with enhanced quality and higher reliability (thereby increasing product cost) while SME manufacturers are under pressure to reduce costs and lead times.

### **Types of costs**

#### **Fixed Costs and Variable costs**

Fixed costs are fixed in total amount regardless of the number of products produced (over a given production range). Fixed cost per unit however varies depending upon volume of production. Examples of fixed costs include rent, depreciation expense, direct labour (if paid monthly), salaries and wages of Manager and Supervisor, etc.

Variable costs vary in total amount depending upon the volume of production. Variable cost per unit however is fixed regardless of the volume of production. Examples of fixed costs include direct materials, direct labour (if paid on a piece rate basis), packaging cost, electricity and water, etc.

## **Elements of product cost**

Cost of a product consists of the following:

- i) Direct Materials refers to the cost of raw materials used in producing the products.
- ii) Direct Labour refers to the wages, salaries and benefits of workers directly involved in producing the product/s.
- iii) Factory Overhead refers to all other expenses incurred in the manufacture of a product (beside direct materials and direct labour). These include the cost of indirect materials, indirect labour, expenses for utilities, depreciation of factory building (if owned) and machinery and equipment, repairs and maintenance of factory building and machinery and equipment, insurance of factory building and machinery and equipment, rent of factory building (if leased) and other miscellaneous factory overhead expenses. Indirect labour refers to the salaries and benefits of Supervisors, cleaners and other staff working in the factory who are not directly involved in the production of the products.
- iv) Marketing expenses which are incurred in marketing and selling the product. These include salaries, wages and benefits of Marketing Manager and other marketing personnel, sales commissions, expenses for transport and distribution of products, promotion and advertising and other marketing expenses.
- v) Administrative expenses which are expenses incurred in the overall administration such as Salaries and Wages, and benefits of General Manager, Secretary, and Bookkeeper; office supplies, communication expenses including telephone, electricity, depreciation of office building (if owned), office equipment, and furniture and fixtures; repairs and maintenance of office building, office equipment and furniture and fixtures; rent of office building (if leased), and other general and administrative expenses.
- vi) Other expenses which include expenses like amortization of pre-operating expense and Interest Expenses.

## **How is costing done?**

The cost of direct materials and direct labour are the PRIME cost of the product. To determine the factory cost (i.e. cost of producing the product), add factory overhead to the PRIME cost. However to determine the total cost of producing and selling the product, add Marketing Expenses, Administrative Expenses and other Expenses to the factory cost. The Entrepreneur has to consider all costs in order to arrive at the Product Cost.

## **Depreciation**

Depreciation is the process of allocating in a systematic and rational manner the cost of a capital asset over the period of its useful life. This takes into account the decrease in the service potential of capital assets invested in an enterprise, resulting from such causes as physical wear and tear in ordinary use, as in the case of machinery; deterioration primarily by action of the elements, as in the case of an aging building or the erosion of farmlands; or obsolescence that is caused by technological changes and the introduction of new and better machinery and methods of production. However, depreciation is not a process of recognizing changes in the fair market value of the capital assets.



The cumulative depreciation since acquisition is reported on the balance sheet as a deduction from the cost of the related asset. The difference is referred to as the asset's "carrying amount" or "book value". The periodic depreciation charge is entered into the computation of net income. The *accumulated depreciation* is a contra-asset account in the Balance Sheet.

The most widely used method of computing depreciation is the *straight-line method*, in which the rate of depreciation is constant for the entire working life of the capital assets. Thus:

- The cost of the machine is ID 88,000
- Useful Life to the business is 10-years
- Scrap Value is ID 8,000.
- Annual depreciation would be:  $\frac{\text{ID } 88,000 - 8,000}{10 \text{ years}} = 8,000$ .

The annual depreciation rate is:  $\frac{\text{ID } 8,000}{\text{ID } 88,000 - 8,000} = \frac{8,000}{80,000} = 0.1 \times 100\% = 10\%$   
*(i.e. annual depreciation divided by cost minus scrap value).*

Flip Chart19-4 shows the structure of a product's cost while Flip Chart19-5 shows how you can build up your total product cost.

## SESSION 20

### PRODUCTION AND TECHNOLOGY PLAN

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to demonstrate preparing their businesses' production and technology plan

#### TRAINING MATERIALS

- \* Flip Chart 20-1: Session Objectives
- \* Flip Chart 20-2: Structure of a production and technology plan
- \* Hand Out 20: Production and Technology Plan
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the session by stating the session's objectives (Flip Chart 20-1).
- b. Inform the trainees that they have come to the end of the topics under the Production Management task and can therefore now prepare their businesses' production and technology plan.
- c. Ask the trainees what they would like to include in their businesses' production and technology plans. Write their answers on the board. Try and plot them so that they can come up with as many suggestions as possible.

#### 2. Presentation and Activities

- a. Guide the trainees to review their answers to (c) above and add on as is necessary. Show Flip Chart 20-2. Guide the trainees to discuss and understand each component of the Production and Technology Plan.

- b. Distribute Hand Out 20. Guide the trainees to discuss the questions under each component of a Production and Technology Plan to enable them to develop answers to each of them.
- c. Ask the trainees to start preparing their businesses' production and technology plans. Attend to any queries they may have in course of doing this work.

### **3. Summary**

- a. Conclude this session by referring back to its objectives and emphasize that they need to complete their production and technology plans before they proceed to the next Part of their Business Plans on Management and Administration Plan where they will have to plan for putting in place and administering the necessary organization through which they will operate their businesses. .



20-1

## **Session:** Production and Technology Plan

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Demonstrate preparing the production and technology plans for their businesses.

# Format of a Production and Technology Plan

## Production Plan Format

<b>No.</b>	<b><i>Production/Manufacturing, Service, Extraction and Agricultural Businesses</i></b>	<b><i>Service Businesses</i></b>
A	Production Process	Procurement Process
B	Business Premises and Location	Business Premises and Location
C	Choice of Machinery and Equipment	
D	Labour (Direct and Indirect) Requirement	
E	Raw Materials	
F	Packaging	
G	Power and Utilities	
H	Transport	
I	Waste Disposal	
J	Other Facilities Required	
K	Other Overhead Expenses	

## THE PRODUCTION AND TECHNOLOGY PLAN

### Production Plan Format

#### A. Production Process

- What kind of production or procurement process will be followed?
- Prepare a general Flow Chart for the production activities. Is this the best process flow for your product? Did you take into consideration quality control procedures?
- Based on your projected demand, how many/how much do you expect to produce (or procure) per week/per month?

#### B. Business Premises and Location

- Where will you located your business? (Be specific as possible)
- Why did you choose this location?
- Will the business require any land and building?
- If it requires land, is the land freehold or leased?
- Will you put up a building or lease/rent an existing building/workshop? If it will be leased/rented, what are the terms and conditions of the lease/renting?
- If you will put up a building, what is the estimated cost of the building? Or if you have to make renovations on an existing premise, how much will it cost?
- How large is the workshop? Are you renting or is it owned by you? If you are renting, how much is the monthly rent?
- What is the layout of your workshop? Does it ensure the smooth flow of materials and the production process?

#### Land and Building Cost

Item	Cost (ID)
Lease of Land (if applicable)	
Construction of Building (if applicable)	
Improvement on the Building	
<b>Total Land and Building Cost</b>	

#### C. Choice of Machinery and Equipment

- What machinery and equipment are required? What are their technical specifications? Why did you choose them?
- What is the plant capacity? Is this for an 8-hour shift? Is this capacity more than the amount required for you to produce for your target market? If it is too much, are there other machines that have a smaller capacity? If there is none, what will you do with the excess capacity?
- Who are the suppliers of the machinery and equipment? Are they reputable? Who has given the best offer?
- What is the cost of the machine (include its cost and installation)?

- What are the terms and conditions of the machinery supplier?
- Are there spare parts available? Is there technical back-up support for the machinery?
- Do you need a generator for your business? How much does it cost? What is the capacity of the generator? Is it large enough to provide power for your machines?

#### LIST OF MACHINERY AND EQUIPMENT

#### LIST OF MACHINERY AND EQUIPMENT

List of machinery and equipment (including their specifications)	Quantity	Unit cost (ID)	Amount (ID)	Supplier	Terms of Purchase
<b>Total cost</b>					

#### D. Labour Requirement

- Will you be hiring production workers? What kind of work will they be doing? What kind of skills should they have?
- How much will you be paying them? Will they be given other incentives such as medical allowance, lunch, transport, etc.?
- What labour and safety standards must be met?

#### Labor Cost (per Month)

Nature/Position	No.	Salary per Month	Total Amount (ID)
<b>Direct Labor:</b>			
<b>Total Direct Labor</b>			
<b>Indirect Labor:</b>			
<b>Total Indirect Labor</b>			
<b>Total Labor Cost per Month</b>			

#### E. Raw Materials

- What are the materials/inputs you need to make your products?
- Where will you buy the raw materials? Are they always available?
- What are your procurement strategies e.g. how often will you order, what is the inventory level that you will maintain to ensure smooth flow of production?
- Are there any alternative sources of your raw materials/inputs?
- Will you buy them on cash or credit? If on credit, how long?
- What is the cost of the raw materials? What is the cost of transporting the raw materials?
- How much raw materials would you need per production cycle? Is this in conformity with your procurement plan?

#### RAW MATERIALS/INPUTS COST (Per Week/Per Month/Cycle)

Type of Raw Material	Quantity	Cost/Unit	Total Amount (ID)
i) Raw Material Cost per unit			
ii) Quantity per Product per month			
iii) Raw Materials Cost per Month = (i) x (ii).			

#### F. Packaging

- How will the products be packaged? (*ensure consistency with your marketing plan*)
- Where will you buy the packaging materials? Who are the suppliers? Are they readily available?
- How much packaging materials will you be requiring per production cycle? How much inventory should you keep in anticipation of deliveries or next procurement?
- How much do the packaging materials cost?

#### PACKAGING MATERIALS COST (Per Week/Per Month/Cycle)

(Per Month)

Type of Packaging Materials	Quantity	Cost per Unit	Total Amount (ID)
Total Packaging Materials Cost			



#### G. Power and Utilities

- Will the business require electric power? Is it available? If it is, what is the projected electrical consumption per month?
- If power is not available but you need it, how much will it cost you to ask for a power line installation?
- If a generating set is required, what is the power consumption? Is fuel readily available?
- Will the business require water? Is it available? Is it safe for the purpose intended?

#### POWER AND UTILITIES COST (Per Week/Per Month/Cycle)

Utilities	Total Amount (ID)
Power	
Water	
<b>Total Utilities Cost</b>	

#### H. Transport

- Will your business require a vehicle for delivery and transport of materials and finished products?
- If you cannot afford to buy a vehicle, is there transport available for hire? How much? Does this include the fuel cost?

#### I. Waste Disposal

- What are the waste materials/products of the firm? How much waste is there?
- Can you convert them to other products that you can sell?
- How will you dispose of the waste products? How much will it cost?
- Are there any government regulations in disposing your waste products?

#### J. Other Facilities Required

- What office equipment will be required? How many and how much?
- What furniture and fixtures will be required? How many and how much?

#### List of Office Equipment/Furniture

Item	Number/Qty	Unit Cost (ID)	Total Amount (ID)
<b>Total</b>			

### K. Other Overhead Expenses

- What other overhead expenses directly related to producing the goods/or services do you expect to incur? These expenses may include depreciation of machinery and building, insurance on machinery, repairs and maintenance, rent for the building, foreman's salary, transport of raw materials, fuel and oil, benefits of your workers, etc.

#### Schedule of Factory Overhead Expenses (*examples*) (Per Month)

Factory Overhead	Amount (ID)
Indirect Materials (these include Factory Supplies and Packaging Materials)	
Indirect Labor (Salary of Foreman)	
Depreciation Expenses (of Machinery and Equipment)	
Depreciation Expense (of Building) -	
Repairs and Maintenance (of Machinery and Equipment)	
Insurance of Machinery and Equipment	
Utilities Expense	
Miscellaneous Expenses	
Transportation	
Power	
Water	
Fuel and Oil	
Packaging Materials	
Repairs and Maintenance	
Others	
<b>Total Overhead Costs</b>	

### L. Production cost: *What will be your total production cost per week, per month, or per cycle?*

- i) *For a Production/Manufacturing/Service/Extraction/Agricultural Business (assume a month)*
- How much will be the cost of direct materials per unit (or per month)?
  - How much will be the cost of indirect labour per month?
  - How much will be the factory variable overhead expenses per unit (or per month)?
  - What will be your production cost for each product that you will be offering?  
Production costs include cost of raw materials, direct labour and factory overhead.

*There will be some slight variations in the composition of the productions depending on the type of above businesses.*

**ii) For a trading / vending business:**

- What will be your total stock of products (in quantity) that you need either per week, per month, or per cycle?
- How much will it cost you to purchase them? *(This cost should include transport, insurance, etc if any)*

*NB: the other costs e.g. for the equipment to use, indirect labour (like storekeepers, drivers, power and utilities, rent, environment management issues, other facilities required e.g. computers (hardware and software systems) and rent will be captured and reflected in the management and administration plan.*

## Management and Administration

Session	Topics	Objectives
21	Introduction to Management and Administration	Explain the meaning of management, explain their roles as managers of their businesses and identify the common challenges faced by entrepreneurs as managers of their businesses
22	Managing Human Resources	Decide when to recruit staff, when to train staff and how to motivate and retain productive workers
23	Pre-operating activities and administration	Identify their pre-operating activities; compute their administration expenses
24	Management and Administration Plan	Demonstrate preparing the Management and Administration plans of their businesses.

## SESSION 21

### INTRODUCTION TO MANAGEMENT AND ADMINISTRATION

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the meaning of management, explain their roles as owner managers, and identify the common challenges faced by entrepreneurs as managers of their businesses.

#### TRAINING MATERIALS

- \* Flip Chart 21-1: Session Objectives
- \* Flip Chart 21-2: Management
- \* Flip Chart 21-3: Roles of the Owner as a Manager
- \* Flip Chart 21-4: Organizational Chart
- \* Flip Chart 21-5: Common Managerial Challenges
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the session by linking Part 4 to the first three Parts of this course and then state the session's objectives (Flip Chart 21-1).
- b. Point out to the trainees that though many entrepreneurs think that their main problem is lack of finance (commonly referred to as Capital), experience on the ground as well as many studies done have shown that this is often not true. Real life experience as well as studies on businesses has shown that the difficulties experienced by most micro and small entrepreneurs are not always the result of lack of capital, but of the lack of knowledge and skills for managing their businesses efficiently and effectively.
- c. Ask the trainees what they understand by the term "management?" and write their answers on the board.

## **2. Presentation and Activities**

- a. Show Flip Chart21-2 trainees. Guide them to discuss and come up with the meaning of “management” and “Who is a Manager?” Guide the trainees to conclude the discussions by noting that a Manager is a person who is responsible for the day-to-day running of the business. He/she undertakes risks, handles business uncertainties, plans, organizes, executes and controls the performance of the enterprise. Point out that management is the most neglected function by micro and small entrepreneurs who tend to be mainly pre-occupied with the routine day-to-day activities of the business.
- b. Guide the trainees to discuss the roles of a manager (Flip Chart21-3). In discussing the roles of a manager, highlight under the topic “Organizing” the need for preparation of a simple business Organization Chart (Flip Chart 21-4). Emphasize that even if one is being assisted by a spouse in running the business, they need to have an organization chart so that roles and responsibilities are clearly defined and none is left unattended.
- c. Guide the trainees to brainstorm and discover the common challenges faced by entrepreneur managers. Write their suggested ideas on the board. Show Flip Chart21-5 to the trainees and then guide them to review and discuss their answers one by one.

## **3. Summary**

- a. Conclude this session by referring back to the session’s objectives. Reiterate that as the owner-managers of their enterprises, they should have good managerial skills and should always endeavor to overcome their challenges by applying the knowledge, skills and attitudes acquired from this training course.



## **Session: Introduction to Management and Administration**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning of management
- ❖ Explain their roles as managers of their business
- ❖ Identify the common challenges faced by entrepreneur managers



## **MANAGEMENT**

Means or art of achieving one's goals and objectives through people and resources.

A continuous process of planning, organizing, executing (leading, coordinating, directing) and controlling resources and activities to ensure that objectives and goals are achieved.



21-3

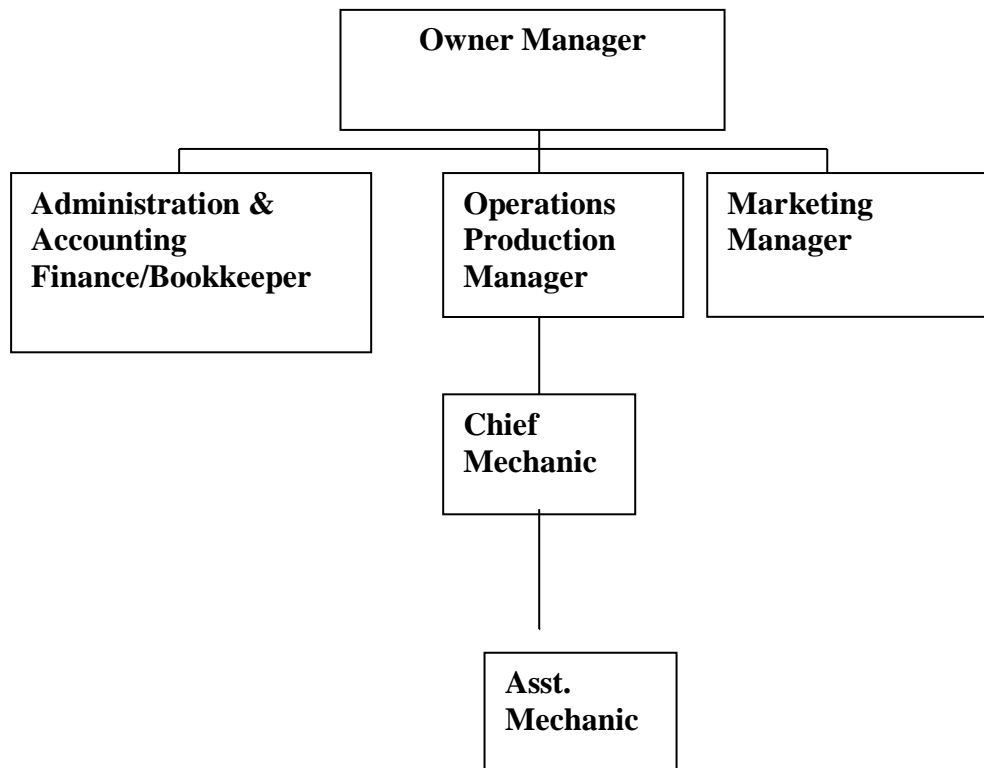
## Roles of the business Owner as a Manager

Planning	<ul style="list-style-type: none"> <li>• <b>Set business goals and objectives, priorities and schedule activities to achieve them</b></li> <li>• <b>Identify and prepare:</b> <ul style="list-style-type: none"> <li>○ A schedule of Pre-Operating Expenses</li> <li>○ A schedule of marketing, production and management and administrative Expenses</li> <li>○ A budget for such expenses</li> </ul> </li> </ul>
Organizing	<ul style="list-style-type: none"> <li>• <b>Develop a simple but efficient organization to achieve the goals and objectives of your business. It Involves:</b> <ul style="list-style-type: none"> <li>○ finding the right people</li> <li>○ grouping them into work activities</li> <li>○ defining and delegating responsibility and authority</li> <li>○ establishing relationships among them</li> <li>○ motivating them</li> </ul> </li> </ul>
Executing	<ul style="list-style-type: none"> <li>• <b>Covers a wide range of activities and involves the management of the day-to-day activities of the business that calls for leadership, coordination, staffing and giving direction</b></li> </ul>
Controlling	<ul style="list-style-type: none"> <li>• <b>Is guiding the business in the direction to which you intend it to go.</b></li> <li>• <b>Guided by goals, objectives, policies and procedures, targets and budgets</b></li> <li>• <b>The key to a profitable business is how well you can control its operations.</b></li> <li>• <b>Business plan prepared should be updated every year and all periodical plans should be in line with it.</b></li> </ul>





# A SAMPLE ORGANIZATION CHART





## **COMMON MANAGERIAL CHALLENGES**

- **Inadequate record keeping**
- **Poor financial management**
- **Unclear organizational set-up**
- **Inadequate system of internal administration**
- **Poor supervision and training**
- **Lack of recruitment standards and procedures**
- **Absence of systemic marketing surveys**
- **Poor decision-making**
- **Improper use of money**
- **Lack of foresight**

## Trainer's Notes

### The Manager and Management

The manager is the person who is responsible for the day-to-day running of the business, undertakes risks, handles business uncertainty, plans, innovates, administers, controls, coordinates and finally supervises the performance of the enterprise.

**Management is a continuous process that involves planning, organization, execution (coordination, leadership, staffing and directing) and control. It is the ability to organize and put to good use of human, monetary, and material resources to achieve the desired aims and objectives of an enterprise.**

It aims at attaining increased productivity, minimum losses, high profits and a high level of morale among workers and also ensures that work is done on time and in the right manner.

Management is therefore an organizational leadership, which involves a lot of ***effective co-ordination*** as well as ***optimally utilizing*** the available ***“human and nonhuman resources”*** to achieve the objectives of the enterprise.

The detailed roles of a business owner manager are shown in Flip Chart21-3 while the common challenges that they face are shown in Flip Chart21-4

## SESSION 22

### MANAGING HUMAN RESOURCES

1.5 hours 

#### OBJECTIVE



By the end of this session, the trainees will be able to decide when to recruit staff, when to train staff and how to motivate and retain productive workers.

#### TRAINING MATERIALS



- \* Flip Chart22-1: Session Objectives
- \* Flip Chart22-2: Tasks Involved in Managing Human Resources
- \* Flip Chart22-3: Before you recruit a staff
- \* Flip Chart22-4: Importance of training and orienting staff
- \* Flip Chart22-5: Instances when a Staff Training Program is needed
- \* Flip Chart22-6: Ways of Motivating Staff
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start by telling trainees that this session will enable them to decide when to recruit staff, when to train staff and how to motivate and retain productive workers (Flip Chart22-1).
- b. Emphasize to the trainees that as owner-managers of their businesses, whether they employ one or a few people on a part-time or full -time basis, one of their main concerns is attracting and retaining highly motivated and productive workers.
- c. Ask the trainees: “How can they determine that they need new staff in their businesses”. Elicit their ideas and write them on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to brainstorm and discover the main tasks that are involved in Human Resource Management. Show Flip Chart22-2 and guide the trainees to discuss and come up with the mentioned tasks that include recruitment, training and orientation, motivation, and performance appraisal.
- b. Guide the trainees to brainstorm and discover the importance of workers / staff to their businesses.
- c. Explain to the trainees that “Recruitment” is the process of finding the right person for the right job in the enterprise. Add on that recruitment is a continuous exercise since some workers will quit, others will take leave of absence or retire and additional workers will be needed because of the increase in the workload. Emphasize that before the recruitment process takes place, they as Owner-Managers should first ensure that there is a need for additional manpower in their businesses (trainees’ responses in (c) above). Also show Flip Chart21-3 and guide the trainees’ discussions to ensure that they come up with the mentioned factors.
- d. Guide the trainees to brainstorm and discover the sources from or through which to recruit qualified staff.
- e. Guide the trainees to discuss the Importance of Training and Orienting Staff (Flip Chart22-4) and Instances when a Training Program would be needed (Flip Chart22-5).
- f. As you discuss the topic “Motivation of Staff”, emphasize that finding, selecting, and placing proper people in the proper jobs may be difficult, but motivating and keeping them on the job as satisfied employees is even more difficult.
- g. Guide the trainees to brainstorm and discover the examples of easy and affordable ways through which SMEs can motivate their staff. Show Flip Chart22-6 and ensure that the trainees have covered all the points therein.

## **3. Summary**

- a. Conclude this session by referring back to the session’s objectives. State that people working in the enterprise are its most important resource and that the success and growth of the entrepreneurs’ businesses is dependent on:
  - Their worker’s qualities, characters, and performance
  - Their style of management
  - Their ability as owner managers.



## **Session: Managing Human Resources**

### **Objectives:**

**By the end of this session, the trainees will be able to:**

- ❖ Decide when to recruit staff for their businesses
- ❖ Choose when to train their business staff
- ❖ Motivate and retain productive workers



## **TASKS INVOLVED IN MANAGING HUMAN RESOURCES**

Managing human resources involves attracting and retaining highly motivated, productive and efficient workers.

**Tasks:**

- **RECRUITMENT**
- **TRAINING AND ORIENTATION OF STAFF**
- **MOTIVATION OF STAFF**

## **BEFORE YOU RECRUIT A STAFF**

- **First confirm that you indeed need a new worker which may be as a result of:**
  - Increasing workload and the resultant delays in completing jobs or serving customers or use up existing capacities
  - Growing and expanding business and perhaps a need to open up a new branch.
  - Introduction of new product lines which need people with more knowledge and skills that the existing staff do not have
  - Replacing staff who have left for different reasons
- **Decide upon the tasks that will need new knowledge and skills**
- **Decide on how many people are needed to perform each task**
- **Decide on whether you will need a full time or part time person**
- **Find out whether the tasks can be shared or re-assigned to any other person within your business**
- **Confirm that the business has money to pay the new staff**
- **Decide on how recruitment will be done either internally or externally. If externally, how e.g. through headhunting or open publicity, from previous applicants, etc.**
- **Consider any other necessary issues related to the different tasks within your enterprise**



## **IMPORTANCE OF TRAINING & ORIENTING STAFF**

- **It increases productivity, while reducing spoilage of work and machinery.**
- **It increases morale, ability to learn, and desire to adopt new work methods among the staff.**
- **It builds personal confidence, the sense of job direction, and a new working style and sense of ownership of the business among the staff.**
- **It improves employees' job performance and contributes to the overall performance of the enterprise.**
- **It improves staff flexibility in terms of the number of job they can perform**
- **Prepare a staff for growth within the business ranks and creates grounds for future promotion**
- **Enhances chances for them to become creative and innovative in terms of coming up with new products and new production methods as well as ways of serving customers**





## **INSTANCES WHEN A STAFF TRAINING PROGRAMME IS NEEDED**

- **The volume of work is increasing and bottlenecks continue to occur**
- **Operations are highly repetitive, suggesting the need to determine the best methods**
- **Operations are highly complex and require a variety of skills**
- **Employee turnover is high**
- **Misunderstanding, complaints, and bad attitudes in the workplace are increasing**
- **Increasing incidences of product rejects**
- **When there are new production methods, new products or new developments in the sector**
- **During the lean business periods**

## **WAYS OF MOTIVATING STAFF**

*(That do not involve paying higher salaries/wages)*

- **Praise the staff for work well done or for contributing their ideas.**
- **Tell your employees what you expect of them.**
- **Encourage your staff to keep performing to the best of their abilities.**
- **Provide your staff with challenges and goals; individually and as a team.**
- **Keep your employees informed about the business activities, plans and goals.**
- **Make sure that your employees have the tools they need to do a good job.**
- **Provide training for new and current workers so that they can upgrade their knowledge and skills.**
- **Provide for an open and friendly atmosphere – one in which each employee wants to come to work and do their best.**
- **Empathize with your staff.**

## **Trainer's Notes**

### **Tasks involved in Managing Human Resources**

Human resources are the people that are employed by the business purposely to contribute to its overall performance in order to achieve its objectives. This means that the success and growth of an enterprise is entirely dependent on:

- The qualities, characters and performance of the workers,
- The management style
- The management ability of the entrepreneur as a Manager.

Although most small businesses are a one-person show, it is evident that such businesses need other people's input in order to fulfill their objectives.

In this case, the business must perform the following tasks involved in managing human resources:

- Recruitment of staff
- Training and orientation of staff
- Motivation of staff
- Performance appraisal

#### **i) Recruitment**

It is a process through which an enterprise places or replaces a person in its business operations. Before the recruitment process takes place, the Owner Manager should make sure that there is need for additional manpower in an enterprise.

To identify the need for additional manpower, it is advisable to analyze the different tasks that may need to be performed in an enterprise. This is normally done using a job analysis form and a job description form.

### **Sources of human resource for recruitment**

- From within the business enterprise
- Existing businesses
- Schools
- Competitors
- Outside your area of operations
- Etc.

#### ***Some of the effects that are associated with:***

- Recruiting people from within the business:
  - It is a sign of promotion thus increases morale and motivation,
  - It increases contribution to business performance by encouraging others to work harder,

- It minimizes the requirement for training,
- The cost of recruitment is very low,
- Little time is taken in the transition process.

However, the same process can create hostility among workers and hinder the inflow of new ideas and fresh knowledge.

- Recruiting from competitors
  - It will enable the business to have an inflow of workers with competence and proven skills,
  - It will give an opportunity to learn more about the competitor.
  - However, the person recruited this way may prove to be costly.

Despite the fact that the above processes are very important, it is also important to keep in mind that during the process of recruiting additional manpower, the owner/owners of the business should aim at selecting the best, experienced and qualified candidate.

Refrain from hiring people who are over-qualified for the job. Small businesses have a limited scope of operations and an over qualified person may not be fully occupied and utilized. This results into the person getting bored and dissatisfied with the job. You may also end up paying beyond what your enterprise can afford.

## ii) **Orienting and Training Staff**

### ***Orienting Staff***

All newly recruited staff should undergo an orientation process about the enterprise. This enables the person recruited to become comfortable and understand the chain of command within the business, and what is expected of him/her.

### ***Training Staff***

Small businesses presently are in a competitive market and therefore the issue of having a trained and skilled staff is no longer a luxury but a necessity and a means of improving the overall performance of the business.

It is therefore important for an enterprise to train its staff because

- It increases productivity, reduce spoilage of work and machinery,
- It increases moral, ability to learn and desire to adopt new work methods,
- It builds personal confidence, sense of job direction and a new working styles and sense of ownership of the business to the staff.

**Instances when training is needed:**

- The volume of work is increasing and bottlenecks continue to occur
- Operations are highly repetitive, suggesting the need to determine the best methods
- Operations are highly complex and require a variety of skills
- Employee turnover is high
- Misunderstanding, complaints, and bad attitudes in the workplace are increasing
- Increasing incidence of product rejects

**iii) Motivation of staff**

Some ways of motivating staff that does not involve paying high salaries include:

- Praise the staff for work well done or for contributing their ideas.
- Tell your employees what you expect of them.
- Encourage your staff to keep performing to the best of their abilities.
- Provide your staff with challenges and goals – individually and as a team.
- Keep your employees informed about the activities and plans of the business.
- Make sure that your employees have the tools they need to do a good job.
- Provide training for new and current workers so that they can upgrade their skills.
- Provide for an open and friendly atmosphere – one in which each employee wants to come to work and do their best.

**iv) Performance appraisal**

This is an evaluation process that is performed by the owners of the firm to measure the level reached by the staff during a specific period of time as may be decided by the management.

***Its importance***

- It helps to review performance of employees in relation to their job descriptions and specifications in view of business objectives and targets.
- It is a yardstick for assessing job progress and a basis for human resource improvement planning in a business.
- It is the basis for selecting suitable employees for promotion, wages/salary increments, training and any other incentives.
- It helps to determine wage and salary adjustments.
- It helps in determining whether or not new employees should be retained after their initial period.
- It is used as basis for transfers, promotions, layoffs or dismissals.

- It is used as guide for developing training programs where certain weaknesses exist.
- It is used to stimulate self-improvement in individual workers.
- It can be used as a friendly, constructive way to point out shortcoming

#### **Proven human relations techniques**

- Give credit when credit is due
- Let each worker know where he or she stands; periodically discuss their evaluation results
- Inform workers in advance of changes; informed workers are more effective
- Let workers participate in plans and decisions affecting them
- Gain workers' confidence; earn their loyalty and trust
- Show a personal interest to your workers; find out their interests, habits, and sensitive points
- Listen to the ideas of your staff; they have good ideas, too
- Find out why your worker's behavior is unusual; there is always a reason for every behavior
- Try to make your wishes known through suggestions or requests whenever possible; people generally do not like to be pushed
- Explain why things are to be done in a certain way; workers do a better job when they know why
- When you make a mistake, admit it and apologize; others will resent your blaming someone else and your staff will respect you for owning up to your mistake
- Show workers the importance of every job in the organization; this satisfies the need for security
- Criticize constructively; give reasons for criticism and ways to improve
- Precede criticisms with praise and show your workers that you are trying to help them
- The supervisor sets the tone; do as you would have your workers do
- Be consistent in your actions; let your workers know what is expected of them
- Show confidence in your workers; this will bring out the best in them
- Set proper goals; give workers goals they can work towards
- If a person complains, find out why; the complaint of one may be the complaint of many
- Settle all grievances if possible because the unsettled grievances of one person may affect others
- Back your workers up; authority must accompany responsibility

## SESSION 23

### PRE-OPERATING ACTIVITIES AND ADMINISTRATION

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to identify their businesses' pre-operating activities, compute their pre-operating and administrative expenses, and determine their office facility needs.

#### TRAINING MATERIALS

- \* Flip Chart23-1: Session Objectives
- \* Flip Chart23-2: Schedule of Pre-Operating Expenses
- \* Flip Chart23-3: Timetable of Activities
- \* Flip Chart23-4: Administrative Expenses
- \* Flip Chart23-5: Office Facilities
- \* Hand Out 23: A Gantt Chart (a form of a Diary)
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the session by sharing with trainees the session's objectives. Show Flip Chart23-1.
- b. Explain to the trainees that there are a number of activities that entrepreneurs need to do in preparation for the commencement of their business operations. Such activities are called pre-operating activities.
- c. Ask trainees to give examples of their businesses' pre-operating activities. Write their answers on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to review their answers in (c) above and add on as may be necessary. Then point out that some of the pre-operating activities that they have identified require funding for their implementation. Such expenses would then become their businesses' pre-operating expenses. Show Flip Chart23-2, which contains examples of pre-operating expenses.
- b. Explain that to ensure the timely commencement of their business operations, they should first identify and list all their businesses' pre-operating activities and prepare a timetable for their implementation. Inform the trainees that a timetable is an approximation of the length of time required to implement and complete an activity. Explain that a timetable of activities can be presented in the entrepreneur's diary so that their start and end dates are clearly marked. Show Hand Out 23. Ask the trainees to prepare diaries for the implementation of their pre-operating activities clearly marking their start and end dates. Ask the trainees to present their diaries to the rest of the class for review and necessary adjustments.
- c. Point out to the trainees that in the day-to-day management of their businesses, they will incur expenses that are of administrative nature. These are called Administrative Expenses. Ask the trainees to give examples of their administrative expenses. Summarize the discussion by showing Flip Chart23-4. Emphasize that these expenses are not and do not fall under the Factory Overhead expenses they saw under the Production Planning section (Part 3). Inform the trainees that administrative expenses will to some extent vary depending on the type of businesses as shown in Flip Chart23-4.
- d. Point out that their businesses may require office or premises plus some office facilities from and with which to carry out their business operations. Ask the trainees to give examples of such facilities.
- e. Caution the trainees against investing too much of their resources in office facilities that may not really be required. Show Flip Chart 23-5, which contains an example of office facilities.

## **3. Summary**

- a. Reiterate to the trainees that in order for them to ensure timely commencement of their business operations, they must do the following:
  - Identify their business' pre-operating activities that will have to be undertaken before operations and estimate their implementation time
  - Prepare a diary for the implementation of their prep-operating activities
  - Identify and prepare a schedule of pre-operating expenses.
  - Identify and prepare a schedule of administrative expenses.
  - Identify their office premises and office facilities' needs
  - Budget for all anticipated expenses and purchases.



## Session: Pre-Operating Activities and Administration

### Objectives:

By the end of this session, the trainees will be able to:

- ❖ Identify their businesses' pre-operating activities
- ❖ Determine their office facility needs
- ❖ Compute their pre-operating and administrative expenses

### Schedule of Pre-Operating Expenses \*\*

Pre-Operating Expenses	Amount (ID) (1000)
Training Expenses – Business Plan Preparation	30,000
Trade License and wool	15,000
Business Name Registration	20,000
Expenses for looking for Equipment and Raw Materials	25,000
<b>Total Pre-Operating Expenses</b>	<b>90,000</b>

\*\* The amounts stated in this table are mere assumptions for learning purposes only.

## Timetable of Activities

The following activities need to be undertaken by Mr. Dara before he can start his business operations:

- |     |                                     |         |
|-----|-------------------------------------|---------|
| 1.  | Preparing the business plan         | 6 Weeks |
| 2.  | Registering the business            | 1 Week  |
| 3.  | Securing business premises          | 1 Week  |
| 4.  | Securing Business Operating License | 1 Week  |
| 5.  | Applying for a loan and approval    | 6 Weeks |
| 6.  | Contacting equipment suppliers      | 1 Week  |
| 7.  | Renovation of building              | 2 Weeks |
| 8.  | Hiring labor                        | 1 Week  |
| 9.  | Installing the equipment            | 1 Week  |
| 10. | Purchasing raw materials            | 1 Week  |
| 11. | Orienting / training staff          | 1 Week  |
| 12. | Trial production                    | 1 Week  |

Mr. Dara aims to start operations approximately five weeks after securing loan funding.

What he now needs to do is to write these times in his Diary so that he precisely knows the dates of the month when these activities will be implemented. This will enable him to make the necessary arrangements and ensures that no activity is missed.



## A Gantt Chart (a form of a Diary)

		Timetable (In Weeks)															
		Month 1				Month 2				Month 3				Month 4			
	Activities	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Preparing the business plan																
2	Registering the business																
3	Securing business premises																
4	Securing Business operating License																
5	Applying for a loan and approval																
6	Contacting equipment suppliers																
7	Renovation of building																
8	Hiring labor																
9	Installing the equipment																
10	Purchasing raw materials																
11	Orienting / training staff																
12	Trial production																

# Administrative Expenses

## Schedule of Administrative Expenses (Per Month)

*Please take note that this schedule excludes all expenditure items already included in the marketing and production plan components.*

ADMINISTRATIVE EXPENSES	AMOUNT (ID)  (1000)
Salary of Owner-Manager	10,000
Salary of Bookkeeper (part time)	3,500
Office Supplies	750
Communication Expenses	1,000
Depreciation of Office Facilities	280
Miscellaneous Expenses	1,000
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>16,530</b>
<i>In addition to the above, other administrative expenses (in particular for a trading business) could include the following:</i>	
<i>Store keeper's salaries</i>	
<i>Rent for a Store/warehouse</i>	
<i>Rent for a shop</i>	
<i>Cost of power and utilities</i>	
<i>Repair and maintenance</i>	
<i>Environment management issues</i>	



# Office Facilities

## List of Office Equipment and Furniture and Fixtures

A manufacturing/service/extraction or Agricultural business				A trading business			
Items	No.	Cost per Unit ID	Amount ID (1000)	Items	No.	Cost per Unit ID	Amount ID
<b>Office Equipment:</b>				<b>Office Equipment</b>			
Calculator	2	20	400	Calculators			
Computer	1	500	5,000	Computers			
				Weighing scales			
<b>Furniture and Fixtures:</b>				<b>Furniture and Fixtures:</b>			
Filling Cabinet	1	100	1,000	Filling Cabinet			
Tables	3	100	3,000	Tables			
Chairs	6	20	1,200	Chairs			
				Shelves			
				Fridges			
<b>Total Amount</b>			<b>10,600</b>				

## **Trainer' Notes**

### **Pre-operating Activities**

Pre-operating activities are activities that entrepreneurs need to do before they start to operate their respective businesses. These include training in the preparation of business plan, application for business name registration and business license, sourcing of raw materials and equipment, etc.

### **Pre-operating Expenses**

The pre-operating activities require expenses. These are called pre-operating expenses i.e. expenses that will be incurred before the start of business operation. These expenses include training expenses, expenses for business name registration, trade license fees, and expenses in looking for equipment and sources of materials. You have to budget for pre-operating expenses, otherwise you may be using the money budgeted for the normal operations of your business and thus will end up with an insufficient working capital.

### **Timetable of Activities**

To ensure the timely start of business operation, the entrepreneur should list all the pre-operating activities and prepare a timetable. Timetable is an approximation on the length of time that an entrepreneur will do or finish the activity. The timetable of activities may be put in his/her diary or presented using a Gantt Chart (see Hand Out 23).

### **Administrative Expenses**

In the day-to-day management of the enterprise, the entrepreneur will incur expenses that are administrative in nature. These expenses are called administrative expenses. These expenses are different from overhead expenses. Overhead expenses are directly related to production while administrative expenses are directly related to the day-to-day management of operations. Examples of administrative are shown in Flip Chart23-5. It should be noted that there are bound to be some variations in administrative expenses of the different types of businesses as shown in Flip Chart23-5. This is largely due to the fact that trading businesses do not have factory overheads like manufacturing businesses.


### **Office Facilities**

Businesses will require office facilities in the form of office equipment and office furniture and equipment. The entrepreneur should be careful on investing too much on office facilities that are not really required as these are additional cost to the business.


## SESSION 24

### Management and Administration Plan

1.5 hours 

**OBJECTIVES** 

By the end of this session, the trainees will be able to demonstrate preparing management and administration plans of their businesses

**TRAINING MATERIALS** 

- \* Flip Chart 24-1: Session Objectives
- \* Flip Chart 24-2: Format of a management and administration plan
- \* Hand Out 24: Guiding questions for preparing a management and administration plan
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- Introduce this session by presenting and discussing its objectives (Flip Chart 24-1)
- Ask the trainees what they would like to include in their management and administration plans. Write their answers on the board.

##### 2. Presentation and Activities

- Guide the trainees to review and discuss their answers to (b) above with a view to coming up with what is contained in Flip Chart 24-2; the Format of a management and administration plan.
- Guide the trainees to review and discuss the guiding questions for preparing a management and administration plan.
- Ask the trainees to prepare their businesses' management and administration plans. Attend to their queries and assist them as they prepare their businesses management and administration plans.

##### 3. Summary

- Conclude this session by referring back to the session objectives and by reiterating to the trainees that they need to prepare and complete their management and administration plans before proceeding to the next part of the course on Financial Planning and Management.



## **Session: Management and Administration Plan**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Demonstrate Preparing their businesses' Management and Administration Plans



## **Format of a Management and Administration Plan**

- 1. Key Personnel and Other staff**
- 2. Pre-operating Activities**
- 3. Timetable of Activities**
- 4. Office Facilities**
- 5. Administrative Expenses**
- 6. Pre-operating Expenses**





## Guiding Questions for Preparing a Management and Administration Plan

### 1. Key Personnel and Other staff

- Who will be managing the business? What are his/her responsibilities? What are his/her qualifications? How much will he/be paid? If you will be managing the business yourself, then allocate a salary for yourself.
- Will you be hiring other people to assist in the management? Example would be an accounts clerk, or a part-time accountant, receptionist, etc. If yes, what are their responsibilities? How much will you pay them? Do you think your business can afford them? Will they be fully utilized?

#### SALARIES EXPENSE SCHEDULE (Per Week/Month/Cycle)

POSITION	NO.	SALARY (ID)	AMOUNT (ID)
<b>Total Salaries</b>			

### 2. Pre-operating Activities

- Reflect on the type of your business and its legal form.
- Then Identify and list all activities you will have to implement in preparation for commencing its operation.
- For each activity identified, estimate the amount of time it will take you to successfully implement it.

### 3. Timetable of Activities

- Put the activities listed in No. 2 in their chronological order in terms of how they will need to each other for their orderly implementation
- Write these activities in your diary clearly indicating their start and end time from the first activity up to the last one. Alternatively you could prepare a Gantt Chart.

### 4. Office Facilities

- Given the nature or the type of your business and its operations, how you plan to organize and administer it, identify and list the office facilities that you will require. For example, will you be renting a warehouse/store, will you buy computers, filing cabinets, fridges, will you buy weighing scales, calculators, etc.

**SCHEDULE OF OFFICE FACILITIES EXPENSES**  
(Per Week/Month/Cycle)

Items	No.	Cost per Unit ID	Amount ID
<b><i>Office Equipment:</i></b>			
<b><i>Furniture and Fixtures:</i></b>			
<b>Total Amount</b>			

**5. Administrative Expenses**

- What expenses will the business incur during its day-to-day operations? Note that these expenses are different from your overhead expenses. Overhead expenses are directly related to production (manufacturing, service, agricultural or extraction businesses) while administrative expenses are directly related to the day-to-day management of the operations.
- Think of your expenses on a weekly, monthly or per cycle basis depending on your previous assumptions of your sales, production, labour cost, etc.

**SCHEDULE OF ADMINISTRATIVE EXPENSES \*\***  
(Per Week/Month/Cycle)

Expenses	Amount (ID)
Stationery/Office Supplies	
Postage and Telephone	
Licenses and Taxes	
Transportation	
Office Facilities	
Accountant's Fees	
Others:	
<b>Total Administrative Expenses</b>	

*\*\*:* The expense items shown in the table are only examples. In your Management and Administration Plan, you should come up with the expenses that are relevant to your business.

**PRE-OPERATING EXPENSES \*\*\***

- Prior to the full-operation of the business, you may have to incur some expenses associated with the pre-operating activities. You have to budget for this amount as well because if you do not budget for it, then you may be using the money budgeted for the normal operations of the business, thus you will end up with less funds for your normal business operations.
- Pre-operating expenses can include the following:

**SCHEDULE OF PRE-OPERATING EXPENSES \*\***

Expenses	Amount (ID)
Installation of Machinery and Equipment <i>(but if this amount is substantial, it should be made part of the asset cost)</i>	
Technical training	
Training Expenses	
Business Name Registration	

Expenses	Amount (ID)
Trade License	
Others (specific):	
Total Pre-Operating Expenses	

*\*\* : The expense items shown in the table are only example. You should come up with your own expenses that are relevant to your business.*

\*\*\* Pre-operating expenses should be recovered through the businesses periodical Profit and Loss Statement. If the amount is substantial (big), it may be recovered over a two-year period. Otherwise it should be recovered during the first year of the business operation.

Periodically an amount of pre-operating expenses should be transferred to the period's Profit and Loss Account.

For example, if the business' pre-operating expenses are ID 48,000 and are to be recovered during the first two years, then the amount to be recovered every month is:

$$= \frac{\text{ID 48,000}}{24 \text{ months}}$$

$$= \text{ID 2,000.}$$

The process of periodically recovering some of the pre-operating expenses is known as amortization.

## Financial Planning and Management

Session	Topics	Objectives
25	Managing Business Finance	Explain the importance of managing their business finance and describe what constitutes good financial planning and management
26	Estimating Capital Requirements	Calculate the capital required for their businesses.
27	Sources of Funds	Determine their financing plan and requirements or conditions for accessing funds
28	Profit and Loss Statement	Explain the meaning, importance, elements and process of preparing a profit and loss statement
29	Cash Flow Statement	Explain the importance, and demonstrate how to prepare a cash flow statement
30	Balance Sheet	Explain the meaning and importance of a balance sheet and prepare a projected balance sheet for their business
31	Financial Analysis	Demonstrate how to analyze financial statements
32	Cash Budgeting	Identify elements of a cash budget, prepare cash budget and explain ways of managing assets
33	Record Keeping in Business	Explain and demonstrate how to keep records for their businesses
34	Business Start Up Activities	Handle business start-up activities of their businesses.
35	Business Insurance, Government Regulations and Taxes	Determine the registration requirements to make their businesses official, explain the taxation requirements and explain the importance of business insurance to their businesses.
36	Other Elements of a Business Plan	Identify and explain the other elements to consider in order to complete preparing a business plan
37	Packaging a Business Plan	Integrate all the information gathered and learned from all sessions/exercises and consolidate them into one report; the business plan.
38	Presentation of a Business Plan	Present their business plans to a panel of bankers and other key stakeholders

## SESSION 25

### MANAGING BUSINESS FINANCE

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the importance of managing their business finance and identify what constitutes good financial planning and management

#### Training Materials

- \* Flip Chart 25-1: Session Objectives
- \* Flip Chart 25-2: Importance of Properly Planning for and Managing Business Finances
- \* Flip Chart 25-3: Elements of Good Financial Planning and Management
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start the session by stating the session objectives as shown in Flip Chart 25-1.
- b. Tell the trainees that as owners and managers of their enterprises, they will also be performing the function of being the financial managers. As such therefore, they will be expected to properly plan for and manage their business finances properly.
- c. Ask trainees why they should properly plan for and manage their business finances. Write their answers on the board.

## **2. Presentation and Activities**

- a. Guide the trainees to review their answers and add on as may be necessary. Show Flip Chart25-2. Emphasize that without proper financial planning and management, their businesses will not be able to survive. Point out that finance is the business' "blood" as it is to a human body. As no human body can function or survive without blood, no business can survive without finance.
- b. Show Flip Charts25-3, 25-4 & 24-5 and guide the trainees to discuss and master the basic good business financial management practices for entrepreneurs.
- c. Briefly introduce and let the participant discuss each of the five basic elements of good financial planning and management. Show Flip Chart25-5 and inform the trainees that the different elements will be discussed in more details during the succeeding sessions.

## **3. Summary**

- a. End the session by reiterating the importance of good and effective financial planning and management. Tell the trainees that the basic elements of financial planning and management will be discussed in more details during the next sessions.



25-1

## **Session: Managing Business Finance**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the importance of properly planning for and managing their business finances
- ❖ Describe what constitutes good financial planning and management



25-2

### **Importance of Proper Business Finance Planning and Management**

Adopting proper financial planning and management will enable you to have accurate financial information that will be useful in making decisions for your business. With proper financial planning and management, you will be able to:

- your business future. Know how much money your business needs to start or expand operations.
- Make the best decisions when selecting the most appropriate financing sources.
- Know how much money is flowing in and out of your business.
- Know how much your business is earning or spending.
- Keep track of your financial activities and monitor how much money you will need to maintain your operations or to expand your business.
- Adequately safeguard your business financial affairs.
- Sleep better at night knowing that you are in control of





25-3

## **Some guidelines to help you safeguard your cash and working capital**

- Separate the cash for your business operations from that for your personal and family needs.
- Maintain a petty cash account.
- Give yourself and other members of the family wages based on the work done in the business.
- Persuade customers to pay upon delivery. Progressive payments may also be acceptable to cover completed portions of orders.
- Closely monitor stocks and avoid purchasing materials that are not immediately needed.
- Keep a recording of cash receipts and sales made by your enterprise.
- Be careful about extending credit. Give credit only to those individuals or firms that are reliable in making good on their credit at the agreed time.
- Record any item added to your business so you will be able to track the actual amount you still have.
- Prepare a Cash Budget
- Use bank services to keep your money.
- Do not have many bank accounts to minimize maintenance charges and reduce the minimum amounts kept in banks.
- Designate someone to maintain the cash records. The cashier or the owner may write up the cash records. When you have designated someone to maintain records, ensure that a budget for his or her salary is provided for and that they effectively do the work.



## **Examples of Good Business Finance Management Practices**

- **Avoid taking too much money from your business.**
- **Avoid over dependence on debts.**
- **Seek professional advice and help in planning your sales, expenses, and profits as needed.**
- **Plan on a monthly basis so that you can easily make decisions on many aspects of your operations.**
- **Be able and ready to revise your estimates as new developments and changes occur.**
- **Be proud of your accomplishments.**
- **However, always remember that, like life, your business has many ups and downs. Be prepared for those “down times” even as you celebrate the “up times”.**

## **ELEMENTS OF Good Financial Planning & Management**

- Estimating capital requirements
- Selecting appropriate financial sources
- Planning financial affairs through cash budgeting
- Managing the assets of the business
- Monitoring and controlling operations through record keeping
- Funds are properly utilized to achieve the business goals and objectives.
- The need, receipt and utilisation of funds are properly documented and reports thereof prepared to inform and guide planning, budgeting and operating decision making process
- Profits are properly reinvested in business.

## Trainer's Notes



### Introduction

MSE entrepreneurs act as the financial managers of their business. They are expected to properly plan and manage their finances to maximize use of their capital, to minimize costs of operation and to maximize profit and return on their investment.

While sound management practices and thorough marketing surveys are essential to the success of their business, without proper financial planning and management, their business will not be able to survive.

### The need for properly manage business finances

In order to maximize profit and ensure long-term profitability of a business, the entrepreneur should be able to maximize use of resources (capital invested) and minimize cost of operating those resources. This is possible with proper financial planning and management since adopting it in their business will enable them to have accurate financial information that will be useful in making decisions for their enterprise. With it they will be able to:

- Know how much money their business needs to start or expand operation.
- Make the best decision when selecting the most appropriate financing sources.
- Know how much money is flowing in and flowing out of their business.
- Know how much money the business is earning or how much money the business is spending.
- Keep track of financial activities and monitor how much money they will need to maintain their operations or to expand their business.
- Adequately safeguard their business financial affairs.
- Sleep better at night knowing they are in control of the future of their business.

### Elements of good financial planning and management

There are five basic elements of good financial planning and management:

- Estimating capital requirements
- Selecting appropriate financial sources
- Planning financial affairs through cash budgeting and forecasting
- Managing the assets of the business
- Monitoring and controlling operations through record keeping, and financial analysis

## SESSION 26

### ESTIMATING CAPITAL REQUIREMENTS

5.0 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to determine the total cost and capital requirements for their businesses.

#### TRAINING MATERIALS

- \* Flip Chart 26-1: Session Objectives
- \* Flip Chart 26-2: Meaning and Types of Capital in a Business
- \* Flip Chart 26-3: Meaning of Fixed Assets
- \* Flip Chart 26-4: Elements of Fixed Capital
- \* Flip Chart 26-5: Meaning of Working Capital
- \* Flip Chart 26-6: Elements of Working Capital
- \* Flip Chart 26-7: Meaning of Pre-Operating Capital
- \* Flip Chart 26-8: Elements of Pre-Operating Capital
- \* Hand Out 26: Estimating Total Business Cost
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start the session by telling the trainees the session's objectives (Flip Chart 26-1). Furthermore, inform them that before determining their capital requirements, they should first recall all the expenses that they have separately identified, estimated and included in each of their business plan components i.e. the marketing expenses, the production expenses, the management and administration expenses and the pre-operating expenses.
- b. Ask the trainees what they think capital is. Write their answers on the board.

## 2. Presentation and Activities

- a. Guided by Flip Chart 26-2 on the Meaning and Types of Capital in a Business, go through the trainees' answers and assist them understand the meaning and types of capital in a business. Add on to their answers as much as is necessary.

Point out that all the money whether cash or the in kind that contribution that they will put or invest in their businesses will be put to three main uses; purchase fixed assets (i.e. fixed capital), finance current assets (working capital) and financing the start up or pre-operating expenses (pre-operating capital). Show the Flip Charts below to guide the discussions.

- Flip Chart 26-3 for the meaning of fixed assets
  - Flip Chart 26-4 for the elements of fixed capital
  - Flip Chart 26-5 for the meaning of working capital
  - Flip Chart 26-6 for the elements of working capital.
  - Flip Chart 26-7 for the meaning of pre-operating capital
  - Flip Chart 26-8 for the elements of pre-operating capital.
- b. Guide the trainees to reflect on their businesses in particular their business plan components of marketing, production, management and administration and, extract and compile lists of expenditure items that fall in each of the three types of capital.
  - c. During the discussions on working capital, emphasize to the trainees that it is continuously changing due to the changes in the business' operating levels (i.e. production and sales levels) as well as changes in specified conditions like raw material prices, time for procuring raw materials, processing time, delivery schedules, credit given, etc. Point out that one of the most common problems of micro and small enterprises (also referred to as SMEs) is the shortage of working capital. In order to avoid experiencing this problem, entrepreneurs have to be familiar with the Operating Cycles of their businesses i.e. how long it takes them to put in money e.g. purchase their stocks (trading business) or raw materials (production/manufacturing) up to the time they sell their products and get paid in cash.
  - d. Guide the trainees to compute their total business costs. Show Handout 26 which emphasizes that the total business costs are made of the following:
    - Total Marketing expenses
    - Total Production expenses
    - Total Management and administration expenses
    - Total Pre-operating expenses.
  - e. After getting the total business costs, guide them to split the costs into the three main types of capital they worked out in (b) above based on what or how they plan to use the money or capital for (i.e. how much of it will go into fixed assets / fixed capital, financing operations / working capital and, pre-operating expenses/pre-operating capital).

## 3. Summary

- a. End the session by referring back to the session objectives and by reiterating to the trainees the need to consider all the three basic elements when estimating total project cost. Link this session with the next session on "Sources of Funds" by telling the trainees that after determining their total business costs, their next task is to look for funds to finance the total capital needed for their respective businesses.



26-1

## **Session:            Estimating Capital Requirements**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Determine the total cost of their businesses
- ❖ Determine the capital requirements of their businesses



26-2

## **Meaning and Types of Capital in a Business**

- Fixed Capital or Fixed Assets
- Working Capital
- Pre-operating Capital



## **FIXED ASSETS**

These are expenses that may be incurred once or the items / things that you may contribute in kind in order for the business to get started and keep running for some time before being called upon to contribute or spend again.

***Think of fixed assets as being the bones and arteries in a human body. They constitute the Skelton or frame around which all other body parts are joined and draw from in order for them to operate.***

***The funds / money invested in fixed assets constitute the business' fixed capital.***



## **Elements of Fixed Capital**

Fixed capital is the initial investment made to acquire fixed assets for the operations of a business.

It provides the skeleton and blood Arteries for the business. It may be made up of the following elements:

- **Land**
- **Building**
- **Machinery and Equipment**
- **Office Facilities (like office equipment and furniture and fixtures)**
- **Other Fixed Assets like transport vehicles, etc.**





## Meaning of Working Capital

Working capital is made up of funds used to cover expenses that have to be incurred over and over again in order to keep your business operating normally.

***Working capital can be said to do in business what blood does in a human body.***

There is need to contribute enough funds, cash or in kind to ensure that your business starts and keeps running normally until it is able to generate its own funds from the sale of its products i.e. goods or services.



## Elements/Composition of Working Capital

- **Cash to cover the following:**
  - *Purchase of Raw Materials or Stocks*
  - *Payment of Direct Labor*
  - *Payment of Factory Overhead Expenses*
  - *Payment of Marketing Expenses*
  - *Payment of Administrative Expenses*
- **Debtors or Accounts Receivable**
- **Inventory of Raw Materials**
- **Inventory of Work in Progress**
- **Inventory of Finished Goods**



## Meaning of Pre-operating Capital

These are the expenses that you will incur before your business can commence its operations.

You have already seen and prepared schedules of pre-operating activities and expenses. *See Flip Chart 26.8 below.*



## Elements /Composition of Pre-operating Capital

*May include either of the following:*

- **Training Expenses**
- **Expenses in Collecting Information and Preparing a Business Plan**
- **Registration and obtaining operating License Fees**
- **Legal and Other Professional Fees**
- **Expenses for looking for or sourcing Equipment and Raw**
- **Materials Sourcing**
- **Expenses of Product Testing**
- **Expenses for Market Research**
- **Other Expenses Necessary before Start of Operations**



## TOTAL BUSINESS COSTS

You will compute your total business costs by checking and extracting the following from your business plan components:

Business Plan Component	Amount (ID)
i) Marketing expenses	
ii) Production Expenses	
iii) Management and Administration Expenses	
iv) Pre-operating Expenses	
<b>Total</b>	
<i>Of the above total business Costs, show how they are made up (in terms of the capital that will be needed to finance them):</i>	
<b>Fixed Capital</b>	
<b>Working Capital</b>	
<b>Pre-operating Expenses</b>	
<b>Total</b>	

## **Trainer's Notes**

Before determining the capital requirements of a business, the entrepreneur should first understand what capital is, the types of capital, elements /composition of the different components of capital and the process of estimating each of the different components of capital.

### **Capital in a Business**

There are several things that the entrepreneur, has to do in order to start and operate a business. These include land, labour and capital. While the rest are clear, capital includes all things that they contribute in cash or in kind to enable a business to start and operate. For example, if an entrepreneur wants to start a window and doorframe making business, he/she may realize that the business requires a store, a workshop and a show room. He/she may rent these premises or put them up using his/her own money. If he/she decides to surrender his/her own house to the business, then the value of the house surrendered becomes part of the capital he/she puts into the business (in kind contribution). If he/she pays money for renting the building, then the money paid becomes part of his/her capital.

Likewise, he/she will require equipment and tools, raw materials, and may also use some of his/her money to settle pre-operating expenses. The money he/she paid plus the value of the things he/she contributes in kind to ensure that everything is available to start and keep the business running is what is known as capital. Ordinarily, once the business has started and is operating well, it will depend on the funds generated out of its operations (sales) to keep running.

### **Types of capital in a business**

There are three types of capital in a business:

- Fixed Capital or Fixed Assets
- Working Capital
- Pre-operating Capital

### **Fixed Capital**

These are expenses that may be incurred once or things that the entrepreneur may contribute in kind in order for the business to get started and keep running for some time before being called upon to contribute again. In the example of a window and door frame making business, things like a welding unit, a grinder, a vice, etc. would be acquired once and the business will run for a fairly long time before the entrepreneur is called upon to buy more. His contribution to meet the cost of these things is what is known as fixed capital.

### **Working Capital**

These are expenses that have to be incurred over and over again in order to keep the business running. The entrepreneur has to contribute enough funds or in kind to ensure that the business starts and keeps running until it is able to generate its own funds from sale of its products and services. The value of this contribution is what is known as working capital. In the example of a window and door frame making business, these would include angle lines, welding rods, electricity, wages and salaries, license fees, rent, staff meals and welfare, grinding plates, etc.

## Pre-operating Capital

These are expenses made during the business start-up phase. These are the pre-operating expenses that the entrepreneur will incur before his business can fully operate. In the example of the window and door frame making business, he/she may need to undergo skills training and/or business training before business start-up; he may need to collect information and prepare a business plan; he/she may need to pay registration and license fees, legal and other professional fees; do market research and product testing, and incur other expenses necessary before the start of operation. These costs are called pre-operating capital or pre-operating expenses. (Pre-operating capital for a new business while pre-expansion capital for an existing business).

The above expenses are pre-operating expenses that the entrepreneur has to budget for because if he/she does not budget for it, then he/she may be using the money budgeted for normal operations of the business thus he/she will end up with a working capital that is not enough.

While these costs are paid before the business starts to operate, the cost is usually spread out during the operations phase.

## Elements of Fixed Capital or Fixed Assets

Fixed capital is the initial investment in a business to acquire fixed assets for the operations of a business. It provides the skeleton for and the blood vessels for the business. It has the following elements:

- Land
- Building
- Machinery and Equipment
- Office Facilities (like Office Equipment and Furniture and Fixtures)
- Other Fixed Assets like transport vehicles, etc.

## Estimating Fixed Capital or Fixed Assets

The following will serve as guide in estimating your fixed capital requirements:

Item	Includes	Basis of Cost Determination
Land	Cost of land Site preparation Clearing and related expenses	If it were to be owned, use market value or find out the prevailing price per square meter of similar property in the area where you will be buying. Simply multiply this price by total area of the property that you will acquire.  If leased, there is no cost of land, instead your expense is rent for the land (which will form part of your Working Capital as Factory Overhead)
Building	Building Warehouses Workshops Retail space Installing fixtures Improving or renovating property	If owned, to determine cost of construction, multiply total area of physical facilities by the cost of construction per unit area (square meter or square foot).  Cost of construction may be obtained from contractors.  If rented, there is no building cost, instead your expense is rent for the building (which will form part of your Working Capital as Factory Overhead)

Machinery and Equipment	Machines Equipment Tools or fixtures used in the manufacture of goods or provision of services	If it is to be purchased, obtain quotations from suppliers Include cost of freight, handling, taxes, duties, installation and related expenses.  If rented or hired, there is no cost of machinery and equipment, instead your expense is rent for the machinery and equipment (which will form part of your Working Capital as Factory Overhead)
Office Facilities	Office Furniture (like tables, chairs) and Fixtures (like built-in cabinets, etc)  Office Equipment (like computer, calculator, etc)	Obtain quotations from suppliers  Include cost of freight, handling, taxes, duties, installation and related expenses
Other Assets	Transport, vehicles and fixed assets	If to be purchased, obtain quotation from suppliers  Include cost of freight, handling, taxes, duties, and related expenses.  If hired, there is no cost of vehicle, instead your expense is rent for vehicle (which will form part of your Working Capital as Factory Overhead)

In the example of the door and window frame making business, fixed capital will be required to purchase the following fixed assets items:

Item	Cost (ID) (1000)
Land	200,000
Workshop Renovation	300,000
Machinery and Equipment	200,000
Furniture and Fixtures	45,000
Office Equipment	35,000
Tools	20,000
<b>Total Fixed Capital</b>	<b>800,000</b>

#### Elements of Working Capital<sup>1617</sup>

This is investment into an enterprise's current assets and is required because of the time lag between procurement of raw materials, processing them (or purchase of merchandise) and ultimately recovering the cost through sale of finished goods. Working capital is therefore, part of capital that is perpetually locked up in the business in form of current assets. It consists of the following elements:

- Cash to cover costs of the following
  - I. Purchase of Raw Materials or Stocks
  - II. Payment of Direct Labour
  - III. Payment of Factory Overhead Expenses

<sup>16</sup> Women Entrepreneurship Development. Hina Shah and Chandramauli Pathak. International Centre for Entrepreneurship and Career Development Pages 77 – 78, 114.

<sup>17</sup> Business Skills Development Training Manual by Private Sector Development Programme. 1999 Pages 40 – 50

- IV.      Payment of Marketing Expenses
- V.       Payment of Administrative Expenses
- Debtors
- Inventory of Raw Materials
- Inventory of Work in Progress
- Inventory of Finished Goods

These are required to sustain a specific level of activity (in terms of production and sales) under specific conditions or may be tied up because the enterprise is not selling its products fast enough, or its productivity is very low or it is not recovering its debts.

Working capital is continuously changing due to:

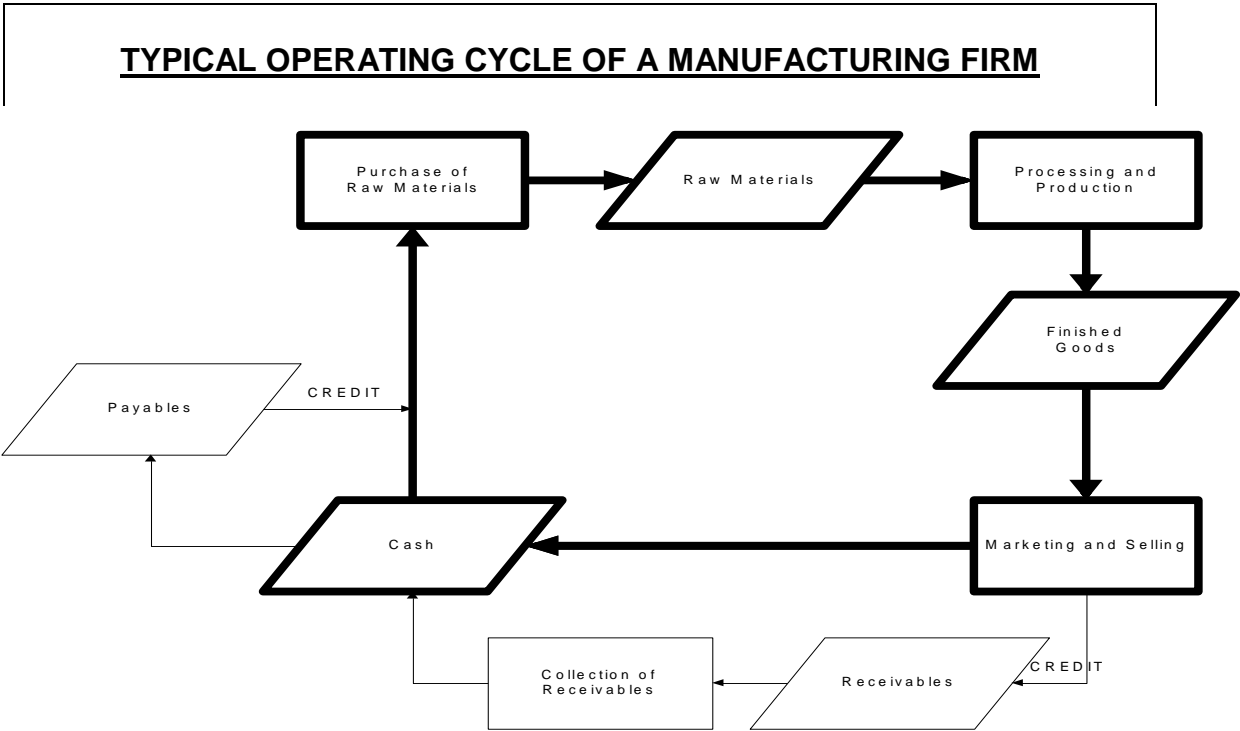
- Changes in operating levels (production and sales)
- Changes in specified conditions like raw materials prices, time for procuring raw materials, other direct expenses, processing time, delivery schedules, credit given, etc.

**Operating Cycle of an Enterprise**

One of the most common problems of micro and small enterprises is shortage of operating or working capital. In order to avoid experiencing problems of shortage of working capital, you have to be familiar with the **operating cycle** of your business.

The operating cycle is the circular flow of activities that require money and those that generate money: from the purchase of raw materials, to the production processes, stocking of products, selling on cash or credit, collection from debtors and back again to the use of cash for purchasing of production inputs.

The different phases of the operating cycle of a manufacturing enterprise are described in the following table and diagram.



### OPERATING CYCLE OF A MANUFACTURING ENTERPRISE

Stages	Description
1. Purchase of materials/production inputs	Covers the purchase of raw materials, factory supplies, subcontracted components, and related items needed for production in cash or on credit.
2. Storage of raw materials	Includes receiving and storage of materials/inputs in the storage area.
3. Processing, assembly, finishing and quality control	Raw materials are processed (sawed, drilled, sewed) or assembled into their finished products.
4. Storage of finished goods	Refers to the stocking of finished products while awaiting distribution to dealers or sales to customers.
5. Marketing and selling	Includes selling the business' products or services to customers for cash or credit.
6. Collection of sales	Receiving cash from sales either immediately or at a later date for sales made on credit.  Cash is then flowed back into the business, thus starting the operating cycle over again.

### Estimating Working Capital

The following will serve as guide in estimating the working capital requirement of a business:

Item	Includes	Explanation
<b>Cash for:</b>  Raw Materials	Materials in raw form  Semi-processed materials  Manufactured components or parts for assembly and integration into finished products	In procuring raw materials or stocks, take into account the length of time it takes to receive them and the minimum balances that a business must hold for normal operations.
Direct Labour	Wages and benefits for all factory workers directly involved in production of goods or provision of services.	The longer it takes in processing or in making the product or service, the more working capital will be spent for Direct Labour.



Factory Overhead	Indirect Materials and Factory Supplies Indirect Labour (salary and benefits of foreman, supervisor) Rent of Building Repairs and Maintenance of building, machinery and equipment Insurance of Building and Machinery and Equipment Utilities (Power, Electricity, Water) Miscellaneous Factory Overhead	The longer it takes to process or make the product or provide a service, the more working capital will be spent for Factory Overhead Expenses.
Marketing Expenses	Sales Commission Advertising and Promotion Representation Expenses Other Expenses related to the marketing and selling of products or services	The cost of running a marketing programme for the enterprise's products or services.
Administrative Expenses	Salary of Owner-Manager Salary of Bookkeeper Office Supplies Communication Expenses (telephone, postage, etc.) Interest Payments	Business costs that support the productive systems.
<b>Debtors or Accounts Receivable</b>	Credit Sales	Sales on credit where there is a need for funds to replace whatever will have been sold on credit until full recovery is made.
<b>Inventory of Raw Materials</b>	Stock of Raw Materials	Cost of the minimum balance of raw materials that the business must hold to avoid stock outs.
<b>Inventory of Work in Progress</b>	Stock of Work in Progress	Cost of semi-finished goods or goods still in process of production.
<b>Inventory of Finished Goods</b>	Stock of Finished Goods	Cost of stocks of finished products that have got to be maintained by the business to ensure orderly business and avoid stock outs.

1. Remember that for any business to operate normally, it requires to maintain some cash balance to meet its routine expenses before it recovers from sales.
2. Note that items like depreciation of building, depreciation of machinery and equipment, depreciation of office facilities are not included when estimating working capital since these do not actually use up any cash.
3. Working capital as already seen is part of the entrepreneur's investment that is required to keep the business running on a day-to-day basis. It is specifically required to keep the enterprise running between the periods it opens for business and when it sells its products or services to get its own money.
4. After estimating how much would be required to cover the above costs say per month, you would need to work out how long it would take you to sell and receive payment. This is called the turn-around period. The estimated turn-around period will be multiplied with the monthly estimated costs to arrive at the total working capital cost required.

### **Example for estimating working capital in the door and window frame making business**

#### **Assumptions:**

1. Raw materials required for producing 10 doors and 10 window frames per month is ID100,000. It takes one month to dry the wood. Raw materials are all purchased on cash basis.
2. Direct Labour every month is ID50,000.
3. Overhead expenses every month are ID30,000.
4. Marketing Expenses every month is ID20,000.
5. Administrative Expenses every month is ID10,000.
6. Monthly sales are ID300,000 out of which ID100,000 is sold on credit. Credit sales are collected only after 3 months. Debtors includes cost to produce and marketing and administrative expenses (this is computed by:  $ID210,000 / ID300,000 \times 3 \text{ months}$ )
7. It takes 2 months for the finished goods to be sold. Finished goods inventory does not include marketing and administrative expenses.

<b>WORKING CAPITAL REQUIREMENTS</b>			
<b>Item</b>	<b>Monthly Cost (ID) (a)</b>	<b>Turn-around Period (b)</b>	<b>Total (ID) (a x b) (1000)</b>
<b>Cash Requirements for 1 month</b>			
<b>Raw Materials</b>	<b>100,000</b>		<b>100,000</b>
<b>Direct Labour</b>	<b>50,000</b>		<b>50,000</b>
<b>Factory Overhead</b>	<b>30,000</b>		<b>30,000</b>
<b>Marketing Expenses</b>	<b>20,000</b>		<b>20,000</b>
<b>Administrative Expenses</b>	<b>10,000</b>		<b>10,000</b>
<b>Debtors (At cost to produce and sell)</b>	<b>70,000</b>	<b>3 months</b>	<b>210,000</b>
<b>Inventory</b>			
<b>Raw Materials</b>	<b>100,000</b>	<b>1</b>	<b>100,000</b>
<b>Finished Goods (At cost to produce)</b>	<b>180,000</b>	<b>2</b>	<b>360,000</b>
<b>Less: Accounts Payable</b>			<b>( 0 )</b>
<b>TOTAL WORKING CAPITAL</b>			<b>880,000</b>

### Elements of Pre-operating Capital

Start-up costs include:

- Training Expenses
- Expenses in collecting information and preparing a business plan
- Registration and license fees
- Legal and other professional fees
- Expenses for equipment and raw materials sourcing
- Expenses of product testing
- Expenses for market research
- Other expenses necessary before the start of operation.

### Estimating Pre-Operating Capital

In estimating pre-operating costs, estimate the amount that you will spend for training, and the amount that you will spend for gathering information and preparing your business plan. Refer to the schedule of fees from public agencies for computing taxes, licenses and permits. Estimate how much you will spend for product testing, market research and other expenses necessary before the start of operation.

In the example of the door and window frame making business, pre-operating capital will be used for the following:

Item	Cost (ID) (1000)
Training Expenses	10,000
Business Plan Preparation	20,000
Registration and License Fees	20,000
Expenses for Equipment and Raw Materials Sourcing	10,000
<b>Total Pre-Operating Capital</b>	<b>60,000</b>

### Total Business Cost

This refers to the total capital requirement for starting your business. This is your requirement for:

- **Fixed capital or fixed assets** like land, building, machinery and equipment, office equipment, furniture and fixtures, etc.
- **Working capital** like cash for raw materials, direct labour, factory overhead, marketing expenses, administrative expenses, inventory of raw materials and products, and accounts receivable.
- **Pre-operating capital or pre-operating expenses** like training expenses, trade license fees, business name registration, and expenses in looking for equipment and sources of materials.

$$\begin{aligned}
 \text{Total Business Cost} &= \text{Fixed Capital} + \text{Working Capital} + \text{Pre-operating Capital} \\
 &= \text{ID } 800,000 + \text{ID } 880,000 + \text{ID } 60,000 \\
 &= \underline{\text{ID } 1,740,000}
 \end{aligned}$$

To be safe, you may also include Allowance for Contingencies. These are funds that are set aside to cover expenses that are caused by unforeseen developments and changes in implementation plans and schedule. This includes allowance provided for any possible increases in costs of any or all of the preceding expense categories.

### BUSINESS COST ESTIMATING FORM

Business Plan Component	Amount (ID)	Remarks
v) Marketing expenses		The exact breakdown for
vi) Production Expenses		

Business Plan Component		Amount (ID)	Remarks
vii) Management and Administration Expenses			<i>these items will come from respective parts of the business plan.</i>
viii) Pre-operating Expenses		60,000	<i>This figure is assumed to be similar to the one in the worked out example</i>
<b>Total</b>		<b>1,740,000</b>	

<i>How the above costs are made up:</i>			
Item		Cost (ID)	Total (ID)
<b>FIXED ASSETS</b>			
Acquisition of Land		200,000	
Construction of Building		-	
Building/Workshop Renovation		300,000	
Purchase of Machinery and Equipment		200,000	
Purchase of Office Furniture and Fixture		45,000	
Purchase of Office Equipment		35,000	
Purchase of Tools		20,000	
<b>TOTAL FIXED ASSETS (Add up all the cost and put the sum in the column of total)</b>			<b>800,000</b>
<b>WORKING CAPITAL REQUIREMENTS</b>			
Item	Monthly Cost (ID) (a) (1000)	Turn-around Period (b)	Total (ID) (a x b) (1000)
<b>Cash Requirements for 1 month</b>			
Raw Materials	100,000		100,000
Direct Labour	50,000		50,000
Factory Overhead	30,000		30,000
Marketing Expenses	20,000		20,000
Administrative Expenses	10,000		10,000
Debtors (At cost to produce and sell)	70,000	3 months	210,000
Inventory			
Raw Materials	100,000	1	100,000
Finished Goods (At cost to produce)	180,000	2	360,000
Less: Accounts Payable			( 0 )
<b>TOTAL WORKING CAPITAL</b>			<b>880,000</b>
<b>PRE-OPERATING EXPENSES</b>			<b>60,000</b>

<b>TOTAL PROJECT COST</b>	<b>1,740,000</b>
<p><i>Something to Think About when Estimating Total Business Cost</i></p>	
<p><i>While the basic cost components are the same for all businesses, not all types of business will have the same costs. Think about some of these cost scenarios:</i></p> <ul style="list-style-type: none"> <li>• <i>An enterprise that manufactures products has different costs components compared to a business that solely sells goods or provides services.</i></li> <li>• <i>Businesses that produce goods spend more on machinery and equipment, tools and raw materials.</i></li> <li>• <i>Retail trading businesses need selling space in a commercial center of the trading area and probably will have to pay more for a smaller space than that paid for by a manufacturer for a workshop or factory farther away from the commercial centre.</i></li> <li>• <i>An initial inventory of goods may be needed to be stockpiled depending on business' estimation of product demand and the period when they may be sold.</i></li> <li>• <i>Service firms may need only a working area and specialized tools as initial inputs.</i></li> <li>• <i>An agricultural-based business needs to be linked to farmer groups or may have to own or lease enough land to operate the business.</i></li> </ul>	

## SESSION 27

### SOURCES OF FUNDS

1.5 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to determine the financing plan, compute the debt-equity ratio for their businesses and compute interest on their business loans (*in case they need to borrow*).

#### TRAINING MATERIALS

- \* Flip Chart27-1: Session Objectives
- \* Flip Chart27-2: Sources of Capital
- \* Flip Chart27-3: Guidelines for Selecting Appropriate Financing
- \* Flip Chart27-4: Factors Considered by Lenders in Evaluating Loan Applications
- \* Flip Chart27-5: Minimizing Difficulties in Seeking for Business (loan financing)
- \* Hand Out27-1: Financing Plan Format
- \* Hand Out27-2: Computation of Interest and Loan Amortization Schedule – blank
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce this session by stating the session objectives (Flip Chart27-1) and by telling the trainees that it is unlikely that they will have the entire amount of funds needed for their businesses as per their plan so far. If this is the case, ask the trainees what they will do in order to ensure that they have/find/get the money or the funds that they need. Write their answers on the board.

## 2. Presentation and Activities

- a. Guide the trainees to go through their answers in (a) above and add as necessary. Discuss the different sources of capital by showing them Flip Chart 27-2. Emphasize that the most appropriate source of funds is the one which can best meet their business needs and also which they can afford. However, in all these, they need to bear in mind that what is most easily available may not be the best choice nor sufficient.
- b. Discuss the guidelines for selecting the appropriate financing for their enterprise. Refer to Flip Chart 27-3. Emphasize that as business startups and first time entrepreneurs, they will most unlikely get anyone willing to lend them the money they need for starting their businesses. Therefore, as they think about the sources for their business capital, they should put less emphasis on borrowing from external sources. Their first line of approach could as well be to go back and revise their planned activities and costs downwards. They should be prepared to start small and gradually grow their businesses. To the extent possible, they should be prepared to start their businesses within their own resource limits.
- c. Illustrate how to fill-up the financing plan format and how to compute the debt-equity ratio (refer to Hand Out 27-1). Emphasize that in most cases, most lenders insist on borrowers/entrepreneurs investing some substantial sums of money in their businesses so that the debt ratio is within their limits e.g. 1:1, 2:1, 3:1, 4:1 etc. (or 50%: 50%, 66.7% : 33.3%, etc)
- d. As an exercise, ask the trainees to compute the debt-equity ratio of the enterprise from Kurdistan Region.
- e. Explain that in case they have included external borrowing in their funding sources, the next step would be to apply for the loan. Show Flip Chart 27-4 and discuss the factors often considered by lenders in evaluating loan applications. In addition, discuss some useful tips that might assist them to minimize difficulties in seeking for financing (Flip Chart 27-5).
- f. Discuss how to compute interest on and prepare loan amortization schedules for their loans. Show how to calculate interest on loans by using the formula and example shown in Hand Out 27-1. Also show how to prepare a loan amortization schedule using Hand Out 27-2.

## 3. Summary

End the session by referring back to the session objectives and by emphasizing that the process of deciding which source of funding to use in one's business involves a careful matching of the features of the funding scheme and the requirements of the business as well as its ability to meet the implied financing obligations (interest and loan installments). This is to ensure that one does not harm his/her interests in the business as well as those of the business itself.





27-1

## **Session:                Sources of Funds**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Determine their financing plan
- ❖ Compute the debt-equity ratio for their business
- ❖ Compute interest on their business loans



## **Sources of Capital**

- Your own personal savings
- Grants from family members and friends
- Proceeds from forming a company with other shareholders, a partnership or a co-operative / association
- Borrowing from banks
- Government loans or grants
- Grants from development agencies or NGOs
- Suppliers' Credit

## **Guidelines for Selecting Appropriate Business Financing**

- Before sourcing financing, determine the desired amount of control you would like to retain over the business.
- Consider only the funding alternatives that relate to the needs of your business. The most common is long-term funding to finance fixed capital or fixed assets while short financing should be for financing working capital needs.
- Make sure that the list of requirements and conditions of each financing scheme to be considered are updated and complete.
- Always clarify terms and conditions of the financing, particularly for informal sources of credit.
- Review the details of the requirements and the conditions of the loan, such as the collateral, and the ability of your business to fulfill them.
- Check out the experiences of other borrowers regarding the types of financing you are interested in before making a decision on which funding option to use.
- Consider the implications of the various sources of funds to the business such as loan period, repayment installments, interest expense and other charges as well as delays in receiving funds.



27-4

## **Factors Considered by Lenders in Evaluating Loan Applications**

- Personal credit standing/credit worthy of the borrower
- Good character references of the loan applicant
- Legal form of the business
- Track record in business
- Acceptability of financial records and the operating systems used
- Managerial ability and experience of entrepreneur for the type of project to be undertaken
- Adequacy of collateral for the requested loan
- Amount of capital invested by the entrepreneur in the business compared to the minimum requirements of the financing source



## **Minimizing Difficulties in seeking for Business Funds (Loan financing)**

- **Get to know your prospective financier. Establish trust and confidence with your potential creditors.**
- **Be personally involved in the preparation of your business plan and all the documents and, thoroughly understand them.**
- **Always indicate all credit references clearly.**
- **Make sure that all legal documents are in order.**
- **Expend considerable effort and personal commitment to the project**
- **Maintain integrity in the application.**



## Estimated Business Costs, Types of Capital, Financing Plan and computation of Debt Equity Ratio.

Estimated Business Costs		Estimated Cost (ID)
1	Marketing Expenses	
2	Production Expenses	
3	Management and Administration Expenses	
4	Pre-operating Expenses	
	Total Costs	
Types of Capital		
1	Fixed Capital	
2	Working Capital	
3	Pre-operating Capital	
	Total Capital	
Financing Plan		
1	Personal Savings (Own funds)	
2	From family. Friends and Relatives	
3	Capital subsidies / Grants (if any)	
4	Trade credit facilities	
5	Short-term loans	
6	Long-term loans from banks / credit institutions	
	Total Funds	
<p><b><u>Computation of the Debt Equity Ratio</u></b>  <i>(i.e. determining how much of the businesses total capital is financed by loans (short and long term) in comparison that funded from other sources notably, the entrepreneur's capital contribution).</i>  <i>Assume total capital required is ID 1,000,000 of which ID 600,000 be contributed by the entrepreneur and ID 400,000 will be borrowed from the bank.</i></p> <p><i>The debt equity ratio for this business is: <math>400: 600,000 = 4 : 6 = 2 : 3</math> Or</i></p> <p><i>Debt contribution: <math>400,000/1,000,000 \times 100\% = 4/10 \times 100\% = 40\%</math> and</i>  <i>Owner's Contribution: <math>600,000/1,000,000 \times 100\% = 6/10 \times 100\% = 60\%</math></i></p> <p><b><u>Debt Equity Ratio = 40% : 60%</u></b></p>		



## COMPUTATION OF INTEREST

### Enterprise Co. Ltd in Kurdistan Region

**Formula:** Interest = Principal x Rate x Time

**Where:**

Principal refers to the amount of loan

Rate refers to Interest rate

Time refers to duration of loan

**Example:**

**Total Capital required is ID 36,000, Owner's Contribution is ID 24,000, Loan to be sought is - ID 12,000**

**Interest rate - 16% per year (calculated on a reducing balance basis)**

**Duration of loan is 2 years to be repaid on a quarterly basis (principal installment due plus interest for the quarter)**

**Required: Compute interest for the first quarter**

**Solution:**

$$\begin{aligned}\text{Interest} &= \text{Principal} \times \text{Rate} \times \text{Time} \\ &= \text{ID } 12,000 \times 16\% \times 1/4 \text{ year} \\ &= \text{ID } 480\end{aligned}$$

To determine interest per month during the first quarter, divide interest for the quarter by 3 months

Example: ID 480/3 months = ID 160

**Regarding the repayment of the loan, the monthly installments are calculated as follows:**

$$\begin{aligned}\text{Total loan} &= \text{ID } 12,000 / 2 \text{ years} \times 12 \\ &= 12,000 / 24 = 500\text{ID}\end{aligned}$$

**After the first Quarter, 1,500 ID of the loan principal will be repaid plus interest amounting to 480 ID. Since interest is calculated on a reducing balance basis, the subsequent interest calculation will be done as is shown in the table below:**

<b>Year 1</b>	<b>Principal Payment (a) ID</b>	<b>Interest (b) ID</b>	<b>Total Payment (a+b) ID</b>	<b>Loan Balance (Principal) ID</b>
				<b>12,000</b>
Quarter 1	<b>1,500</b>	<b>480</b>	<b>1,980</b>	<b>10,500</b>
Quarter 2	<b>1,500</b>	<b>420</b>	<b>1,920</b>	<b>9,000</b>
Quarter 3	<b>1,500</b>	<b>360</b>	<b>1860</b>	<b>7,500</b>
Quarter 4	<b>1,500</b>	<b>300</b>	<b>1800</b>	<b>6,000</b>
<b>Year 2</b>				
Quarter 1	<b>1,500</b>	<b>240</b>	<b>1,740</b>	<b>4,500</b>
Quarter 2	<b>1,500</b>	<b>180</b>	<b>1,680</b>	<b>3,000</b>
Quarter 3	<b>1,500</b>	<b>120</b>	<b>1,620</b>	<b>1,500</b>
Quarter 4	<b>1,500</b>	<b>60</b>	<b>1,560</b>	<b>0</b>
<b>Total</b>	<b>12,000</b>	<b>2,160</b>	<b>14,160</b>	



## Trainer's Notes

### Source of capital

It is unlikely that the entrepreneur will have the entire required amount for his/her business. If so, where will he/she source his/her capital? Of the total project cost, how much will be his/her contribution? If loan is needed, how much will he/she borrow? What will be the purpose of his/her loan? From whom will he/she borrow? The following are several sources of finance:

- Personal savings
- Money from family, friends and outside investors
- Forming a company with shareholders or a partnership
- Borrowing from banks
- Government loans or grants
- Credit from Suppliers

**Personal savings.** While the entrepreneur may not be able to fund the entire business on his/her own, he/she should be prepared to contribute some of his/her own money to the financing of the business. It is unlikely that he/she will receive money from any other source unless he/she has committed some of his/her own funds into the business. His/her own money invested in the business is called **equity** or **capital**.

**Money from family, friends and outside investors** who are interested in investing in the business. In return they too will have equity or capital invested in the business or they may lend the money at a favorable interest rate. They will be considered as investors in the business.

**Forming a company with shareholders or a partnership** - One of the benefits of forming a company with shareholders or partners, is the added funds on such an arrangement.

**Borrowing from banks** - Based on a sound business plan, a bank may be willing to lend to the business. This loan will have to be paid back with interest according to a signed agreement.

**Government loans or grants** - Many local and national governments offer specialized financing schemes to encourage micro and small village entrepreneurs start their businesses. These programs normally have identified specific priority industries for financing. They usually have set incentives, terms and requirements (like lower interest rates, longer repayment terms, etc.)

**Credit from suppliers** - It is possible that suppliers extend credit terms that allow the entrepreneur to purchase raw materials and other supplies on credit. If such is the case, he/she does not need outright cash for this particular working capital need since payment will be done after generating sales.

He/she may decide to fund the enterprise by a combination of methods – partially with a bank loan, personal investment and the investment of family members. Or he/she may decide to apply for a government loan.

Choosing the most appropriate sources and schemes for funding the needs of the enterprise will be one of the more important decisions of the entrepreneur. The most appropriate is the source which can best meet his/her needs – bearing in mind that sometimes what is most easily available may not be the best choice. The wrong choice of funding scheme may lead to wasted efforts, unnecessary costs for the enterprise, misapplication of funds (such as using short term funds to finance fixed assets) and frustrations.

The entrepreneur must plan ahead since any delay in obtaining financing can be disastrous for the business. The process of deciding which sources of funding to approach involves a careful matching of the features of the funding scheme and the requirements of the business. Tell entrepreneur to take into consideration other factors such as convenience and personal relationship with the lender. The selection process involves a careful matching of the business needs and your preferences.

### **Selecting the appropriate financing for the enterprise**

- i) Before the source of financing, the entrepreneur should determine the desired amount of control he/she would like to retain over the business. By this, he/she decides on the mix of the funding sources he/she will be comfortable with, such as the proportion of his/her personal equity or his/her financial participation in the business, the amount of capital contributed by his/her partners and the amount of the loan he/she may apply for.
- ii) Consider only the funding alternatives that relate to the needs of his/her business. The most common is long-term funding to finance fixed capital or fixed assets.
- iii) Make sure that the list of requirements and conditions of each financing scheme to be considered are updated and complete.
- iv) Always clarify terms and conditions of financing, particularly for informal sources of credit. Do not leave any uncertain areas that could be sources of problems later.
- v) Review the details of the requirements and the conditions of the loan such as the collateral and the ability of your business to fulfill them. Check if the property offered as collateral is acceptable to the lender.
- vi) Check out the experiences of other borrowers regarding the types of financing he/she is interested in before making a decision on which funding option to use.
- vii) Consider the implications of the various sources of funds to the business such as interest expense and other charges as well as delay in receiving funds.

### **Applying for financing**

Once the entrepreneur has chosen the proper funding source, the next step will be the actual application for financing. This should be managed carefully especially if his/her business has limited funding that could quickly be used up if there is any delay or failure in getting the needed financing.

The chances of success of the loan application may be increased if the entrepreneur comes prepared and is able to present a fairly good impression to the loan officer, especially if he/she is not known personally to the lending entity. This is very important to small village enterprises due to their limited resources, and access to market and technical inputs, the potential creditors are uncertain about their ability to repay the loans.

### **Factors considered by lenders in evaluating loan applications**

The entrepreneur's chances in getting a loan approved are improved if he/she understands the factors that are considered by lenders before they approve a loan application. He/she should be aware that there are two main factors normally considered by creditors: the **business to be financed**, and those that concern the personal characteristics of **the borrower-owner** of the enterprise.

Lenders usually assess some of the personal characteristics of the entrepreneur – borrower to make sure that the funds borrowed are used as intended in the business and will not be diverted for personal needs.

Lenders in evaluating loan application check the following factors:

- Personal credit standing of the borrower
- Good character references of the loan applicant
- Form of organization of the business
- Track record in business
- Acceptability of financial records and systems used
- Managerial ability and experience of entrepreneur for the type of project to be undertaken
- Adequacy of collateral for the requested loan
- Amount of capital invested by the owner in the business compared to the requirements of the financing source

Other factors to consider when applying for financing:

- Make sure that all required legal documents for the proposed project – such as company registration papers, collateral documents, licenses and others – are available and complete.
- List all credit references and make sure that such references are objective, reliable and accessible.
- Be sure there is a reliable record system to support the data needed to be presented in the application
- Consider the proper timing for making the application. You should consider business conditions and seasonal trends in the industry.
- Make sure that the financing needs of your business are justifiable in terms of purpose.
- Be honest in providing information. This is a way of assuring the potential lender that the entrepreneur is trustworthy and can be relied upon to pay the loan on time.

#### **Minimizing difficulties in seeking for financing – The entrepreneur should**

- Get to know the prospective financier. Establish trust and confidence with the potential creditors.
- Should be personally involved in the preparation of his/her business plan and all the documents in the application for funding. This will allow him/her to appropriately respond to questions.
- Always indicate all credit references clearly.
- Make sure that all legal documents are in order.

- Establish considerable effort and personal commitment to the project to convince lenders of his/her commitment and willingness to take risks.
- Maintain integrity in the application. Do not include any item that will not be used in the business. Apply for a separate loan for items that you may need for personal consumption.

### Financing plan for the business

The following format will assist the entrepreneur in planning for his/her financing sources:

#### Financing Plan Format

Source of Funds	Amount (ID)	Cost implications e.g. fees, annual interest, etc.
Own funds		
From family. Friends and Relatives		
Capital subsidies / Grants (if any)		
Trade credit facilities		
Short-term loans		
Long-term loans from banks / credit institutions		
<b>Total</b>		

Always remember that the source of funds should be equal to the use of funds. After determining this, compute debt-equity ratio. This is the percentage of your contribution and the lender's contribution to the total business cost. It is important to know this percentage to determine whether your equity contribution conforms to the bank's requirement. Banks normally require that you have significant equity contribution. The actual rate will vary from bank to bank.

## SESSION 28

### PROFIT AND LOSS STATEMENT

5.0 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the meaning, importance and components of a Profit and Loss Statement as well as prepare a projected profit and loss statement for their businesses.

#### TRAINING MATERIALS

- \* Flip Chart 28-1: Session Objectives
- \* Flip Chart 28-2: Types of Financial Statements
- \* Flip Chart 28-3: Profit and Loss Statement or Income Statement
- \* Hand Out 28 – 1 (a): Sample - Profit and Loss Statement Format for a manufacturing business
- \* Hand Out 28 – 1 (b): Sample - Profit and Loss Statement Format for a vending/trading business
- \* Hand Out 28 - 2: Sample – Schedule of Cost of Goods Manufactured and Sold
- \* Assignment 28: Preparing a Profit and Loss Statement for PESHAWA'S Ltd
- \* Hand Outs 28-3, 28-4 and 28 – 5 for Formats for Profit and Loss Statements for Production, Service and Trading Businesses.
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start this session by presenting its objectives to the trainees. Show Flip Chart 28-1.
- b. Tell the trainees that before starting their businesses, they should more or less have an idea on how their proposed businesses would perform i.e. whether or not it will generate enough profits or a good return on their investment. To know the performance of their businesses, they have to prepare projected financial statements.

- c. Ask the trainees to identify the three main financial statements that would assist them to establish the performance of their businesses. Write their answers on the board.

## **2. Presentation and Activities**

- a. Briefly discuss the three types of financial statements; Profit and Loss Statement or Income Statement, Balance Sheet and the Cash Flow Statement. Show Flip Chart 28-2.
- b. Guide the trainees to discuss the Profit and Loss Statement. Explain that this is also called an Income Statement or a Profit and Loss Account. It shows the business' revenues (income) and expenses for a period (e.g. a week, a month, a quarter, a year) under consideration.
- b. Emphasize to the trainees that a Profit and Loss Statement consists of three parts; the Revenues, Expenses and Profits or Losses. As you explain, show Flip Chart 28-3. Ask the trainees to give examples of the sources of business revenues and expense items. Go through their answers and add as necessary. Show Hand Out 28-1, which contains a sample format of the Profit and Loss Statement and Hand Out 28 - 2, which contains a sample format of a Schedule of Cost of Goods Manufactured. Together with the trainees, go through the process of preparing a Profit and Loss Statement using the trainees' businesses as a case.
- c. To apply the concepts learned, let each group prepare the Profit and Loss Statement for PESHAWA'S Ltd in Assignment 28 using Hand Out 28-1 and 28-2 (Profit and Loss Statement) as guide. Allow 30 minutes for this exercise.
- d. After the group work, request a representative from each group to present their Profit and Loss Statement. Allow five minutes for each presentation. Discuss and comment as necessary.
- e. Explain the differences between the Profit and Loss Statements for manufacturing, service and trading businesses by showing and discussing Hand Outs 28-3, 28-4 and 28-5 respectively.
- f. Thereafter, ask the trainees to start preparing the projected Profit and Loss Statement for their businesses for three years; monthly for the first year of operation and quarterly for the second and third years. Tell them to use the Profit and Loss Statement Format that is applicable to their businesses.
- g. Guide the trainees in the preparation of their businesses' projected Profit and Loss Statements for the remainder of the time. Whatever they do not complete will be given as their assignment.

## **3. Summary**

- a. Conclude the session by referring back to the session objectives and by reiterating to the trainees the need to complete their projected Profit and Loss Statement so that they can proceed with the preparation of the next financial statement; the balance sheet and the cash flow statement during the next sessions.



## Session: Profit and Loss Statement

### Objectives:

By the end of this session, the trainees will be able to:

- ❖ Explain the:
  - **Meaning** of a Profit and Loss Statement
  - **Importance** of preparing a Profit and Loss Statement
  - **Elements** of preparing a Profit and Loss Statement
- ❖ Prepare a Profit and Loss Statement



## Types of FINANCIAL STATEMENTS

- Profit and Loss Statement or Income Statement
- Cash Flow Statement
- Balance Sheet



28-3

## Income Statement

A Profit and Loss Statement (also popularly known as a Profit and Loss Account) shows the results of your business' operations over a given period e.g. a week, month, quarter, year or a cycle.

It shows:

- **How much income was generated out of your business' operations and from where.**
- **How much it cost your enterprise to operate and to generate its income.**
- **If your enterprise made profit or incurred loss from its operations.**





**SAMPLE FORMAT**

**PESHAWA'S' ENTERPRISE**  
**PROFIT AND LOSS STATEMENT FOR MONTHS 1 AND 2**

***NB: This is a producing business***

		Month 1 ID	Month 2 ID	Total ID	Remarks
<b>A</b>	<b>Sales Income</b>				
					<i>In here you will list all sources of your businesses sales income</i>
<b>A</b>	<b>Total Sales Income</b>				<i>This is the sum of all sales income source</i>
<b>B</b>	<b><i>Less: Cost of Goods Sold</i></b>				
	<b>Finished Goods Inventory at the beginning.</b>				<i>It is a new business; this will be zero. But if existing business, there will always be a figure since all goods produced in a period cannot have been sold by its end.</i>
	<b><i>Add: Cost of Goods Manufactured during the period</i></b>				
	<b>Raw Materials</b>				<i>These are the direct costs of production</i>
	<b>Direct Labor</b>				
	<b>Factory Overhead</b>				<i>These are the fixed costs of production</i>
	<b>Total Cost of Goods Manufactured</b>				<i>This is the total value of the goods produced during the period under consideration</i>
	<b><u>Cost of Goods Available for Sale</u></b>				<i>This is the sum of the goods at the start of the period plus the value goods produced during the period.</i>
	<b><i>Less: Finished Goods Inventory at the end of the period</i></b>				<i>This is the value of the goods produced but not yet sold as at the end of the period. They will become the Finished Goods Inventory at the beginning of the next period.</i>
<b>B</b>	<b>TOTAL COST OF GOODS SOLD</b>				

<b>C</b>	<b>GROSS PROFIT ON SALES (A-B)</b>				
	<i>Less: Operating Expenses</i>				
	Marketing Expenses				
	Administrative Expenses				
<b>D</b>	<b>Total Operating Expenses</b>				
<b>E</b>	<b>OPERATING PROFIT (C-D)</b>				
	<b>Less: Other Expenses</b>				
	Amortization of Pre-operating Expenses				
	Interest Expense				
<b>F</b>	<b>Total Other Expenses</b>				
<b>G</b>	<b>PROFIT BEFORE TAX (E-F)</b>				
<b>H</b>	<b>Less: Income Tax</b>				
<b>I</b>	<b>NET PROFIT (G-H)</b>				



**SAMPLE FORMAT**

**PESHAWA'S ENTERPRISE**  
**PROFIT AND LOSS STATEMENT FOR MONTHS 1 AND 2**

***NB: This is a Vending/Trading Business***

		Month 1 ID	Month 2 ID	Total ID	Remarks
<b>A</b>	<b>Sales Income</b>				
					<i>In here you will list all sources of your businesses sales income</i>
<b>A</b>	<b>Total Sales Income</b>				<i>This is the sum of all sales income source</i>
<b>B</b>	<b><i>Less: Cost of Goods Sold</i></b>				
	<b>Opening Stock of Goods</b>				<i>It is a new business, this will be zero. But if existing business, there will always be a figure since all goods purchased in a period cannot have been sold by its end.</i>
	<b>Add: Goods Purchased during the period</b>				
	<b>Total Goods available for sale during the period</b>				<i>This is the total value of the goods available for sale during the period (opening stocks + purchases)</i>
	<b><i>Less: Stock of Goods at the end of the period</i></b>				<i>This is the value of the goods not yet sold as at the end of the period. They will become the opening stock of Goods at the beginning of the next period.</i>
<b>B</b>	<b>TOTAL COST OF GOODS SOLD</b>				
<b>C</b>	<b>GROSS PROFIT ON SALES (A-B)</b>				
	<b><i>Less: Operating Expenses</i></b>				
	<b>Marketing Expenses</b>				

		Month 1 ID	Month 2 ID	Total ID	Remarks
	<b>Administrative Expenses</b>				
<b>D</b>	<b>Total Operating Expenses</b>				
<b>E</b>	<b>OPERATING PROFIT (C-D)</b>				
	<b>Less: Other Expenses</b>				
	<b>Amortization of Pre- operating Expenses</b>				
	<b>Interest Expense</b>				
<b>F</b>	<b>Total Other Expenses</b>				
<b>G</b>	<b>PROFIT BEFORE TAX (E-F)</b>				
<b>H</b>	<b>Less: Income Tax</b>				
<b>I</b>	<b>NET PROFIT (G-H)</b>				



**SAMPLE FORMAT**

**SCHEDULE OF COST OF GOODS MANUFACTURED**

*(This is an extract from the Income and Expenditure Statement)*

		Month 1 ID	Month 2 ID	Total ID
	<b><i>Raw Materials</i></b>			
	Raw Materials inventory, beginning.			
	<b>Add: Purchases</b>			
	Raw Materials available for use			
	<b>Less: Raw Materials inventory, end</b>			
<b>A</b>	<b>Raw Materials Used</b>			
<b>B</b>	<b>Direct Labor</b>			
	<b><i>Factory Overhead</i></b>			
	Indirect Materials			
	Indirect Labor			
	Repairs and Maintenance of Machinery & Equipment			
	Insurance Expense of Building and Machinery and Equipment			
	Depreciation Expense of Machinery and Equipment			
	Depreciation Expense of Building (if owned)			
	Rent Expense of Building (if rented)			
	Utilities Expense			
	Miscellaneous Expense			
<b>C</b>	<b>Total Factory Overhead</b>			
	<b>Total Cost of Goods Manufactured (A+B+C)</b>			



### Assignment:

- a) *Prepare a Profit and Loss Statement of PESHAWA'S Ltd for the Month ending October 2013*
- i) Total sales for the month were ID 215,000
  - ii) Raw Materials inventory on 1 October were ID 8,000
  - iii) Raw materials Purchased during the month were ID 50,000
  - iv) Raw Materials inventory at the end of October were ID 18,000
  - v) Indirect Materials used during the month were ID 14,000
  - vi) The supervisor's salary was ID 12,000
  - vii) The direct labor used during the month was ID 20,000
  - viii) Depreciation on the machine is ID 12,000 per year.
  - ix) Water and Electricity was ID 5,000
  - x) Miscellaneous Expenses were ID 1,000
- b) *What type of business was PESHAWA'S Ltd doing during the Month ending October 2013*



# **PROFIT AND LOSS STATEMENT (for MANUFACTURING BUSINESS)**

**Hand Out 28-3**

..... (Name of Manufacturing Business)

## **Projected Profit and Loss Statement – Year 1. (on a Monthly Basis)**

		Months												
		1	2	3	4	5	6	7	8	9	10	11	12	Year 1
A	SALES													
	<b>TOTAL SALES INCOME</b>													
	Less: Cost of Goods Sold													
	Finished Goods Inventory, Beg.													
	Add: Cost of Goods Manufactured													
	Raw Materials													
	Direct Labor													
	Factory Overhead													
	Total Cost of Goods Manufactured													
	Cost of Goods Available for Sale													
	Less: Finished Goods Inventory, End													
B	TOTAL COST OF GOODS SOLD													
C	GROSS PROFIT ON SALES (A-B)													
	Less: Operating Expenses:													
	Marketing Expenses													
	Administrative Expenses													
D	Total Operating Expenses													
E	OPERATING PROFIT (C-D)													
	Less: Other Expenses													
	Amortization of Pre-operating Expenses													
	Interest Expense													
F	Total Other Expenses													
G	PROFIT BEFORE TAX (E-F)													
H	Less: Income Tax													
I	NET PROFIT (G-H)													



**PROFIT AND LOSS STATEMENT (for a MANUFACTURING BUSINESS)**

**Hand Out 28.3**

..... (Name of Manufacturing Business)

**Projected Profit and Loss Statement Year 1 & 2 (on a Quarterly basis)**

		Q U A R T E R				TOTAL	Q U A R T E R				TOTAL
		1	2	3	4	Year 2	1	2	3	4	Year 3
A	SALES										
	<b>TOTAL SALES INCOME</b>										
	Less: Cost of Goods Sold										
	Finished Goods Inventory, Beg.										
	Add: Cost of Goods Manufactured										
	Raw Materials										
	Direct Labor										
	Factory Overhead										
	Total Cost of Goods Manufactured										
	Cost of Goods Available for Sale										
	Less: Finished Goods Inventory, End										
B	TOTAL COST OF GOODS SOLD										
C	GROSS PROFIT ON SALES (A-B)										
	Less: Operating Expenses:										
	Marketing Expenses										
	Administrative Expenses										
D	Total Operating Expenses										
E	OPERATING PROFIT (C-D)										
	Less: Other Expenses										
	Amortization of Pre-operating Expenses										
	Interest Expense										
F	Total Other Expenses										
G	PROFIT BEFORE TAX (E-F)										
H	Less: Income Tax										
I	NET PROFIT (G-H)										





## PROFIT AND LOSS STATEMENT (for A SERVICE BUSINESS) Hand Out 28-4

..... (Name of Service Business)

Projected Profit and Loss Statement Year 1 (on a Monthly Basis)

		MONTH												TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	Year 1
A	SERVICE INCOME													
	<b>TOTAL SALES INCOME</b>													
	Less: Cost of Operation													
	Raw Materials													
	Labor													
	Factory Overhead													
	Marketing Expenses													
	Administrative Expenses													
	Total Operating Expenses													
B	TOTAL COST OF OPERATION													
C	OPERATING PROFIT (A-B)													
	Less: Other Expenses													
	Amortization of Pre-operating Expenses													
	Interest Expense													
D	Total Other Expenses													
E	PROFIT BEFORE TAX (C-D)													
F	Less: Income Tax													
G	NET PROFIT (E-F)													



**PROFIT AND LOSS STATEMENT (for SERVICE BUSINESS)    Hand Out 28-4**  
 ..... (Name of Service Business)  
**Projected Profit and Loss Statement Year 2 & 3 (on a Quarterly Basis)**

		Q U A R T E R				TOTAL	Q U A R T E R				TOTAL
		1	2	3	4	Year 2	1	2	3	4	Year 3
A	SERVICE INCOME										
	<b>TOTAL SALES INCOME</b>										
	Less: Cost of Operation										
	Materials										
	Labor										
	Factory Overhead										
	Marketing Expenses										
	Administrative Expenses										
B	TOTAL COST OF OPERATION										
C	OPERATING PROFIT (A-B)										
	Less: Other Expenses										
	Amortization of Pre-operating Expenses										
	Interest Expense										
D	Total Other Expenses										
E	PROFIT BEFORE TAX (C-D)										
F	Less: INCOME TAX										
G	NET PROFIT (E-F)										



## PROFIT AND LOSS STATEMENT (for TRADING BUSINESS)

**Hand Out 28-5**

..... (Name of Trading Business)

**Projected Profit and Loss Statement Year 1 (on a Monthly Basis)**

		MONTH												TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	Year 1
A	SALES													
	<b>TOTAL SALES INCOME</b>													
	Less: Cost of Goods Sold													
	Merchandise Inventory, Beg.													
	Add: Purchases													
	Total Merchandise Available for Sale													
	Less: Merchandise Inventory, End													
B	TOTAL COST OF GOODS SOLD													
C	GROSS PROFIT ON SALES (A-B)													
	Less: Operating Expenses:													
	Marketing Expenses													
	Administrative Expenses													
D	Total Operating Expenses													
E	OPERATING PROFIT (C-D)													
	Less: Other Expenses													
	Amortization of Pre-operating Expenses													
	Interest Expense													
F	Total Other Expenses													
G	PROFIT BEFORE TAX (E-F)													
H	Less: Income Tax													
I	NET PROFIT (G-H)													



**PROFIT AND LOSS STATEMENT (for TRADING BUSINESS) Hand Out 28.5**  
 ..... (Name of Trading Business)  
**Projected Profit and Loss Statement Year 2 & 3 (on a Quarterly Basis)**

		Q U A R T E R				TOTAL	Q U A R T E R				TOTAL
		1	2	3	4	Year 2	1	2	3	4	Year 3
A	SALES										
	<b>TOTAL SALES INCOME</b>										
	Less: Cost of Goods Sold										
	Merchandise Inventory, Beg.										
	Add: Purchases										
	Total Merchandise Available for Sale										
	Less: Merchandise Inventory, End										
B	TOTAL COST OF GOODS SOLD										
C	GROSS PROFIT ON SALES (A-B)										
	Less: Operating Expenses:										
	Marketing Expenses										
	Administrative Expenses										
D	Total Operating Expenses										
E	OPERATING PROFIT (C-D)										
	Less: Other Expenses										
	Amortization of Pre-operating Expenses										
	Interest Expense										
F	Total Other Expenses										
G	PROFIT BEFORE TAX (E-F)										
H	Less: Income Tax										
I	NET PROFIT (G-H)										

## Trainer's Notes

### Types of financial statements

- Profit and Loss Statement or Income Statement
- Cash Flow Statement
- Balance Sheet

### Profit and Loss Statement or Income Statement

A Profit and Loss Account shows the results of your business operations during a given period which may be a days a week, a month, a quarter, half-a year or a year depending on your needs and convenience. It tells a story of the business revenues (income) and expenses for a period. It shows:

- How much income was generated by your enterprise's operations and from where.
- How much it cost your enterprise to operate and generate its income or any other expense incurred (but not necessarily related to the generation of income e.g. tax).
- If your enterprise made profit or loss from its operations.

### Elements of Profit and Loss Statement

A Profit and Loss Statement consists of three main parts:

- Revenues
- Expenses
- Profits or losses

### Profit and Loss Accounts

**Revenue or Income:** All gross earnings of the enterprise including sales, service income before expenses are deducted.

**Net Sales:** Sales of the enterprise for a period less any sales returns.

**Other Income:** Revenues from other sources which are not sales from products, goods or services of the enterprise.

**Expenses:** All operating costs incurred during the period. Also included are non-cash expenses such as depreciation and amortization of pre-operating expenses.

**Net Income or Net Profit:** Difference between the gross revenues and all expenses of the enterprise for the period. If profit is realized, applicable taxes are deducted to arrive at the Net Income.

## SESSION 29

### CASH FLOW STATEMENT

2 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to explain the meaning, importance and elements of a Cash Flow Statement, and prepare a cash flow statement.

#### TRAINING MATERIALS



- \* Flip Chart 29-1: Session Objectives and Meaning of a Cash Flow Statement.
- \* Flip Chart 29-2: Sample – Cash Flow Statement
- \* Assignment 29: Projected Cash Flow Statement
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start this session by presenting and discussing its objectives with the trainees. Show Flip Chart 29-1
- b. Ask the trainees what they understand by a Cash Flow Statement. Write their answers on the board.

#### 2. Presentation and Activities

- a. Guide the trainees to discuss and come up with the meaning of a Cash Flow Statement. Explain that this statement shows the business' cash receipts and cash payments during a specific period (e.g. a week, a month, a quarter, a year). Point out that the Cash Flow Statement consists of three main parts; the business' Cash Inflows, its Cash Outflows and the Cash Net Position.
- b. Ask the trainees to give examples of the sources of Cash Inflows into and items leading to Cash Outflows out of their businesses. Guide them to review their examples and

confirm that what they have suggested indeed falls under any of the three parts of the Cash Flow Statement.

- c. Guide the trainees to brainstorm and discover the importance of a cash flow statement to an entrepreneur notably; to confirm whether the business will be generating enough cash inflows to meet its cash outflow requirements. In case the business is not, then the entrepreneur will have to make necessary arrangements to cover the shortfall or adjust the planned outflows so that they can be covered by the inflows.
- d. Show Flip Chart 30-2 for the format of Cash Flow Statement. Guide the trainees to study and internalize it and then go through the process of preparing a Cash Flow Statement using one of the trainees' business plans, profit and loss statement.
- e. After the groups have completed their work, request a representative from each group to present their Cash Flow Statement. Allow five minutes for presentation by each group. Guide the trainees to discuss and comment as necessary in order to improve their Cash Flow Statements
- f. Ask the trainees to start preparing the projected Cash Flow Statements for their businesses for three years; on a monthly basis for the first year of operation and on a quarterly basis for the second and third years.
- g. Guide the trainees in the preparation of their projected Cash Flow Statements for the remainder of the time. Let the trainees continue working on their own in their free time to complete the exercise.
- h. Ask the trainees to explain what they will do if:
  - Their business' net cash position is negative.
  - Their business' net cash position is positive.

### **3. Summary**

- a) In summary, refer back to the session objectives. Reiterate to the trainees the need to complete their projected Cash Flow Statements so that they establish whether their businesses will be generating enough cash inflows to finance their planned outflows and if not ask them develop plans for covering the shortfalls.

## Session:           Cash Flow Statement

### Objectives:

By the end of this session, the trainees will be able to:

- ❖ Explain the:
  - **Meaning** a Cash Flow Statement
  - **Importance** a Cash Flow Statement
  - **Contents of** a Cash Flow Statement
- ❖ Prepare a Cash Flow Statement



### Meaning of a Cash Flow Statement

A Cash Flow Statement tells a story about cash receipts and cash payments of the business over a certain period (e.g. a week, a month, a quarter, a year) and the amount of excess funds available for operations (or the cash shortage it is likely to experience)

A Cash Flow Statement consists of three main parts; Cash Inflows, Cash Outflows and Net Cash Position.



**PESHAWA'S FURNITURE ENTERPRISE**  
**CASH FLOW STATEMENT**  
**Pre-operating Period, and Months 1 and 2**

		Pre- operating Period ID	Month 1  ID	Month 2  ID
<b>A</b>	<b>CASH INFLOW</b>			
	Cash Sales	-	-	100,000
	Collection of Accounts Receivable	-	-	-
	Owner's Contribution	332,630	-	-
	Loan	250,000	-	-
<b>B</b>	<b>TOTAL CASH INFLOW</b>	582,630	-	100,000
	<b>CASH OUTFLOW</b>			
	Purchase of Land	30,000	-	-
	Improvement of Building	50,000	-	-
	Purchase of Machinery and Equipment	100,000	-	-
	Purchase of Office Facilities	10,000	-	-
	Purchase of Raw Materials	65,000	65,000	65,000
	Payment of Labor	-	30,000	30,000
	Payment of Factory Overhead *	-	18,000	18,000
	Payment of Marketing Expenses *	-	8,500	8,500
	Payment of Administrative Expenses *	-	16,250	16,250
	Payment of Loan Principal Amount	-	-	-
	Payment of Loan Interest	-	-	-
	Pre-operating Expenses	8,000	-	-
<b>C</b>	<b>TOTAL CASH OUTFLOW</b>	263,000	137,750	137,750
<b>D</b>	<b>NET CASH INFLOW (B-C)</b>	319,630	(137,750)	(37,750)
<b>E</b>	<b>Add:</b> Cash Balance, beginning	0	319,630	181,880
<b>F</b>	<b>CASH BALANCE, end (D+E)</b>	<b>319,630</b>	<b>181,880</b>	<b>144,130</b>

\* excluding Depreciation Expense since this is a type of expenses that does not involve outflow of cash.

## **Trainer's Notes**

### **Cash Flow Statement**

This shows the inflow and outflow of cash in your business for a given period which may be days, a week, or two, a month, a quarter, half-year or a year depending on your needs and convenience as well as the Net Cash Position. It tells a story about cash receipts and cash payments of the business for a certain period. It shows:

- Cash inflow – Cash receipts from cash sales, collection of debtors (receivables), owner's investment in cash, additional financing
- Cash outflow – Cash payments for: purchases of materials or stocks, production and operating expenses, purchase of fixed assets, payment of loan and interest
- The amount of excess funds available for operation

### **Composition of a Cash Flow Statement**

Similarly with a Profit and Loss Statement, the Cash Flow Statement consists of two parts: Head and Body.

It has three main components:

- Cash inflow
- Cash outflow
- Net Cash Position

## SESSION 30

### BALANCE SHEET

5.0 hours 

#### OBJECTIVES

By the end of this session, the trainees will be able to explain the meaning, importance, components, and the process of preparing a Balance Sheet.

#### TRAINING MATERIALS

- \* Flip Chart30-1: Session Objectives
- \* Flip Chart30-2: Components and Format of a Balance Sheet
- \* Hand Out 30 (a): Format of a Balance Sheet for a Manufacturing Business
- \* Hand Out 30 (b): Format of a Balance Sheet for a Vending/Trading Business
- \* Assignment 30: Exercise on Preparing a Balance Sheet
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start this session by presenting and discussing its objectives. Show Flip Chart 30-1.
- b. Tell the trainees that after preparing a profit and loss statement, the next financial statement to be prepared is the Balance Sheet. Ask the trainees what they understand by a Balance Sheet.

#### 2. Presentation and Activities

- a. Guide the trainees to discuss the meaning of a Balance Sheet. They should come up with the understanding that a Balance Sheet is a picture of the financial condition of the business as at a given date. It is a picture telling you what the business has or owns and how it obtained them as at a specific time (e.g. end of the week, end of the month, end of the quarter or end of the year).

- b. Inform the trainees that a Balance Sheet consists of three main components; Assets, Liabilities and Capital. Ask the trainees to give you examples of Assets, Liabilities and Capital based on their businesses. Go through their answers and add as may be necessary. Show flip Chart 30-2 for the format of a Balance Sheet. Pint out to them that in a Balance Sheet, **Assets are always equal to Capital plus Liabilities i.e. Assets = Liabilities + Capital.**
- c. To apply the concepts learned, in their small groups, the trainees practice preparing a Balance Sheet using Flip Chart 30-3 below. Allow 15 minutes for this exercise.
- d. After the group work, request a representative from each group to present their solution to the case. Allow five minutes for presentation by each group. Discuss and comment as necessary.
- e. Ask the trainees to start preparing the projected Balance Sheets for their businesses for three years. Tell them to use the Balance Sheet Format provided.
- f. Guide the trainees in the preparation of their projected Balance Sheets.

### 3. Summary

- a. Conclude the session by referring back to the session objectives and reminding the trainees of the need to complete their businesses' projected Balance Sheets.



30-1

## **Session:            Balance Sheet**

### **Objectives:**

By the end of this session, the trainees will be able to:

#### **❖ Explain the:**

- **Meaning of a Balance Sheet**
- **Importance of a Balance Sheet**
- **Components of a Balance Sheet**

#### **❖ Prepare a Balance Sheet**

## Components and Format of Balance Sheet

A Balance Sheet shows the financial position of a business as at a given date. It consists of three parts. One part must always balance with the sum of the other two;

**Assets = Liabilities + Capital or owners' equity**

*(This is commonly referred to as the Accounting Equation)*

### Balance Sheet Accounts

- **Assets:** All items of value owned by the business.
- *Current Assets:* Cash and other items which can be quickly turned into cash.
- *Fixed Assets:* Property owned by the business which is permanent or long-term and usually highly valued such as land, building, machinery and equipment.
- **Other Assets:** Include prepaid and Pre-operating Expenses.
- **Liabilities:** All the financial obligations of the business to external parties that must be settled according to the agreed terms and conditions.
- *Current Liabilities:* All money to be paid back to creditors by the business within one year.
- *Long-term Liabilities:* All money to be paid by the business beyond one year e.g. long-term loans.

**Equity:** All the money in the business that belongs to the entrepreneur

- *Capital:* Money invested by the owner of the business.
- *Retained Earnings:* Income of the enterprise kept in the business.



**FORMART OF**  
**A BALANCE SHEET (of a Manufacturing Business)**  
**As at the end of the Pre-operating Period and, Months 1 and 2**

		As at the end of the Pre-operating Period ID	As at the end of Month 1 ID	As at the end of Month 2 ID
	<b>ASSETS</b>			
	<b>Current Assets:</b>			
	Cash			
	Accounts Receivable			
	Inventory: Raw Materials			
	Inventory: Finished Goods			
<b>A</b>	<b>Total Current Assets</b>			
	<b>Fixed Assets:</b>			
	Land			
	Building			
	Machinery and Equipment			
	Office Facilities			
	Total			
	<b>Less: Accumulated Depreciation</b>			
<b>B</b>	<b>Total Fixed Assets</b>			
<b>C</b>	<b>Pre-operating Expenses</b>			
	<b>TOTAL ASSETS (A+B+C)</b>			
	<b>LIABILITIES AND CAPITAL</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
	Accounts Payable			
	Taxes payable			
	Loans Payable – Current			
	Interest Payable			
<b>D</b>	<b>Total Current Liabilities</b>			
	<b>Long-term Liabilities</b>			
<b>E</b>	Loans Payable – Long-term			
<b>F</b>	<b>Total Liabilities (D+E)</b>			
	<b>Capital:</b>			
<b>G</b>	Capital (Owner's Investment)			
<b>H</b>	<b>Retained Earnings (Accumulated Net Profit)</b>			
<b>I</b>	<b>Total Owners' Capital (G+H)</b>			
<b>J</b>	<b>TOTAL LIABILITIES AND CAPITAL (F+I)</b>			



Hand Out 30 (b)

**FORMART OF**  
**A BALANCE SHEET (of a Vending / Trading Business)**  
**As at the end of the Pre-operating Period and, Months 1 and 2**

		As at the end of the Pre-operating Period ID	As at the end of Month 1 ID	As at the end of Month 2 ID
	<b>ASSETS</b>			
	<b>Current Assets:</b>			
	Cash			
	Accounts Receivable			
	Stock Goods (un sold goods)			
<b>A</b>	<b>Total Current Assets</b>			
	<b>Fixed Assets:</b>			
	Land			
	Building			
	Machinery and Equipment			
	Office Facilities			
	Total			
	<b>Less: Accumulated Depreciation</b>			
<b>B</b>	<b>Total Fixed Assets</b>			
<b>C</b>	<b>Pre-operating Expenses</b>			
	<b>TOTAL ASSETS (A+B+C)</b>			
	<b>LIABILITIES AND CAPITAL</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
	Accounts Payable			
	Taxes payable			
	Loans Payable – Current			
	Interest Payable			
<b>D</b>	<b>Total Current Liabilities</b>			
	<b>Long-term Liabilities</b>			
<b>E</b>	Loans Payable – Long-term			
<b>F</b>	<b>Total Liabilities (D+E)</b>			
	<b>Capital:</b>			
<b>G</b>	Capital (Owner's Investment)			
<b>H</b>	<b>Retained Earnings (Accumulated Net Profit)</b>			
<b>I</b>	<b>Total Owners' Capital (G+H)</b>			
<b>J</b>	<b>TOTAL LIABILITIES AND CAPITAL (F+I)</b>			





## ***Preparing a Balance: Practice Makes Perfect!***

<b>Account Balances as at 30 Sept 2013</b>	<b>ID</b>
Capital, beginning (Owner's Investment)	303,940
Cash	144,130
<b>Pre-operating Expenses</b>	7,340
Building	50,000
Inventory: Finished Goods	115,090
Accounts Receivable	100,000
Taxes payable	0
Office Facilities	10,000
Interest Payable	6,660
<b>Accumulated Depreciation</b>	4,740
Inventory: Raw Materials	65,000
Loans Payable – Long-term	200,000
Land	30,000
Machinery and Equipment	100,000
Accounts Payable	0
Loans Payable – Current	50,000

- a) *Use the figures above to prepare a balance sheet for PESHAWA'S Ltd as at 30 September 2013*
- b) *What type of business was PESHAWA'S Ltd undertaking? Give reasons for your answer.*
- c) *What is striking about the balance sheet you have prepared?*



**PESHAWA'S Ltd**  
**Balance Sheet as at 30 September 2013**

		30 Sept 2013 ID
	<b>ASSETS</b>	
	<b>Current Assets:</b>	
	Cash	
	Accounts Receivable	
	Inventory: Raw Materials	
	Inventory: Finished Goods	
<b>A</b>	<b>Total Current Assets</b>	
	<b>Fixed Assets:</b>	
	Land	
	Building	
	Machinery and Equipment	
	Office Facilities	
	Total	
	<b>Less: Accumulated Depreciation</b>	
<b>B</b>	<b>Total Fixed Assets</b>	
<b>C</b>	<b>Pre-operating Expenses</b>	
	<b>TOTAL ASSETS (A+B+C)</b>	
	<b>LIABILITIES AND CAPITAL</b>	
	<b>Liabilities:</b>	
	<b>Current Liabilities:</b>	
	Accounts Payable	
	Taxes payable	
	Loans Payable – Current	
	Interest Payable	
<b>D</b>	<b>Total Current Liabilities</b>	
	<b>Long-term Liabilities</b>	
<b>E</b>	Loans Payable – Long-term	
<b>F</b>	<b>Total Liabilities (D+E)</b>	
	<b>Capital:</b>	
<b>G</b>	Capital (Owner's Investment)	
<b>H</b>	<b>Retained Earnings (Accumulated Net Profit)</b>	
<b>I</b>	<b>Total Owners' Capital (G+H)</b>	
<b>J</b>	<b>TOTAL LIABILITIES AND CAPITAL (F+I)</b>	

## Trainer's Notes

### Balance Sheet

This shows the financial condition of your enterprise as at a given date. It is a **PICTURE** telling you of what the business **has, owns** and **owes** at a specific time (e.g. end of the week, end of the month, end of the quarter or end of the year). It shows your business:

- Assets (what your business have and what they are worth)
- Liabilities (what your business owes other parties)
- Owners Equity (your capital investment plus accumulated profits or losses made by your business since it started operations).

### Components of Balance Sheet

A Balance Sheet consists of three main parts:

- Assets
- Liabilities
- Capital or owners equity

### Balance Sheet Accounts

**Assets:** All items of value owned by the business.

**Current Assets:** Cash and other items which can be quickly turned into cash.

**Fixed Assets:** Property owned by the business which is permanent or long-term and usually highly valued such as land, building, machinery and equipment.

**Other Assets:** Include Prepaid expenses and Pre-operating Expenses.

**Liabilities:** All the financial obligations of the business.

**Current Liabilities:** All money to be paid by the business within one year.

**Long-term Liabilities:** All money to be paid by the business beyond one year e.g. long-term loans.

**Capital or Equity:** Money invested by the owners of the business.

**Retained Earnings:** Income of the enterprise kept in the business.

## SESSION 31

### FINANCIAL ANALYSIS

3 hours 

#### OBJECTIVE

By the end of this session, the trainees will be able to carry out basic financial analysis of their businesses' projected financial statements using financial ratios.

#### TRAINING MATERIALS

- ◆ Flip Chart 31-1: Session Objectives
- ◆ Flip Chart 31-2: Financial Analysis: Its Meaning
- ◆ Flip Chart 31-3: Ratio Analysis Formula
- ◆ Flip Chart 31-4: Sample – Financial Assumptions
- ◆ Assignment 31 (a): Financial Analysis
- ◆ Assignment 31 (b): Financial Assumptions
- ◆ Flip Chart and markers
- ◆ White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start the session by discussing the session objective. Tell the participants that looking at their financial statements will give them an idea of the performance and financial position of their business. However, looking at the figures alone will not give a very good indication of how profitable or feasible their business is. To determine feasibility of their proposed businesses, this session will enable them to carry out basic financial analysis of their businesses' projected financial statements using financial ratios (Flip Chart 31-1).

#### 2. Presentation and Activities

- a. Show Flip Chart 31-2 for the meaning of financial analysis. Explain that to determine whether their businesses are feasible or not, they can use the following tools: Ratio Analysis and Break-Even point Analysis.

- b. Discuss ratio analysis, types of ratios, and the formula in computing the different ratios. (Refer to Flip Chart 31-3). Give examples as appropriate. *Remind the trainees that they have already studied how to compute break-even point analysis. If there is a need, review break-even point with them.*
- c. To apply the concepts learned, maintaining the same groupings as in the previous sessions, tell the participants to compute the financial ratios for the case (Refer to handout 31). Allow 30 minutes for this exercise.
- d. After the group workshop, request representative from a group to present their solution to the case. Allow five minutes for presentation. Discuss and comment as necessary.

## **2. Summary**

- a. End this session by emphasizing to the participants that figures that will be used in their computation will come from their Projected Profit and Loss Statement and Projected Balance Sheet. Also point out that financial assumptions used in projecting the financial statements have to be included in the business plan.
- b. Give Assignments Nos. 31 (a) and 31 (b). Refer to Assignment No 31 (a) (Financial Analysis) and Assignment No. 31 (b) (Financial Assumptions) in the Entrepreneur's Guide in Writing a Business Plan. Ask the participants to analyze their projected financial statements using both ratio analysis and break-even point analysis. For break-even point analysis, refer to the formula on break-even point given during earlier sessions. Refer to Flip Chart 31-4 for examples of financial assumptions.



31-1

## **Session: Financial Analysis**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ To carry out basic financial analysis of their businesses' projected financial statements using financial ratios



31-2

## **Financial Analysis**

**Financial analysis is the computation of analytical ratios from financial statements**

**and**

**Interpretation of these ratios to determine their trends as a basis for management decisions**



31-3

## RATIO ANALYSIS FORMULA

### Profitability Ratios:

- Return on Investment =  $\frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100\%$   
$$= \frac{\text{Net Profit}}{\frac{\text{Total Assets, beg.} + \text{Total Assets, end}}{2}} \times 100\%$$

$$\text{Where: Average Total Assets} = \frac{\text{Total Assets, beg.} + \text{Total Assets, end}}{2}$$

Return on Investment (ROI) is an indicator of the effectiveness of the business in using its assets. The ROI of say 10% means that every ID 1 of investment generates return of ID 0.1. The higher the ROI, the greater the business' profitability.

- Net Profit Margin =  $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100\%$

Net Profit Margin (NPM) is commonly accepted as a measure of profitability. A net profit margin of e.g. 15% means that every ID 1 of sales generates a return or profit of ID 0.15. The higher the NPM, the greater the profitability.

### Liquidity Ratios:

- Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Ratio tells how healthy the business is in terms of its ability to pay off the maturing obligations as they fall due. A current ratio of e.g. 4: 1 means that for every ID 1 the business owes, it has ID 4 to pay its debt. This would point to the business being liquid.

## Break-even Point

- **Break-even Point Sales Amount** = 
$$\frac{\text{Total Fixed Cost}}{\frac{\text{Sales} - \text{Variable Cost}}{\text{Sales}}}$$

This shows how much sales the enterprise has to make to in order for it to break break-even. Break-even Sales Amount of e.g. ID 100,00 means that the enterprise has to generate sales worth ID 100,000 to cover its fixed costs and other expenses without realizing any profits or incurring any losses.

- **Break-even Point Sales in Units** = 
$$\frac{\text{Total Fixed Cost}}{\text{Unit Selling Price} - \text{Unit Variable Cost}}$$

This shows how many units of its product the enterprise has to sell in order for it to break-even.

- **Break-even Point Selling Price** = 
$$\text{Unit Variable Cost} + \frac{\text{Total Fixed Cost}}{\text{Expected Sales Volume}}$$

This tells you how much you should sell your products at (price) in order for the business to break-even.





31-4

### **Sample FINANCIAL ASSUMPTIONS**

Financial assumptions are the explanations behind your projections and the process by which you arrived at the numbers. These explanations will give the readers sufficient information so that your projections will be easily understood. When preparing your business plan, you will have to include a list of all assumptions used in projecting your sales income and expenses.

*The following are examples of such assumptions:*

### ***Balance Sheet***

1. Land belonging to the owner is estimated on the basis of the cost per square meter in the surrounding areas.
2. The cost of the building is based on the actual cost less depreciation of 50% plus the estimated cost of repair amounting to ID 8,000.

### ***Income Statement***

1. Sales – 50% of sales is made in cash, 50% on credit of 30 days.
2. Raw Materials are purchased on credit of 30 days.
3. Employee benefits equals 10% of salaries.
4. Utilities are based on current average cost x 2, due to the expected increase in electricity and water rates expected to be paid by the owner.
5. Annual Repairs and Maintenance for the machinery and equipment is estimated at 2% of the cost of machinery and equipment.
6. Insurance is based on quotation from broker that is 1% of cost of insurable assets.
7. Rent of building is ID 24,000 a year. The owner of the building requires a two-month deposit.
8. Depreciation - The building is depreciated over 25 years with a salvage value of 10% of cost. Machinery and Equipment is depreciated over 5 years with a salvage value of ID 3,000.
9. Miscellaneous Expenses is estimated at ID 1,000 per month.



## Assignment No 31 (a)

### FINANCIAL ANALYSIS

#### Guiding Questions for Financial Analysis

Is the business feasible? To determine whether your business is feasible or not, you can use the following tools:

- BREAK-EVEN POINT ANALYSIS
- RATIO ANALYSIS.

Figures that you will use in your computation will come from your Projected Profit and Loss Statement and Projected Balance Sheet.

- i) **Break-even Point Sales Amount**
- ii) **Break-even Point Sales in Units**
- iii) **Break-even Point Selling Price**
- iv) **Average Total Assets**
- v) **Return on Investment**
- vi) **Net Profit Margin**
- vii) **Current Ratio**



## Assignment 31 (b)

### **FINANCIAL ASSUMPTIONS**

#### **Guide Questions for Financial Assumptions**

- List all the assumptions you used in projecting your sales and expenses. These assumptions are the explanations behind your projections and the process by which you arrived at the numbers. These explanations will give the readers sufficient information so that your projections will be easily understood.

## Trainer's Notes

### Financial Analysis

Analyzing the financial performance of the small enterprise based on the figures found in the financial statements (balance sheet and income statement) can be done with the use of financial tools called financial ratios.

Ratio analysis provides a systematic way of making various financial comparisons, thus giving you a good picture of the financial condition of the enterprise - how financially stable or weak the enterprise is. It also provides indications of business problems other than finance to be investigated.

### Financial Ratios

Two types of financial ratios are to be used in this session:

- Profitability Ratios
- Liquidity Ratios

#### Profitability Ratios

Profitability ratios are used to examine the enterprise operating performance during an accounting period. They measure the net results of the business operations, that is, profit or loss in relation to the investment.

##### **i) Net Profit Margin**

**Description:** Net Profit margin is commonly accepted as a measure of profitability. The relationship of profit to sales indicates the entrepreneur's ability to operate the business with sufficient success not only to recover costs from sales for the period but also to leave a margin of reasonable compensation to him/her for providing the capital at risk. It essentially expresses the cost/price effectiveness of the business operation. The ratio is called percentage return on sales, margin on sales or net profit percentage.

**Procedure:** Divide Net Profit by Net Sales i.e.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}}$$

**Application:** The higher the ratio or percentage, the greater the profit margin. A low profitability may be caused by several factors such as high cost of production and marketing in relation to the sales volume generated or ineffective marketing strategies among others. The entrepreneur must be adept in diagnosing the causes and changes in the profit margin. Any significant variance compared with past or with competitors or targeted margin gives adequate signal to the entrepreneur to review his/her operations.

##### **ii). Return on Investment (ROI)**

**Description.** Return on Investment is an indicator of the effectiveness of the entrepreneur in using his/her assets. It relates profits (returns) to a given level of asset investment (resources) used to generate profits.

**Procedure.** Divide Net Profit by Average Assets. Average assets is total assets beginning + total assets end divided by 2.

$$\text{ROI} = \frac{\text{Net Profit}}{\text{Average Assets}}$$

The above computation permits the entrepreneur to determine courses of action to increase rate of return. The entrepreneur can increase net profits by reducing expenses. It can increase sales revenue by selling more at the same or lower price or increasing prices. It can reduce investments by reducing accounts receivable, inventory, plant and equipment.

**Application.** The higher the ratio, the greater the profitability. ROI as a decision tool focuses the attention of the entrepreneur on opportunities open to the business for improving results through better use of resources. It is also used in making future-oriented decisions that involve a choice among alternative investment opportunities.

### **Liquidity Ratios**

These ratios show the enterprise's ability to meet its obligations.

#### **iii). Current Ratio**

**Description.** Current ratio is a test of the enterprise's ability to remain current on its payment. The enterprise's current assets should exceed current liabilities by a reasonable margin. This margin (current assets - current liabilities) is called working capital. Current assets are those assets that are ultimately converted into cash within a year from the date of the balance sheet. Current liabilities are debts that are payable within one year from the date of the balance sheet.

**Procedure.** Express Current Assets in relation to (or compare) by Current Liabilities

$$\text{Current Ratio} = \text{Current Assets} : \text{Current Liabilities}$$

This means that for every ID1 owed by the enterprise, it has ID ..... to pay the debt.

**Application.** This ratio tells the entrepreneur how healthy the business is. It indicates whether more current assets are free from debt claims of creditors and whether prompt payment for maturing current liabilities can be expected. A ratio of 2:1 is the norm acceptable.

#### **iv). Debt-Equity Ratio**

**Description.** This ratio is the most common solvency ratio, a measure to assess the entrepreneur's ability to service its debt. The ratio tells the entrepreneur the extent of capital provided by creditors as against that of the entrepreneur. Debts include all obligations both current and long-term. Equity means the owner's capital. Total debt plus equity equals total assets.

**Procedure.** Divide the total debt by total Capital compared to the Owners Capital divided by total Capital.

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}} \times 100\% : \frac{\text{Total Owner's Capital}}{\text{Total Capital}} \times 100\%$$

This will show how much of the business' total capital total assets is funded by creditors as compared to what is funded by owner's investment.

**Application.** Creditors generally prefer low ratio, as it would indicate that the entrepreneur provides a large percentage of the funds for the business. Low debt means low monthly cash outlays for principal and interest, implying a reduced risk of non-payment if sales and earnings fall. High-risk taking entrepreneurs, on the other hand, prefer to increase the debt/equity ratio to a limit that financial institutions or accepted local practices would allow.

The reasons for the entrepreneur's preference for more debts are:

- Debts allows, "trading on equity" that is, using cheaper funds to increase the enterprise's profitability. (for example, the enterprise may earn 40% and pay only 25% interest on its debt.)
- Debt does not involve dilution of the entrepreneur's control of the enterprise.

#### **v) Break-even point analysis**

Break-even Analysis is a very useful analytical tool for decision making in an enterprise when considering variations in product prices, costs and sales volumes. It also provides a good basis on whether to undertake a project or not as it gives us the sales level and product prices that must be achieved to generate revenue and sustain operations.

Break-even Point (BEP) maybe defined as the volume or level of operation at which total revenues and total costs are equal, thus the enterprise makes no profit or incurs no loss.

Break-even point may be computed in terms of:

- Total Sales Amount
- Total Sales Volume in Units
- Selling Price per Unit

#### **Financial assumptions**

Financial assumptions are the explanations behind your projections and the process by which you arrived at the numbers. These explanations will give the readers sufficient information so that your projections will be easily understood.

When preparing your business plan, a list of all assumptions used in projecting your sales and expenses will have to be included.

## SESSION 32

### CASH BUDGETING AND ASSET MANAGEMENT

3 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to identify the elements of a cash budget, prepare a Cash Budget and explain ways of managing the assets of their business.

#### TRAINING MATERIALS



- \* Flip Chart 32-1: Session Objectives
- \* Flip Chart 32-2: What is Cash Budgeting
- \* Flip Chart 32-3: Questions Answered by Cash Budgeting
- \* Flip Chart 32-4: The Cash Budget
- \* Flip Chart 32-5: Procedure in Preparing a Cash Budget
- \* Flip Chart 32-6: Format of a Cash Budget
- \* Flip Chart 32-7: Managing Fixed Assets
- \* Flip Chart 32-8: Insurance and Business Assets
- \* Flip Chart 32-9: Guidelines to Help You Safeguard Your Cash and Working Capital
- \* Flip Chart 32-10: Pointers in Managing Business Finances
- \* Flip Chart 32-11: Solution: Cash Budgeting – ARAM Enterprises
- \* Handout 32 (a): Case Study: Cash Budgeting – ARAM Enterprises
- \* Handout 32 (b): Cash Budget format
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- a. Introduce the session by stating the session objectives (Flip Chart 32-1). Then tell the trainees that every decision to be made by owners-managers such as themselves relate to future events with financial implications. Inform them that one tool that can help predict the future financial status of their enterprise is Cash Budgeting.

- b. Ask the trainees what they understand by Cash Budgeting. Write their answers on the board.

## **2. Presentation and Activities**

- a. Go through the answers presented and add as necessary. Discuss the meaning of cash budgeting by using Flip Chart 32-2. Point out that cash budgeting will help them answer four basic questions as shown in the Flip Chart 32-3.
- b. Tell the trainees that in Cash Budgeting, they are to prepare a Cash Budget. Explain the meaning and importance of a cash budget. Use Flip Chart 32-4.
- c. Discuss the procedure in preparing a Cash Budget. Show Flip Chart 32-5. Give a brief explanation for each step and give examples as appropriate.
- d. Show the format of a Cash Budget by using Flip Chart 32-6. Together with the trainees, go through the exercise of preparing a Cash Budget using one of the trainees businesses as a case.
- e. After discussing Cash Budgeting and before giving a group workshop on Cash Budgeting, introduce and discuss the topic “Managing Assets of the Business”. Point out that assets are things of value owned by an enterprise, consisting of fixed assets and working capital or current assets. These exclude personal assets.
- f. Discuss “Managing Fixed Assets” by showing Flip Chart 32-7. Highlight insurance and the most common forms of insurance by using Flip Chart 32-8. Afterwards, discuss “Managing Working Capital and Cash” by highlighting the guidelines that will help them in safeguarding their cash and working capital. Show Flip Chart 32-9. Also discuss some pointers in managing their finances as contained in Flip Chart 32-10.
- g. To apply the concepts learned, divide the group into four and tell each group to determine the financial requirements of the ARAM Enterprises by preparing a Cash Budget. Use Handouts 32 (a) and 32 (b). Allow one hour for this workshop.
- h. After the session, request a representative from each group to present their Cash Budget. Give each group 10 minutes for its presentation. Discuss and critique as necessary. (Refer to Flip Chart 32-11 for the solution to the case).

## **3. Summary**

- a. End this session by referring back to the session objectives and by telling the trainees that planning for the requirements of their enterprises will reduce surprises and allow them to source the amount of funds needed at the right time.
- b. Also reiterate the importance of properly managing the assets of their businesses i.e. to be able to maximize their use and minimize losses.





32-1

## **Session: Cash Budgeting and Asset Management**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Identify the components of a cash budget
- ❖ Prepare a Cash Budget for their businesses
- ❖ Explain ways of managing the assets of their business



32-2

## **What is Cash Budgeting?**

Cash Budgeting is a tool used for short-term financial planning and forecasting.

It is short-term because the period involved is one year or less.

This involves preparation of a CASH BUDGET.



32-3

## **QUESTIONS ANSWERED BY CASH BUDGETING**

- **Will additional money be needed and how much?**
- **When will it be needed?**
- **Where can it be obtained and how much will it cost?**
- **How much excess funds will be available and when?**



32-4

## **THE CASH BUDGET**

- **Provides the basis for analyzing the cash position of your business for a specific time period (e.g. weekly, monthly).**
- **Translates the planned sales, costs and expenses into a plan of weekly or monthly cash receipts and payments.**
- **Provides the following information about the enterprise:**
  - **Ability to generate positive cash flows in future periods**
  - **Ability to meet its obligations and to generate profits and pay returns and dividends**
  - **Need for external financing.**

***By knowing your present and future cash balances, you can:***

- **Take advantage of money-saving opportunities such as cash and volume discounts.**
- **Make the most efficient use of your resources and finance your seasonal business needs.**
- **Plan your business and provide plans for expansion.**
- **Pay your debts when they are due.**
- **Plan to invest your excess cash**



32-5

## **PROCEDURE IN PREPARING A CASH BUDGET**

- 1. Prepare a sales forecast or sales budget for the upcoming year**
- 2. Prepare an operating budget for the upcoming year which includes budgets for:**
  - Production Costs
  - Marketing Expenses
  - Administrative Expenses
- 3. Prepare a budget for fixed assets acquisition for the upcoming year**
- 4. Estimate cash receipts and cash collections from:**
  - Operating Activities
  - Investing Activities
  - Financing Activities
- 5. Estimate cash payments and disbursements from:**
  - Operating Activities
  - Investing Activities
  - Financing Activities
- 6. Construct a cash budget**



32 (a)

## FORMAT OF A CASH BUDGET

		C A S H   B U D G E T				
		Ending October 2013				
		M O N T H S				
		June. ID	Jul. ID	Aug. ID	Sept. ID	Oct ID
	<b>EXPECTED CASH RECEIPTS/INFLOWS</b>					
1	Cash Sales					
2	Collection of Accounts Receivable					
3	Other Income					
4	<b>TOTAL CASH RECEIPTS</b>					
	<b>EXPECTED CASH PAYMENTS/OUTFLOWS</b>					
5	Purchase of Raw Materials					
6	Payment of Direct Labour					
7	Payment of Factory Overhead (excluding depreciation)					
8	Payment of Marketing Expenses (excluding depreciation)					
9	Payment of Administrative Expenses (excluding depreciation)					
10	Purchase of New Machine					
11	Payment of loan					
12	Others specify: _____					
13	<b>TOTAL CASH PAYMENTS</b>					
14	Cash increase or decrease item ( 4 minus item 13 )					
15	Expected cash balance at beg. of month					
16	Expected cash balance at end of month (item 14 plus item 15)					
17	Desired working cash balance					
18	Short-term loan needed (item 17 minus item 16, if item 17 is larger)					
19	<b>Cash available for short-term investment (item 16 minus item 17, if item 16 is larger)</b>					



32-6

## Managing Fixed Assets

- **Fixed assets are facilities that have long-term value.**
- **These are major investments at the start of your business, such as land, building, machinery and equipment, transport vehicles, office facilities and equipment.**
- **Considering that you have placed a large part of your capital in fixed assets, you should be able to maximize their use and minimize losses. This is done to increase productivity by ensuring proper maintenance and by taking a security programme for fixed assets.**



32-7

# INSURANCE AND BUSINESS ASSETS

Insurance coverage is the commitment of an insurance company to pay you for any losses to your property (in cases of theft, fire, damage to property, etc.), within a certain period of time, in consideration of a premium (some amount of money) you pay.

## Most Common Forms of Insurance

- **Fire and other accidental hazards**
- **Theft resulting from violent and forced entry**
- **Accident insurance, particularly for transport vehicles**
- **Third party liability or damages to other parties for accidental injuries caused by the vehicles or properties owned by the business**
- **Life insurance on the entrepreneur as a person**

## **GUIDELINES TO HELP YOU SAFEGUARD YOUR CASH AND WORKING CAPITAL:**

- Separate the cash for your business operations from that for your personal and family needs.
- Maintain a petty cash account to settle small and minor business expenses.
- Give yourself and other members of the family wages based on the work done in the business.
- Keep a recording of cash receipts and sales made by your enterprise.
- Be careful about extending credit. Give credit only to those individuals or firms that are reliable in making good on their credit at the agreed time.
- Record any item added to your business so you will be able to track the actual amount you still have.
- Prepare a Cash Budget
- Use bank services to safely keep your money and also enhance your chances for accessing their credit services when needed.
- Do not keep many bank accounts to minimize maintenance charges and reduce the minimum amounts kept in banks.
- Persuade customers to pay upon delivery. Progressive payments may also be acceptable to cover completed portions of orders.
- Closely monitor stocks and avoid purchasing materials that are not immediately needed.
- Designate someone to maintain the cash records. The cashier or you the entrepreneur may write up the cash records. When you have designated someone to maintain records, ensure that a budget for his or her salary is provided for. Also ensure that you closely his/her performance.





32-9

## **POINTERS IN MANAGING BUSINESS FINANCES**

- **Avoid taking too much money from your business.**
- **Avoid over dependence on debts.**
- **Seek professional advice and help in planning your sales, expenses, and profits as needed.**
- **Plan on a monthly basis so that you can easily make decisions on many aspects of your operations.**
- **Be able and ready to revise your estimates as new developments and changes occur.**
- **Be proud of your accomplishments.**

***However, always remember that, like life, your business has many ups and downs. Be prepared for those “down times” even as you celebrate the “up times”.***

## CASE STUDY – CASH BUDGETING ARAM Enterprises

### *Assumptions:*

1. Sales projections:	June	ID 135,000
	July	135,000
	August	135,000
	September	135,000
	October	270,000
	November	270,000
	December	135,000
	January	135,000

50% of sales are made in cash and the balance on credit of 30 days.

2. Raw materials costs are estimated to cost 1/3 of sales. Raw materials are purchased on cash one month in advance (meaning raw materials needed for August are purchased in July)
  3. Direct labour is estimated at ID 18,000 per month for the months of August, September and October and ID 36,000 per month for the months of November and December.
  4. Cash Factory Overhead is estimated at ID 18,000 per month.
  5. Marketing Expenses is estimated at ID 7,500 per month
  6. Administrative Expenses is estimated at ID 7,500 per month
  7. The company plans to purchase in cash a new machine costing ID 20,000 in September.
  8. Loan payment amounting to ID 10,000 is due in October
  9. Minimum cash balance required at all times is ID 75,000
  10. Cash balance at the beginning of August is ID 30,000
- a) *Determine the financial requirements of the company for the period August to December 2005.*



## FORMAT OF A CASH BUDGET

		C A S H    B U D G E T				
		Ending December 2005				
		M O N T H S				
		Aug. ID	Sept. ID	Oct. ID	Nov. ID	Dec. ID
	<b>EXPECTED CASH RECEIPTS/INFLOWS</b>					
1	Cash Sales					
2	Collection of Accounts Receivable					
3	Other Income					
4	<b>TOTAL CASH RECEIPTS</b>					
	<b>EXPECTED CASH PAYMENTS/OUTFLOWS</b>					
5	Purchase of Raw Materials					
6	Payment of Direct Labour					
7	Payment of Factory Overhead (excluding depreciation)					
8	Payment of Marketing Expenses (excluding depreciation)					
9	Payment of Administrative Expenses (excluding depreciation)					
10	Purchase of New Machine					
11	Payment of loan					
12	Others specify: _____					
13	<b>TOTAL CASH PAYMENTS</b>					
14	Cash increase or decrease ( item 4 minus item 13 )					
15	Expected cash balance at beg. of month					
16	Expected cash balance at end of month (item 14 plus item 15)					
17	Desired working cash balance					
18	Short-term loan needed (item 17 minus item 16, if item 17 is larger)					
19	<b>Cash available for short-term investment (item 16 minus item 17, if item 16 is larger)</b>					



38-10

## SOLUTION – CASH BUDGETING ARAM Enterprises

FOR FIVE MONTHS		C A S H   B U D G E T Ending December 2005 M O N T H S				
		Aug. ID	Sept. ID	Oct. ID	Nov. ID	Dec. ID
	<b>EXPECTED CASH RECEIPTS/INFLOWS</b>					
1	Cash Sales	67,500	67,500	67,500	135,000	135,000
2	Collection of Accounts Receivable	67,500	67,500	67,500	67,500	135,000
3	Other Income					
4	<b>TOTAL CASH RECEIPTS</b>	<b>135,000</b>	<b>135,000</b>	<b>135,000</b>	<b>202,500</b>	<b>270,000</b>
	<b>EXPECTED CASH PAYMENTS/OUTFLOWS</b>					
5	Purchase of Raw Materials **	45,000	45,000	90,000	90,000	45,000
6	Payment of Direct Labour **	18,000	18,000	18,000	36,000	36,000
7	Payment of Factory Overhead (excluding depreciation) **	18,000	18,000	18,000	18,000	18,000
8	Payment of Marketing Expenses (excluding depreciation)	7,500	7,500	7,500	7,590	7,500
9	Payment of Administrative Expenses (excluding depreciation)	7,500	7,500	7,500	7,500	7,500
10	Purchase of New Machine	-	20,000	-	-	-
11	Payment of loan	-	-	10,000	-	-
12	Others specify: *** _____					
13	<b>TOTAL CASH PAYMENTS</b>	<b>96,000</b>	<b>116,000</b>	<b>151,000</b>	<b>159,000</b>	<b>114,000</b>
14	<i>Cash increase or decrease ( item 4 minus item 13 )</i>	<i>39,000</i>	<i>19,000</i>	<i>(16,000)</i>	<i>43,500</i>	<i>156,000</i>
15	Expected cash balance at beg. of month	30,000	69,000	88,000	72,000	115,500
16	<i>Expected cash balance at end of month (item 14 plus item 15)</i>	<i>69,000</i>	<i>88,000</i>	<i>72,000</i>	<i>115,500</i>	<i>271,500</i>
17	Desired working cash balance	75,000	75,000	75,000	75,000	75,000
18	Short-term loan needed (item 17 minus item 16, if item 17 is larger)	(600)		(300)		
19	<b>Cash available for short-term investment (item 16 minus item 17, if item 16 is larger)</b>		<b>13,000</b>		<b>40,500</b>	<b>196,500</b>

**NB:** \*\* *These items are specific for a producing/manufacturing business. In the case of a vending/trading business, these items would be replaced by the Cost of goods purchased.*

\*\*\* *In the case of a start up business, this item would include pre – operating expenses*

## Trainer's Notes

### Cash Budgeting

Every decision to be made by owners-managers relate to future events with financial implications. One tool that can help predict the future financial status of an enterprise is cash budgeting.

As the business operates and grows, there will be times when additional funds will be needed to support its expanded operations. Planning for these requirements will reduce surprises and allow the entrepreneur to source the amount of needed funds at the right time.

### Cash budgeting

This is a tool used for short-term financial planning and forecasting. It is short-term because the period involved is one year or less. Cash budgeting will help you answer the following questions:

- Will additional money be needed and how much?
- When will it be needed?
- Where can it be obtained and how much will it cost?
- How much excess funds will be available and when?

### The cash budget

Assist the entrepreneur prepare a Cash Budget. This provides the basis of analyzing the cash position of the business for a specific time period (e.g. weekly, monthly). It translates the planned sales, costs and expenses into a plan of weekly or monthly cash receipts and payments. The cash budget provides the following information about the enterprise:

- Ability to generate positive cash flows in future periods
- Ability to meet its obligations and to generate profits and pay returns and dividends
- Need for external financing.

By knowing the present and future cash balances, the entrepreneur will be in a better position to:

- Take advantage of money-saving opportunities such as cash discounts and volume discounts.
- Make the most efficient use of his resources and finance his seasonal business needs.
- Plan the business and provide plans for expansion.
- Pay his debts when they are due.
- Plan to invest excess cash

### Procedure in preparing a cash budget

#### *i). Prepare sales forecast or sales budget for the upcoming year*

Prepare sales forecast per month based on the market data and promotional activities (***made in the Marketing Plan***). Income targets are computed based on sales volume estimates. Always aim for realistic sales forecast in consideration of the target market.

**ii) Prepare operating budget for the upcoming year which includes:**

- Production Costs Budget
- Marketing Expenses budget
- Administrative Expenses budget

After preparing a sales forecast, you can now establish a production schedule. Once this schedule has been established, the related production costs and expenses such as raw materials, direct labour, and factory overhead expenses can be estimated (in case of a production/manufacturing business).

In the case of a vending/trading business, the equivalent would be the cost of goods to be purchased.

Likewise, the marketing expenses that will be incurred in selling and marketing your products and services and the administrative expenses that will be incurred for the day-to-day management of the operations can be estimated. The operating budget should exclude depreciation expenses and other non-cash items.

**iii) Prepare budget for Fixed Assets acquisition for the upcoming year**

This includes any planned purchases of property, plant and equipment and other long-term assets (e.g. construction of building, purchase of machinery and equipment, etc.) for the upcoming year.

**iv) Estimate cash receipts and cash collections**

Cash receipts or cash inflows are either brought about by:

- Operating activities like cash sales and collection of accounts receivable
- Investing activities like sale of property, plant and equipment and other long-term assets; sale of short-term investments
- Financing activities like proceeds from loan and equity investment of owner

**v) Estimate cash payments and disbursements**

Similarly, cash payments or cash outflows are either brought about by:

- Operating activities like payment of production costs (which includes payment to suppliers of raw materials or goods, payment of direct labour cost, payment of factory overhead expenses), payment of marketing and administrative expenses excluding depreciation expenses and non-cash items.
- Investing activities like purchase of property, plant and equipment and other long-term assets; short-term investments
- Financing activities like payment of loan and interest and payment of dividends

**vi) Construct a cash budget**

A cash budget has two main components: Cash Receipts (Inflows) and Cash Payments (Outflows)

### Format of a Cash Budget

FOR TWELVE MONTHS		C A S H   B U D G E T											
		Ending December 2014											
		M O N T H S											
		J	F	M	A	M	J	J	A	S	O	N	D
	<b>EXPECTED CASH RECEIPTS/INFLOWS</b>												
1	Cash Sales												
2	Collection of Accounts Receivable												
3	Other Income												
4	<b>TOTAL CASH RECEIPTS</b>												
	<b>EXPECTED CASH PAYMENTS/OUTFLOWS</b>												
5	Purchase of Raw Materials												
6	Payment of Direct Labour												
7	Payment of Factory Overhead (excluding depreciation)												
8	Payment of Marketing Expenses (excluding depreciation)												
9	Payment of Administrative Expenses (excluding depreciation)												
10	Purchase of Fixed Assets												
11	Payment of loan principal												
12	Payment of interest on loan												
13	Payment of taxes												
14	Others specify: _____												
15	<b>TOTAL CASH PAYMENTS</b>												
16	Cash increase or decrease (item 4 minus item 15 )												
17	Expected cash balance at beginning of month												
18	Expected cash balance at end of month (item 16 plus item 17)												
19	Desired working cash balance												
20	Short-term loan needed (item 19 minus item 18, if item 19 is larger)												
21	Cash available for short-term investment (item 18 minus item 19, if item 18 is larger)												

### Exercise in cash budgeting

#### Assumptions:

• Sales projections:	July	ID 90,000
	August	90,000
	September	90,000
	October	90,000
	November	180,000
	December	180,000
	January	90,000

50% of sales are made in cash and the balance on credit of 30 days.

- Raw materials is estimated at 33.33% of sales (or 1/3 of sales). Raw materials are purchased in cash one month in advance (meaning raw materials needed for August are purchased in July)
- Direct labour is estimated at ID12,000 per month for the months of August, September and October while ID24,000 per month for the months of November and December.
- Cash Factory Overhead is estimated at ID12,000 per month.
- Marketing Expenses is estimated at ID 5,000 per month
- Administrative Expenses is estimated at ID 5,000 per month
- The company plans to purchase a new machine costing ID20,000 in September to be paid for in cash.
- Loan payment amounting to ID5,000 is due in October
- Minimum cash balance required at all times is ID 50,000
- Cash balance at the beginning of August is ID20,000

*Required: Determine the financial requirements of the company for the period August to December 2014.*



FOR FIVE MONTHS		C A S H   B U D G E T Ending December 2014 M O N T H S				
		Aug. (ID)	Sept. (ID)	Oct. (ID)	Nov. (ID)	Dec. (ID)
	<b>EXPECTED CASH RECEIPTS/INFLOWS</b>					
1	Cash Sales	45,000	45,000	45,000	90,000	90,000
2	Collection of Accounts Receivable	45,000	45,000	45,000	45,000	90,000
3	Other Income					
4	<b>TOTAL CASH RECEIPTS</b>	<b>90,000</b>	<b>90,000</b>	<b>90,000</b>	<b>135,000</b>	<b>180,000</b>
	<b>EXPECTED CASH PAYMENTS/OUTFLOWS</b>					
5	Purchase of Raw Materials	30,000	30,000	60,000	60,000	30,000
6	Payment of Direct Labour	12,000	12,000	12,000	24,000	24,000
7	Payment of Factory Overhead (excluding depreciation)	12,000	12,000	12,000	12,000	12,000
8	Payment of Marketing Expenses (excluding depreciation)	5,000	5,000	5,000	5,000	5,000
9	Payment of Administrative Expenses (excluding depreciation)	5,000	5,000	5,000	5,000	5,000
10	Purchase of New Machine	-	20,000	-	-	-
11	Payment of loan			5,000	-	-
12	Others specify: _____					
13	<b>TOTAL CASH PAYMENTS</b>	<b>64,000</b>	<b>84,000</b>	<b>99,000</b>	<b>106,000</b>	<b>76,000</b>
14	<i>Cash increase or decrease ( item 4 minus item 13 )</i>	<i>26,000</i>	<i>6,000</i>	<i>(9,000)</i>	<i>29,000</i>	<i>104,000</i>
15	Expected cash balance at beg. of month	20,000	46,000	52,000	43,000	72,00
16	Expected cash balance at end of month (item 14 plus item 15)	46,000	52,000	43,000	72,000	176,000
17	Desired working cash balance	50000	50,000	50,000	50,000	50,000
18	<i>Short-term loan needed (item 17 minus item 16, if item 17 is larger)</i>	<i>4,000</i>		<i>7,000</i>		
19	<b>Cash available for short-term investment (item 16 minus item 17, if item 16 is larger)</b>		<b>2,000</b>		<b>22,000</b>	<b>126,000</b>

## **Managing the assets of business**

Assets are things of value owned by the business consisting of fixed assets and working capital or current assets. These exclude personal assets.

### **Managing Fixed Assets**

Fixed assets are facilities that have long-term value. These are major investments at the start of the business. These are in the form of land, building, machinery and equipment, transport vehicles, office facilities and equipment. Considering that the entrepreneur has placed a large part of his/her capital in the form of fixed assets, he/she should be able to maximize their use and minimize losses. This is done by increasing productivity, ensuring proper maintenance, and taking a security programme for them.

### **Managing Working Capital and Cash**

Working capital is the lifeblood of a business. It is mainly expressed in the form of cash that is available for the operation of an enterprise. Enough cash should be set aside for manufacturing and operating needs. Sufficient stocks in raw materials, work-in-progress and finished goods should also be provided for. It is inevitable that the business will sell on credit thus Debtors or Accounts Receivable should also be provided for.

## SESSION 33

### RECORD KEEPING IN BUSINESS



#### OBJECTIVES



By the end of this session, the trainees will be able to explain the meaning of record keeping or book keeping and its importance in business, discuss the common oversights or shortcomings in record keeping explain source documents and their uses in record keeping; and demonstrate recording of a Petty Cash Book and an Integrated Cashbook.

#### TRAINING MATERIALS



- \* Flip Chart 33-1: Session Objectives
- \* Flip Chart 33-2: What is Record Keeping
- \* Flip Chart 33-3: Why is Record Keeping Important
- \* Flip Chart 33-4: Who Should be the Record Keeper
- \* Flip Chart 33-5: Common oversights or shortfalls in Record Keeping
- \* Flip Chart 33-6: Effects of Business Transactions in a business
- \* Flip Chart 33-7: Records and Source Documents
- \* Handout 33 (a) : Sample Receipt
- \* Handout 33 (b): Debtors' Book
- \* Handout 33 (c): Creditors' Book
- \* Handout 33 (d): Stock Record
- \* Handout 33 (e): Payroll and Wage Record
- \* Handout 33 (f): Record of Assets
- \* Handout 33 (g): Equity Record
- \* Handout 33 (h): Petty Cash Book
- \* Handout 33 (i): Exercise: Exercise on Recording a Petty Cash Book
- \* Flip Chart 33-8 Solution: Petty Cash Book
- \* Hand Out 33 (j): Integrated Cashbook
- \* Hand Out 33 (k) Exercise on Keeping an Integrated Cashbook
- \* Hand Out 33 (l): Solution to the Exercise on Keeping an Integrated Cash Book
- \* Flip Chart and markers

## SESSION GUIDE

### 1. Introduction

- a. Introduce this session by telling the trainees that this session will enable them to explain the meaning of record/bookkeeping and its importance, discuss common oversights or shortcomings in record/bookkeeping, explain source documents and their uses in record/bookkeeping, explain effects of business transactions in their enterprises and demonstrate writing a petty cashbook and an Integrated Cash Book (Flip Chart 33-1).
- b. Explain to them that more time is needed to cover the whole bookkeeping process from recording using books of accounts to the preparation of final accounts / financial statements. It would therefore be advisable for the trainees to enroll in other training programs in record keeping to build their knowledge and skills in the subject.
- c. Guide the trainees to brainstorm and discover the importance of keeping records to their businesses. Emphasize to the trainees that having business records will increase their chances of success and reduce the possibility of losses and failure. Further emphasize that records will help them to keep in touch with the day-to-day operations of their businesses.
- d. Ask the trainees what they understand by the term “record keeping”. Write their answers on the board.

### 2. Presentation and Activities

- a. Guide the trainees to review and discuss their responses in respect to the meaning of record keeping (d) above. Let them link the meaning of record keeping and its importance (c). Use Flip Charts 33-2 and 33-3.
- b. Also discuss who, in a micro and small business, should be the record keeper (Flip Chart 33-4) and the common oversights / shortcomings in record keeping (Flip Chart 33-5).
- c. Ask the trainees to enumerate activities taking place in an enterprise that involve the outflow or inflow of cash or exchange of value in course of business operations that constitute a commitment of outflow or inflow of funds or exchange of value at a later date. Write their answers on the board. Go through the answers and add as may be necessary. Explain that the list presented on the board constitutes what are called **business transactions** in a business.
- d. Guide the trainees to discuss and find out the effects of business transactions in a business. Use Flip Chart 33-6 to guide the transactions.
- e. Point out that every transaction should be supported by a record/document or a set of documents that confirm that it did take place. Such documents show the transaction's initiation, authorization /approval and its beneficiary. These documents are called source documents. Guide the trainees to brainstorm and discover the different source documents (Flip Chart 33-7) commonly used in business. Show examples of different types of records e.g. Receipt, Debtor's Book, Creditor's Book, Stock Record, Payroll and Wage Record, Record of Assets, and Petty and Integrated Cash Book. (Refer to Hand Outs 33 (a) to 33 (g))
- f. Highlight to the trainees uses and importance of the source documents in business.

- g. Emphasize to the trainees the importance of setting up and maintaining a Petty Cash Fund. Point out that a Petty Cash Fund is needed for payment of the business' small and petty (miscellaneous) expenses in cash. Such expenses occur regularly in a business. The amount of the petty cash fund should be sufficient to meet petty expenses and should be replenished once depleted or nearing the minimum amount established (as per policy of the enterprise). A Petty Cash Book has to be maintained to record transactions involving petty cash payments.
- h. Using Hand Out 33 (h) demonstrate to the trainees how to keep a petty cashbook.
- i. As an exercise, ask the trainees to record, in a Petty Cash Book, the transactions shown on Hand Out (h). Allow 15 minutes for this exercise. After 15 minutes, request a trainee to present his/her Petty Cash Book. Guide the trainees to discuss and critique as necessary. Refer to Flip Chart 31-8 for the completed Petty Cash Book.
- j. Present and guide the trainees to discuss and find out the meaning and uses of an **Integrated Cash Book**. Point out that this record enables them to record or write down their business transactions (cash inflows and outflows, bank deposits, withdrawals and payments, debt sales and their payments, credit purchases and payments) using only one book. Refer to Hand Out 31 (j)
- k. Inform the trainees that the Integrated Cashbook is built on the principles of the double entry bookkeeping method (i.e. every transaction in a business has a minimum of two effects, one of receiving and another of giving). It also provides for the recording of transactions involving one way flows of value e.g. credit sales and credit purchases. When this Cashbook is in use, the individual Debtors' Book and Creditors' Books need to be kept to trace the movements on their individual components.
- l. Guide the trainees to practice writing their Integrated Cashbooks by doing exercise 33 below using Hand Out 33 (j) for the Integrated Cash Book.

### 3. Summary

- a. End this session by referring back to the session objectives and by reiterating the importance of record/book keeping to their business and urging the trainees to always keep good records in their businesses.

## **Session:                      Record Keeping**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning of record/book keeping and its importance in business
- ❖ Discuss the common oversights and shortcomings in record keeping
- ❖ Explain source documents and their use in record keeping
- ❖ Demonstrate recording a Petty Cash Book
- ❖ Demonstrate recording an Integrated Cash Book



## **WHAT IS RECORD KEEPING?**

This is the process of writing down all the business transactions that take place in your enterprise to enable you to prepare the financial reports that will show the results of your business operations, its financial position as well as its cash inflows and outflows.



33-3

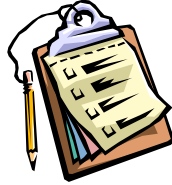
# Why is Record Keeping Important?

*Records help you to:*

- **Manage and control your business cash.**
- **Know the performance of your business.**
- **Show others how your business performs.**
- **Determine the business' tax obligations to the government**
- **Back loan applications to financial institutions**
- **Plan for your business and make basic business decisions.**
- **Be updated about your business environment at all times.**



## Who should be the record keeper?



- a) YOU, THE ENTREPRENEUR
- ii) YOUR SPOUSE OR A MEMBER OF YOUR FAMILY
- iii) A HIRED FULL-TIME OR PART-TIME BOOKKEEPER

## **Common oversights or shortcomings in Record Keeping**

- Entrepreneur lacks the appreciation of using records for keeping track of the financial affairs of the business.
- Financial reports are not used for planning and monitoring because the entrepreneur does not understand them.
- Major decisions are made without reference to data, which the records may help provide.
- Entrepreneur does not see the need for records because he or she is involved in all aspects of the business operation.
- Entrepreneur lacks proper appreciation of the importance of internal control.
- Entrepreneur has the tendency to estimate product costs from memory or with little reference to records. Also, the entrepreneur is not warned of possible problem areas in production because the actual costs are not compared with the costs in estimating product prices.
- Record keeping is not done properly because either the entrepreneur who is busy or members of his or her family, who do not have the right training, are forced to do the record keeping.
- Personal and business resources are mixed.



31-6

### EFFECTS OF TRANSACTIONS IN A BUSINESS

TRANSACTION	EFFECT	
	Increase	Decrease
<i>Payment of your share capital</i>	<i>Business share capital and cash</i>	
Payment of pre-operating expenses	Business expenses	Cash
<i>Purchase of raw materials</i>	<i>Stocks</i>	<i>Cash</i>
Purchase of machinery, equipment and tools	Fixed assets	Cash
<i>Payment of Labor charges</i>	<i>Business expenses</i>	<i>Cash</i>
Payment of rent	Business expenses	Cash
<i>Payment for power expenses</i>	<i>Business expenses</i>	<i>Cash</i>
Payment for the manager's and supervisor's salaries	Business expenses	Cash
<i>Cash received from sales</i>	<i>Cash, Sales</i>	
Cash Receipts from debtors	Cash	Debtors
<i>Payments to creditors</i>		<i>Cash and Creditors</i>
Thefts of stocks	Losses of stocks	Stocks
<i>Sales not paid for with cash</i>	<i>Debtors, Sales</i>	
Purchases not paid with by cash	Creditors and Stocks	
<i>Your cash withdrawals from the business</i>		<i>Cash and Capital</i>
Exchange of products or raw materials between businesses, etc.	Stocks of the raw materials received	Stocks of raw materials given out

**NB:** Please note that where the two effects of a transaction is either an increase or decrease only is because the affected items or accounts are on the opposite sides of either the balance sheet or Income and Expenditure Statement (Profit and Loss Account)

## Records and Source Documents

A RECORD is a written evidence of an event, which took place at a certain place, at a particular time, for a specific purpose, and between two or more parties. *In business, such events would be business transactions.*

BUSINESS RECORDS are “written evidences” that indicate the inflow or outflow of business money for either goods or services, exchange of value or commitments to receive or pay out cash at a later date. On the other hand, Source documents are written evidences that a transaction or the event took place indeed. They show the transaction that took place, who initiated, who approved / authorized it, who was the beneficiary and the date it took place.

Such business records and Source documents include the following:

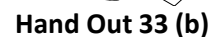
Source Document	Purpose
Bank deposit slips	Issued by banks confirming receipt of money from the depositor.
Bank Statement	Shows the details of the deposits, withdrawals (payments) made from the account holders bank account
Cash Receipts	Proof that money has been received, from whom and how much and for what purpose
Sales Receipts	A record of the days sales
Invoice	Shows how much is owed and to whom
Delivery notes	Proof that goods and services have been delivered to customers
Local Purchase Orders	Proof that commitments have been made to purchase from suppliers
Payment voucher	This shows to whom payment was made, the purpose, the amount and the person who authorized the payment.
Staff files	Show details of personnel, what they are to do and how much they should be paid



A receipt is a written document that acts as an evidence of a transaction for sale of goods or services and receipt of cash. A receipt may also be received to acknowledge that the other party (being paid) received the money.

<p align="center"><b>BARANS GENERAL ENTERPRISES</b> <b>CASH SALE</b></p> <div style="display: flex; justify-content: space-between;"> <span>No.0001 Tel. 231-000000000 Fax.231-000000000</span> <span>P.O. Box 0000 ERBIL</span> </div>			
Date	Particulars of Goods	Quantity	Amount
Total			

<b>BARANS GENERAL ENTERPRISES</b>	
<b>CASH SALE</b>	
No.0001	P.O. Box 0000
Tel. 231-000000000	ERBIL
Fax.231-000000000	
<b>OFFICAL RECEIPT</b>	
Date _____	Receipt No. _____
Received from _____ the sum of Iraqi Dinar	
(Amount in Words) _____	
(ID _____)	
Being payment for _____	
Cheque No. _____	Dated _____ Bank _____
Cash ID _____	
Receiving Person: _____	Signature and Stamp: _____



This book shows the transactions made with individual debtors. All debtors should have a record even if an invoice is issued. This is to help track how much people owe the entrepreneur.

Customer's Account Record						
Name of Customer (Debtor) _____						
Address _____						
Telephone _____						
Credit Limit _____						
Date	Details of goods / services purchased	Quantity Purchased	Amount of goods / services taken	Amount Paid	Balance to be cleared	Signature of the Purchaser
Total						



## Sample: *CREDITORS' BOOK*

### Suppliers/Creditors Book

This book shows the transactions made with individual creditors. All your individual creditors should have a record even if they issue an invoice. This is to help you keep track of how much you owe them.

Name of Creditor					
Address and Tel.					
Items Supplied					
Date	Particulars	Ref	Total Amount (ID)	Amount Paid (ID)	Bal. due (ID)



## ***Stock Record***

### **Stocks Record**

This record will let the entrepreneur know how much is available for each item of stock at any time. He may maintain only one record or more in separate sheets or cards, depending on the number and nature of materials you keep. You usually keep detailed notes of the most important materials.

### **Stock Record**

<b>Date</b>	<b>Item</b>	<b>Purchases ID</b>	<b>Used-up</b>	<b>Balance ID</b>





## ***Payroll and Wage Record***

### **Payroll and Wage Record**

This record will give the entrepreneur a summary of the wages being paid, the deductions being made, and the net receipts of the workers. The summary of deductions will give the amount and report that he/she has to submit to third parties like Social Security System or Labor Authorities.

If he/she has many employees, it may be useful for him/her and his/her employees to have a breakdown of what they receive in their individual pay slips. In this pay slip, the entrepreneur will transfer the computations he/she made of their wages and the deductions.

### **Sample: Payroll and Wage Record**

<b>Name</b>	<b>Date</b>	<b>Hours Worked</b>	<b>Rate</b>	<b>Extra Pay ID</b>	<b>Deducti ons ID</b>	<b>Net pay ID</b>



## ***Record of Assets***

This is a record of other assets aside from the raw material stocks such as equipment, vehicles or others, if changes occur regularly.

**Record of Assets (*Keep a separate page per asset item*)**

<b>Date</b>	<b>Item</b>	<b>Cost ID</b>	<b>Accumulated Depreciation</b>	<b>Balance (Cost – Accumulat ed Depn.)</b>



Hand Out (g)

## Equity Record

This record will give you how much you already have (own) in the business and the shares of other owners. In case there are many people involved, keep a separate page per person.

### Sample: Equity Record

Date	Name	Investment ID	Retained Earnings (Profits) ID	Drawings ID	Balance ID



Hand Out 33 (h)

## ***Petty Cash Book***

Date	Transactions	Cash In ID	Cash Out ID	Balance ID

## Exercise: Recording a Petty Cash Book

The following are petty cash transactions of PESHAWA'S' Enterprises.

- October 1, 2013: Established a petty cash amounting to ID 5,000.
- October 1, 2013: Purchased paper and pens amounting to ID 250
- October 3, 2013: Paid transportation (taxi fare) of ID 350
- October 10, 2013 Purchased office supplies amounting to ID 1,000
- October 20, 2013 Paid water bill amounting to ID 500
- October 22, 2013 Owner got ID 1,000 and gave to his son as allowance for school
- October 25, 2013 Owner bought refreshment for client amounting to ID 300
- October 28, 2013 Replenish Petty Cash Fund (PCF)

### ***Required:***

Create and Record the above transactions in their Petty Cash Book.

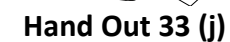


33-8

## ***Solution to the Exercise on Recording a Petty Cash Book***

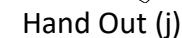
### **PESHAWA'S Enterprises**

<b>Date 2013</b>	<b>Transactions</b>	<b>Cash In ID</b>	<b>Cash Out ID</b>	<b>Balance ID</b>
1 October	Establishment of PCF	5,000		5,000
1 October	Paper and pens		250	4,750
3 October	Taxi fare		350	4,400
10 October	Office supplies		1,000	3,400
20 October	Water bill		500	2,900
22 October	Withdrawal by owner		1,000	1,900
25 October	Snack – representation expense		300	1,600
28 October	Replenishment of PCF	3,400		5,000



## INFLOWS

374



## OUTFLOWS

[illegible]





**Exercise: Recording Transactions in an Integrated Cash book**

**BARANS General Enterprises**

Date	Transactions
2013	
2 Sept	Andrew paid his share capital of ID 700,000
	Opened account with Liberian Bank and deposited ID650,000
	Paid pre-operating expenses of ID20,000
3 Sept	Purchased raw materials amounting to ID300, 000 and paid ID200, 000 by cheque, the balance of ID100, 000 was purchased on credit of 60 days.
	Purchased machinery and equipment of ID200,000 and paid by cheque
30 Sept	Sold doors worth ID200,000 in cash Sold doors worth ID100,000 on credit of 30 days
	Paid rent of ID10,000 in cash
	Paid salaries of ID50,000 in cash
	Paid power expenses of ID10,000 in cash
30 Sept	Cash deposit with bank, ID110,000
28 Oct	Cash receipts from debtor ID100,000
	Payment to creditors ID100,000

**CRETAE AND RECORD THE ABOVE TRANSACTIONS USING THE INTEGRATED CASH BOOK**



Hand Out 33 (I)

## SOLUTION FOR BARANS ENTERPRISE INTEGRATED CASH BOOK EXERCISE

INFLOWS															
Date 2013	Particulars	Ref.	Cash on Hand			Cash in Bank			Sales				Total	Accounts Receivable	
			Cash In	Cash out	Balance	Cash in	Cash Out	Balance	Doors	Services	Prod. C	Others	Sales	Sold	Payments
02-Sept	Capital Contribution	CAP.R1.	700,000		700,000										
02-Sept	Cash deposit with bank	DS1		650,000	50,000	650,000		650,000							
02-Sept	Pre-operating expenses	PV 1		20,000	30,000										
02-Sept	Purchase of raw materials on cash & credit	PV2					200,000	450,000							
03-Sept	Purchase of Machinery, Equipment, & Tools	PV3					200,000	250,000							
30-Sept	Sale of Doors in cash & on credit	CR1	200,000		230,000				300,000				300,000	100,000	
30-Sept	Payment of Rent	PV4		10,000	220,000										
30-Sept	Paid salaries	PV5		50,000	170,000										
30-Sept	Paid power expenses	PV6		10,000	160,000										
30-Sept	Cash deposit with bank	DS2		110,000	50,000	110,000		360,000							
28-Oct	Cash receipts from debtors	CR2	100,000		150,000										100,000
28-Oct	Payment to Creditors	PV7					100,000	260,000							



Hand Out (I)

## SOLUTION FOR BARANS ENTERPRISE INTEGRATED CASH BOOK EXERCISE

### OUTFLOWS

Date	Particulars	Ref	Expenses						Others Expense s		Fixed Assets Purchases	Baran's Drawings	Accounts Payable	
			Raw mat	Labor Sal.	Utilities	Rent	Maint.	Tel.					Paid	Bought
02-Sept	Paid for pre-operating expenses	PV1							20,000					
03-Sept	Purchase of raw materials on cash & on credit	PV2	300,000											100,000
03-Sept	Purchase of Machinery, Equipment & Tools	PV3									200,000			
30-Sept	Payment of rent	PV4				10,000								
30-Sept	Payment of salaries	PV5		50,000										
30-Sept	Payment of power expenses	PV6							10,000					
28-Oct	Payment to Creditors	PV7											100,000	

## **Trainer's Notes**

### ***What is record keeping?***

This is the process of writing down all business transactions that take place in an enterprise to be able to process the results of business operation.

### ***Why is record keeping important?***

Records help the entrepreneur, to:

- Manage and control his/her business cash.
- Know whether his/her business performs well or not.
- Show others about the performance of his/her business. He/she may need them as a requirement by the government for the payment of his/her taxes and by the banks when he/she applies for financing.
- Plan for the business and make basic business decisions.
- Be updated about his/her business environment at all times.

It is always very difficult for the entrepreneur or any other interested party to assess the performance of his/her business by only observing the situation without using records. Therefore records are very essential for monitoring the performance of his/her business. It enables him/her to identify weaknesses and problems in his/her business thus he/she should be able to plan on how to overcome them. Thus bookkeeping should not be considered to be unnecessary, too time-consuming or a bother especially for a small entrepreneur.

### ***Who should be the record keeper?***

**The entrepreneur**, if he has the desire and the time. It may not always be possible since he/she may be too busy with other urgent activities and may set aside record keeping when "he/she will be free to attend to it"

**The spouse or a member of the family** - who is willing to do the work and who has the capacity to understand the procedures. This arrangement appears to be the most acceptable because the financial affairs of the business are kept within the family.

**Hired full-time or part-time bookkeeper** - If properly trained or supervised by a retained bookkeeper or accountant, this option will help ensure the proper use of records. The bookkeeper may have some formal training or experience thus would be familiar of the work to be done and could concentrate on the upkeep of the bookkeeping system.

Regardless of who does the record keeping, it is important for the entrepreneur to keep in mind that the assignment of a properly trained person to do the job will make the system work. This in turn will give the business the benefits of timely and accurate data.

### ***Common shortcomings in record keeping***

- Entrepreneurs lack the appreciation in using records for keeping track of the financial affairs of the business.
- The financial reports are not used for planning and monitoring because the entrepreneur does not understand them.
- Major decisions are made without reference to data, which the records may help provide.

- The entrepreneur does not see the need of records because he/she is involved in all aspects of the business operation.
- The entrepreneur has the tendency to estimate product costs from memory or with little reference to records. Also, the entrepreneur is not warned of possible problem areas in production because the actual costs are not compared with the cost used in estimating product prices.
- Lack of proper appreciation of the importance of internal control.
- Record keeping is not done properly because either the entrepreneur who is busy or members of his/her family who do not have the right training are forced to do the record keeping.
- Mixing personal and business resources is commonly practiced.

### ***Record / Bookkeeping and Accounting***

While record keeping is the practice of recording business transactions in an enterprise, accounting is a bookkeeping methodology involved in creating a financial record of the business transaction in preparation of financial statements that show business Assets, Liabilities and Owner's Equity and results of the operation.

**In record keeping (bookkeeping) and accounting the following is done:**

<b><i>Task</i></b>		<b><i>What is done</i></b>
Book keeping (Recording transactions)	=	Making a comprehensive business diary kept on a date wise reflecting the dual aspect of each transaction.
<b>Accounting:</b>	=	Posting the business diary kept on a date wise (or transactions) to the individual things / items or accounts that are affected by the transactions.
- Summarizing the records		
- Processing	=	Summarizing the effects of the business transactions on the individual accounts and producing financial statements; Profit and Loss Account (to determine the results of operations) and a Balance Sheet (position of a business as at a given time).

### ***What is a business transaction?***

These are activities that take place in the business and result into inflow or outflow of funds, exchange or loss of value by the business. Examples of business transactions include:

- Payment of your share capital
- Payment of pre-operating expenses
- Purchase of raw materials
- Purchase of machinery, equipment and tools
- Payment of labour charges
- Payment of rent
- Payment for power expenses
- Payment for the Manager's and supervisor's salaries

- Cash received from sales
- Cash receipts from debtors
- Payments to creditors
- Thefts of stocks
- Sales not paid for with cash
- Purchases not paid with by cash
- Your cash withdrawals from the business
- Exchange of products or raw materials between businesses, etc.

It is the process of exchanging money for either a product or a service. The rate at which money is exchanged (Rate of transaction in a business) for either a Product or a Service determines the rate at which the business is able to accumulate profits / losses. This rate greatly determines the rate of survival and growth or demise of the business during a specific period of time.

The success of the business therefore depends entirely on its ability to have money inflow greater than its money out flow.

### **Records/source documents**

A record is a written evidence of an event, which took place at a certain place, at a particular time, for a specific purpose and between two or more parties.

Business records are “written evidences” that indicate the inflow or out flow of business money for either goods or services.

In record keeping, you should ensure that every transaction is supported by a record/document or a set of source documents. Presence of source documents is essential for good internal control if properly used. Transactions whose source documents are missing should be investigated quickly.

In case no receipt is obtained, you must produce a handwritten document and file as an evidence to prove that such a transaction occurred. The written evidence should indicate:

- Date when the transaction took place,
- Amount that went out or came into business,
- Reason why the transaction took place,
- Who paid the money,
- To whom the money was paid, etc.

### **Payroll and Wage Record**

This record will give the entrepreneur a summary of the wages being paid, the deductions being made, and the net receipts of the workers. The summary of deductions will give the amount and report that he/she has to submit to third parties like Social Security System or Labour Authorities.

If he/she has many employees, it may be useful for him/her and his/her employees to have a breakdown of what they receive in their individual pay slips. In this pay slip, the entrepreneur will transfer the computations he/she made of their wages and the deductions.

### **Petty Cash Record**

Many small and irregular payments are made through an amount of money called **petty cash**. Petty cash is normally kept in a safe-locked box in your office and is available for small business purchases. However, if there are many of these payments, a separate record in a notebook is kept. This record will help you itemize the payments made. Petty cash is replenished regularly and when the amount is low.

### **Integrated Cash Book**

This record enables you to write down your cash inflows and outflows and monitor your debtors and creditors using only one book.

The Integrated Cashbook is built on the principles of the double entry bookkeeping method. It also provides for the recording of transactions involving one way flows of value e.g. credit sales and credit purchases. When this Cashbook is in use, an individual Debtor's Book and Creditor's Book need to be kept to trace the movements on their individual components.

A sample is shown in Hand Out 33 (j):

### **Other records**

There are also other types of records that you may want to keep when you have many transactions. These include:

#### **Record of assets owned by the business**

This is a record of other assets aside from raw material stocks such as equipment, vehicle or others, if changes occur regularly.

#### **Equity Record**

This record will give you how much you already have (own) in the business and the shares of other owners.

## SESSION 34

### BUSINESS START-UP ACTIVITIES



#### OBJECTIVES



By the end of this session, the trainees will be able to explain the meaning of business start-up activities, state the steps or activities involved in a business start-up process, identify the steps involved in registering a business, describe the environmental concerns in planning and operating a business, describe how their businesses will affect their environment and identify measures to address the adverse effects on the environment by businesses in their trade areas.

#### TRAINING MATERIALS



- \* Flip Chart 34-1: Session Objectives
- \* Flip Chart 34.2: Meaning and examples of business start-up activities
- \* Flip Chart 34.3: Steps involved in Registering a Business
- \* Flip Chart 34-4: Examples of environmental concerns in planning and operating a business
- \* Flip Chart 34-5: Examples of the effects of business on environment
- \* Flip Chart 34-6: Examples of measures to address adverse effects of business on their environment
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start the session by telling the trainees the objectives of this session by referring them to Flip Chart 34-1.
- b. Inform the trainees that starting a business is a process that involves some basic activities and steps that entrepreneurs need to follow in order to properly start their businesses.



- c. Guide the trainees to brainstorm and discover the meaning of business startup activities.
- d. Ask the trainees to identify the activities they need undertake in course of starting their businesses. Write their answers on the board.

## 2. Presentation and Activities

- a. Go through the trainees' answers on the meaning of business start-up activities.
- b. Guide the trainees to review their answers on the examples of the business start-up activities and add on as may be necessary. Show them Flip Chart 34-2
- c. Ask the trainees to recall the different sizes and common legal forms of businesses in Kurdistan Region. Ask the trainees to identify which of the common legal forms of business in Kurdistan Region would require registration. Let the trainees check and confirm whether their businesses will require registration or not.
- d. Since Kurdistan Region is encouraging entrepreneurs to register their businesses with Kurdistan Region Business Registry, Ministry of Trade and Industry, ask the trainees to identify the steps they would take to register their *businesses (when they are ready for registration)*. Show them Flip Chart 34-3.
- e. Guide the trainees to brainstorm and discover how business operations affect the environment. Write their answers on the board. Then ask each trainee to reflect on his or her business and, identify and list its likely adverse effects on the environment.
- f. Guide the trainees to reflect on their communities and identify how businesses are trying to address their adverse effects on the environment. Write their answers on the board. Show them Flip Chart 34-4. Then ask each trainee to reflect on the likely adverse effects of his or her business on the environment and suggest the measures he/she will undertake to address them.

## 3. Summary

- a. Point out to the trainees that starting up a business requires more than just hanging a sign outside your shop saying "OPEN". There are factors to consider and basic steps to take into consideration in order to get their businesses up and running properly.
- b. Remind the trainees about the session's objectives and emphasize to them that not all activities, steps and requirements may apply to their businesses. They only need to pick and apply those that apply to their businesses.



## **Session:            Business Start-up Activities**

### **Objectives:**

By the end of this session, the trainees will be able to:

- ❖ Explain the meaning of business start-up activities
- ❖ State the activities involved in a business start-up process
- ❖ Identify the steps involved in registering a business
- ❖ Describe the environmental concerns in planning and operating a business
- ❖ Describe how their businesses will affect their environment
- ❖ Identify measures to implement in order to address the adverse effects on the environment by their businesses.

## **Common Business Start-up Activities**

- Scanning the environment
- Generating business ideas
- Selecting a business opportunity
- Conducting market survey
- Deciding on the legal form of the business
- Writing a business plan
- Technology and machinery assessment
- Identify sources of financing
- Identify the business location and premises
- Registration and licensing of business (if required)
- Secure and install the required machinery and test run it, raw materials (or stocks of goods in the case of a trading business), hire and orient staff if required.
- Commencing business operations

# Steps involved in registering a business

## *Registering a business*

- Get information on the procedures and requirements for your type and size of business registration
- Get the necessary forms that must be completed
- Get the required funds to pay the fees that are involved
- Secure the required documents and clearances from the relevant business sector Government authorities
- Register your business' business name
- Registering a business

## *Getting a business license*

- Find out the local administration requirements and ensure that your business complies with them
- Complete the relevant forms and get the necessary business sector official clearances
- Lodge your application
- Pay the required fees
- Collect your business operating license.

## Measures to address environmental concerns

- Proper utilization of raw materials
- Good waste disposal schemes
- Proper packaging
- Use of safe production processes
- RE-forestation
- Use of fluorescent rather than incandescent bulbs
- Recycle waste products/materials (if possible)
- Conserve energy and if possible use renewable sources of energy e.g. *solar, water, wind, biomass*)
- Use sustainable agricultural land management practices for climate change and environmental resilience.

## **Trainer' Notes**

### **Introduction**

Starting up a business requires more than just hanging a sign outside your shop saying "OPEN". There are factors to consider and basic steps to take in order to make your business official. The government has a set of rules that concerns the formation and operation of businesses. These rules have been written in order to protect your interests and investment as the entrepreneur.

Not all the rules apply to your business since the rules differ depending on the size, kind, and location of the business, and the number of its workers. Thus you have to assess and apply only the rules applicable to your enterprise, prepare your own schedule for doing them, and budget for the fees you will have to pay.

Flip Chart 34-2 shows the common business start-up activities. However, there may be slight variations depending on the size, legal form and type of business an entrepreneur plans to start.

### **The legal requirements of operating a business**

Before starting your business, you should check the registration requirements and the steps to follow in forming your enterprise. Likewise, you should be aware of the implications of the requirements so as not to be penalized if certain regulations are ignored. You must consider that some of the registration requirements, although costly, may serve to protect your enterprise. Following these requirements could also link you to the proper sources of assistance, particularly the government agencies that extend various incentives to micro and small enterprises.

The legal requirements generally involve the following areas:

- The legal form of business
- Registering a business
  - Registering a business name
  - Registering a business
- Securing license to operate the business
  - Knowing the local administration requirements and complying with them
  - Completing the necessary forms
  - Paying the required fees
- Special regulations for certain commodities and business activities
- Compliance with tax laws and regulations
- Compliance with labour regulations
- Rules on social protection of workers and the entrepreneur
- Rules on the protection of products and business names and trademarks for exclusive use of the business
- Rules on giving incentives and privileges to businesses

### **Business name registration**

If you are planning to set up a business and operate it under a name other than your own, you are required to register, with the proper authority, the name you intend to use. This is done to make sure that there are no other businesses already operating in your region with the same name.

You may need to provide information on the business name, the type of business you expect to set up, your location, when you plan on starting your business, and the names and addresses of each person who will be registered as owners.

In Kurdistan Region, even sole proprietors and partnerships can also register their business names. Companies and Co-operatives / associations are by law required to register before they commence their business operations. Usually, a business number or a certificate of registration is issued as evidence of this registration. This certificate is valid for a number of years but will have to be renewed when it expires

### **Licenses to operate**

Once you have decided on the form your business will take, you will need to apply for the various licenses that are needed to be able to start your enterprise.

In most cases, the licenses have to be renewed periodically, usually yearly, after payment of taxes and fees.

Certificates of Registration and control numbers are given to registrants to display on their business premises as proof that they are already registered, have paid the proper fees and have passed the standards that govern operations. This will minimize any possible interference by government inspectors as well as assure its customers that the business properly complies with government standards and requirements.

### **Securing specific licenses**

Certain licenses are required for specific business activities or commodities produced and sold. For example, your business may have to comply with certain standards governing health and safety and employment standards, rules for disposing waste materials, or international regulations. These are adopted for the protection of the consumers' health and safety moral standards, as well as in recognition of international agreements. These are required to ensure that certain product quality standards are complied with and the firm is producing the goods or providing the service using appropriate methods well-trained workers, in the right premises, and with the appropriate facilities.

### **Environmental concerns in planning and operating a business**

When planning and operating your business, you have to be aware of the effects your business will have on the environment. Likewise, continuously identify and look for measures to address the environmental concerns. Try to be aware of the industrial safety regulations and standards and conform to it.

**Effects of businesses in the environment** include among others:

- Land degradation
- Air and water pollution
- Congestion
- Noise pollution
- Deforestation

Measures to address environmental concerns are shown in Flip Chart 34-4.

## SESSION 35

### BUSINESS INSURANCE, GOVERNMENT REGULATIONS AND TAXES

1.5 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able determine the registration requirements to make their businesses official, explain the taxation requirements and explain the importance of business insurance to their businesses.

#### TRAINING MATERIALS



- \* Flip Chart 35-1: Session Objectives
- \* Flip Chart 32.2: Legal requirements for operating a business in Kurdistan Region
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Trainer introduces the lesson by telling the trainees that in this session, they will learn to explain the importance of business insurance to their businesses and the taxation requirements, and determine the registration requirements to make their businesses official.
- b. Introduce the guest resource person from the government institution (best that is responsible for business registration and or Licensing) by mentioning his/her name, his/her position, and the name of the institution where he/she is working.
- c. Request the guest resource person to focus his/her discussion on the following areas:
  - Steps in registering a business
    - Registering a business name
    - Registering a business
  - Steps in securing a license to operate a business
  - Special regulations for certain commodities and business activities
  - Compliance with tax laws and regulations



- Compliance with labour regulations
  - Rules on social protection of workers and the entrepreneur
  - Rules on the protection of product and business names and trademarks for exclusive use of the business
  - Rules on giving incentives and privileges to businesses
- d. After the presentation, tell the trainees that the guest resource person will have 30 minutes to entertain some of their questions.
  - e. Thank the guest resource person for giving time to talk to the trainees.

## **2. Presentation and Activities**

- a. After the presentation of the guest resource person, guide the trainees to discuss the insurance services applicable to micro and small enterprises. *To be able to discuss insurance, gather in advance information about the session.*
- b. Ask the trainees to enumerate lessons learnt from the resource person's presentation. Show Flip Chart 35-2. Summarize the lessons learnt and their applicability to the trainees' businesses.

## **3. Summary**

- a. Recap the session's objectives. Reiterate the need for the trainees to comply with the rules and regulations applicable to their businesses and to consider insuring them (as may be appropriate) in order to protect all those involved in their businesses (e.g. their workers, their customers, and themselves).

## **Session:            Business Start-up Activities**

### **Objectives:**

**By the end of this session, the trainees will be able to:**

- ❖ Determine the registration requirements to make their businesses official**
- ❖ Explain the taxation requirements on their businesses**
- ❖ Explain the importance of business insurance to their businesses.**

## **Legal Requirements for Businesses in Kurdistan Region**

- **Choosing a legal form of business (and registering if legally required)**
- **Securing a license to operate the business**
- **Complying with special regulations for certain commodities and business activities e.g. health, communication, mining, environment, finance, etc.**
- **Compliance with tax laws and regulations**
- **Compliance with labor regulations**
- **Observing the Rules on Social protection of workers and the entrepreneur**
- **Observing the Rules on Protection of product and business names and trademarks for the exclusive use of business**
- **Observing the Rules on Giving incentives and privileges to businesses**

## **Trainer's Notes**

### **Business insurance**

#### ***Insurance and Business Assets***

There is always a risk in losing business assets. To minimize such risks, you, the entrepreneur, can take insurance for your assets. Insurance coverage means that you pay a premium (some amount of money) to an insurance company who will, in turn, pay you for any losses on your property (in cases of theft, fire, damage to property, etc.)

To avail of insurance services, you have to find out from insurance agents what is available and how much it costs. The most common forms of insurance are:

- Fire and other accidental hazards
- Theft resulting from violent and forced entry
- Accident insurance, particularly for transport vehicles
- Third party liability, or damages to other parties for accidental injuries caused by the vehicles or properties owned by the business
- Life insurance on the entrepreneur

Before making a decision of insuring your fixed assets, you

- Should ask insurance agents to compute the cost of insurance considering the nature of your business, facilities you want insured, and other safeguards you have.
- Should compare various rates of insurance premiums and combinations and the credibility of the insurance company
- Should compare cost with your finances
- Should look at added benefits of insurance like: possibility of getting a loan with your insurance policy as guarantee or security for the loan

### **Government regulations**

#### ***Taxation requirements of business***

Paying taxes is a legal obligation. Apart from business taxes that are collected for permits and registration, businesses may have to pay some direct and/or indirect taxes. As a starting micro or small business, many of the taxes may not concern you immediately but may affect you in the future.

Likewise, as a micro or small entrepreneur, you may not be required to pay tax on profit (since you may after all not be registered). However, once your business has grown or been registered, you will as a rule be required to pay the relevant government taxes.

Your business may also have to pay for other types of taxes such as sales (revenue) or value added tax (VAT); manufacturer's tax; customs taxes and duties for imported items that you sell or use as raw materials for your products. However, a number of these are indirect to a micro and small enterprise.

Since failing to pay your taxes will result in having to pay a penalty, it is a good idea to keep good business records as well as keeping track of your tax obligations. You can do this by preparing your

individual tax guide. This should indicate the type of taxes to be paid, the forms to be used, the due dates of payments, and where and how to pay your taxes. It would be useful to estimate your tax obligations ahead of the due dates so that you are able to set aside the proper amount — this way you will have the funds when you need them.

### ***Labour laws and regulations***

The health, safety and protection of workers are among your major responsibilities as owner of a business. It is also in the best interest of your business that a good working environment is provided to your workers— this will attract and keep very good and contented workers in your enterprise. In turn, it will improve the productivity of your enterprise and enable you to keep better relationship with government authorities.

You should work toward providing your workers with a good working environment, the right wages and working hours, and social protection, such as workers' compensation in case of accident, social security benefits, vacation and sick leave benefits, medical insurance, etc.

### ***Good working environment***

You, the entrepreneur should provide a good working environment for your employees. The typical features of a good working environment are:

- Good office/workshop/factory/shop layout,
- Adequate lighting,
- Proper ventilation,
- Low noise level, and
- Adequate waste disposal facilities.

### ***Rules on social protection***

Being the owner of a business, your worker's welfare is also your concern. It is not enough that you may be willing to lend money to your workers for certain work-related and personal needs. You will need to provide social protection or insurance for your workers. You may also need some social protection for yourself. It is your responsibility, as a business owner, to investigate what rules and regulations govern your business and to abide by them.

## SESSION 36

### OTHER ELEMENTS OF A BUSINESS PLAN

3 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to identify and explain the other elements to consider in order to complete preparing their business plans.

#### TRAINING MATERIALS



- \* Flip Chart 36-1: Risk Assessment
- \* Flip Chart 36-2: Sample Risk Assessment
- \* Flip Chart 32-3: Contents of the Executive Summary
- \* Flip Chart 32-4: Sample – Cover Page
- \* Flip Chart 32-5: Table of Contents
- \* Hand Out 36 (a): Sample – Curriculum Vitae or Resume
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Start the session by telling the trainees that there are other factors/elements that need to be considered in order to complete preparing their business plans.
- b. Ask the trainees what they think are other factors to consider in order to complete their business plans. Write their answers on the board.
- c. Inform the trainees that this session will enable them to identify and explain the other elements to consider in order to complete their business plan preparation exercise.

#### 2. Presentation and Activities

- a. Go through their answers and add as necessary. Point out that though there are very many elements that may be considered, for their current business plan preparation exercise, they will only look at assumptions and risks that they have made, the personal Curriculum Vitae, Executive Summary and Cover Page.

- b. Proceed by asking the trainees to identify the major assumptions they have made in course of preparing their business plans as well as the Major risks that they are likely to face in course of implementing their businesses. Explain that risks are foreseen situations, occurrences or events, which if they do happen, could seriously hurt or impair their businesses' chances of success. At the same time, occurrence of such events would also make their business fail to achieve some of the set targets.
- c. Point out that any critical assumption that they used which, if it turns out not to be correct, would also jeopardize their businesses operations. Refer to Flip Charts 36-1 and 36-2 when discussing (b) and (c) above on "Major Risks and Assumptions".
- d. Explain that the Executive Summary and Cover Page are part of the business plan itself while the Curriculum Vitae is attached as an appendix.
- e. Give Hand Out 36 (a) to the trainees and guide them to discuss and agree on what they need to include in their Curriculum Vitae.
- f. Tell the trainees that after completing all the other sections of their business plans, they are now ready to prepare the "Executive Summary". Explain that the Executive Summary should be short (if possible not more than one page) but loaded with vital information about the business and the entrepreneur. Also, point out that the "Executive Summary" will be the first page of their business plan (right after the Cover Page and the Table of Contents). Show Flip Chart 36-3 for the contents of the "Executive Summary". Ask the trainees to prepare the executive summaries of their business plans.
- g. Explain that the "Cover Page" serves as the cover of their business plan. This contains information on Business Plan, Name and nature of the business, Name of the person who prepares the business plan, Address of the Business and Date. Show Flip Chart 36-4 for a sample cover page. Ask the trainees to prepare Cover Pages for their business plans.
- h. Also point out that a table of contents should be prepared for ease of reference in locating the information required by the reader about their business plan. Explain that the table of contents gives a brief outline of the different aspects discussed in the business plan. Show Flip Chart 36-5 and ask the trainees to practice preparing the content pages of their business plans.
- i. Guide the trainees to brainstorm and discover the supporting documents that may be attached to their business plans. Show Flip Chart 36-6.

### **3. Summary**

- a. End the session by telling the trainees that after writing their Executive Summary, and preparing their Cover Page and Table of Contents, they would have completed their Business Plans. However, point out that since they prepared their business in parts, the parts need to be consolidated to produce one coherent business plan.
- b. Give trainees assignments on preparing a report on the major assumptions they made and the risks they are likely to face when implementing their planned businesses, their Curriculum Vitae, the Executive Summary, Cover Page and a Table of Contents for their business plans.



32-1

## Risk Assessment

- Identify the risks (problems) that you can foresee that could seriously hurt your business.
- Show the steps that you have planned on taking to prevent the problems from happening.
- **Examples of Major Risks**
  - Reliance on the technical ability of one key employee
  - Possibility of a “price war” with larger competitors
  - Dependence on one or a few customers or suppliers
  - Delays in ordering spare parts for expensive equipment
  - Fuel prices which may rise
  - Exchange rates which may rise.





32-2

### Sample “RISK ASSESSMENT”

In addition to the normal risks that are common to many new businesses, the business has identified three major risks that it feels are critical to its operation:

1. Risk: More competitors might enter the market, especially since fruits are abundant in the area. This would be harmful if it results in price-cutting. This is a definite possibility since the capital required for starting the business is modest. (High risk)

*Solution: One solution is to get our product better known through advertising and promotion. The other possibility is to reduce our price, because price is our competitive edge. We will have to accept smaller margins until the competition either gives in or raises its prices or some enterprises are forced out of the market.*

2. Risk: Another risk is that the business may encounter financial difficulties, because of a lack of business experience of its owners. (Low risk)

*Solution: The business recognizes that its lack of management experience may pose a problem. As a result of this recognition, the owners have enrolled in various seminars and training programs. They are also being assisted by a Small Business Adviser in the implementation of their business plan.*

3. Risk: Sales may fall short of those projected due to the business' location. During the marketing survey, the entrepreneurs were convinced that there is a good market for the business' products. However, its competitors have a better location. (Medium risk)

*Solution: If it turns out that the location is a cause of low sales, the business will be forced to increase its advertising and promotion' budget in order to attract more customers.*



## Sample Outline of a "Curriculum Vitae" (or Resume)

### PERSONAL

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Marital Status: \_\_\_\_\_ No. of Children: \_\_\_\_\_

Date of Birth: \_\_\_\_\_

### EDUCATION

Name of Schools Attended	Years Attended	Certificate/Diploma

LANGUAGE \_\_\_\_\_

### WORK EXPERIENCE

Name of Employer	Position	Dates Worked	Reason for Leaving

### SPECIAL AWARDS OR ACCOMPLISHMENTS

### HOBBIES AND INTERESTS

### REFERENCES



## **Contents of the EXECUTIVE SUMMARY**

- History of business, date of start of operation, nature of business, and legal status
- The goals of the business plan
- Brief description of the enterprise (brief summary of the marketing plan, production and technology plan, management and administration plan, and financial plan)
- Brief profile of the entrepreneur
- Enterprise contribution to the economy in terms of employment, taxes paid, etc.

**Sample**  
**“COVER PAGE” OF A BUSINESS PLAN**

**BUSINESS PLAN**

Aram's Furniture Enterprise  
(Furniture Manufacturers)

Prepared by:  
Aram's Enterprise

P.O. Box 0000,  
ERBIL, Kurdistan Region  
Tel/Fax: (231) 0000000

October 15, 2013



# Table of Contents

	Page
Executive Summary .....	
Introduction .....	
Market Planning and Management .....	
Production and Technology Plan .....	
Management and Administration .....	
Financial Planning and Management .....	

## **Supporting Documents that may be attached to the Business Plan as Appendices**

- Resume of key business staff
- Price quotations of equipment
- Brochures of equipment or product literature
- Title of property (if to be used as collateral)
- Lease contract for land and building
- Sketches or plan of building (if new construction)
- Registration papers, other legal documents obtained
- Personal financial statement of owner showing his or her assets and liabilities
- Personal awards or certificates of relevant technical skills proficiency (if required in your business)
- Newspaper articles favorable to the entrepreneur
- References from important persons
- Income tax documents
- Factory lay-out (if not included in the main section (production part ) of the Business Plan)

## **Trainer's Notes**

In the preparation of your business plan, after completing your marketing plan, production and technology plan, management and administration plan and financial plan, you still have to consider the following elements /factors in order to complete your business plan.

- Risks assessment
- Appendices/Supporting documents
- Executive summary
- Cover page of a business plan
- Table of contents

### **Risks assessment**

Identify the risks that you can foresee that could seriously hurt your business. Explain each of the major risks and give your opinion as to the probability of the particular risk happening. Classify each risk as Low, Medium or High. Show steps that you have planned on taking to prevent the problems (risk) from happening. Examples of major risks are:

- Reliance on the technical ability of one key employee.
- Possibility of a “price war” with larger competitors.
- Dependence on one or a few customers or suppliers.
- Delays in ordering spare parts for expensive equipment.
- Frequent power or water shortages that affect your production.

### **Appendices**

This is the last section of the business plan. Appendices will include supporting documents and other useful information that would help in getting credit approval (if applying for loan). Appendices to be included will be different for each business plan. These documents will give additional information, further explanation, or proof of the statements or claims you made in your business plan.

### **Executive summary**

This will provide the reader of your business plan in one or two pages a concise description of the important elements of your business plan. This will be the first page of your business plan and should be written after completing all the sections of your business plan.

The executive summary will include:

- History of business, date of start of operation, nature of business, and legal status
- Brief description of the enterprise (i.e. brief summary of the marketing plan (clearly pointing out the uniqueness of your business that will enable it to succeed in the market), production and technical plan, management and administration plan and financial plan).
- Brief profile of yourself, the entrepreneur
- Enterprise contribution to the economy in terms of employment, taxes, etc.

### **Cover page**

This will serve as the cover of your business plan. This contains the following information:

- Business plan

- Name and nature of the business
- Name of the person who prepares the business plan
- Address of the business
- Date

### **Table of contents**

This gives a brief outline of the different aspects discussed in the business plan together with their corresponding page numbers. This is the same as the Business plan format but with corresponding page numbers.

This will be useful as a quick reference in locating the information required by the reader about your business plan. This follows the cover page.



## SESSION 37

### PACKAGING A BUSINESS PLAN

10.5 hours 

#### OBJECTIVES



By the end of this session, the trainees will be able to Integrate all the information gathered and learned from all sessions/exercises and consolidate them into one report; the business plan.

#### Training Materials



- \* Hand Out 37 (a): Guidelines for packaging a business plan
- \* Hand Outs 37 (b) – (d): Format of a Business Plan for different types of businesses.
- \* Flip Chart and markers
- \* White board or chalk board

### SESSION GUIDE

#### 1. Introduction

- a. Introduce the session by informing the trainees that they have already gone through the entire aspects of the business plan preparation exercise and that this session will help them integrate all the information they have gathered and lessons learned from all sessions and consolidate them in one report; the business plan.
- b. Guide the trainees to discuss the guidelines for writing / packaging their business.
- c. Divide the trainees into small groups according to the similarities of their businesses. Each trainee will work on his/her their individual business plans in their respective groups. Tell the trainees that they will each consolidate their business plans following the “Business Plan Format” Hand Out 37(b).
- d. Emphasize that the members of the group should help by serving as resource persons in case of questions by the group members.

## **2. Presentation and Activities**

- a. Check on the trainees' work and give feedback.
- b. Coach the trainees through their small group one by one and monitor their business plan writing progress. Keep around as the trainees are working as they may have questions or issues for clarification.

## **3. Summary**

- a. Congratulate the trainees for successfully coming to the conclusion of their business plan writing / packaging exercise. Inform them that this has brought them to yet another crucial stage of business plan presentation.
- b. Emphasize to the trainees that if they plan to borrow, then the next stage will be crucial for them because how well they do it will determine the interest created in their business plan by the "bankers and key stakeholders".
- c. Give some advice on the business plan presentation exercise and provide logistical support to the trainees as they prepare their business plan presentation aids. Notably, the trainees need to develop two sets of business plans; one for the trainee and one for submission to the panel of evaluators, study and fully understand their business plans, and learn how to summarize and rehearse presenting it within a limited time.



## Trainee's guidelines for packaging a business plan

### *How to Use these Guidelines in Packaging Your Business Plan?*

- i) Each of the sections in this step-by-step guide contains the following:
  - Guide questions on the contents of the section and/or instructions on how to fill-up the section.
  - Sample of a completed section for a particular business.
- ii) Most of the information to be included in the marketing plan will be taken from the results of the market survey that you will conduct for your business.
- iii) In all your work of writing/packaging your business plan, try and figure and bring out how you will make your business unique from others; i.e. unique products, unique production methods, unique methods for serving your customers, unique prices, unique customers, etc.
- iv) **Use the sample business plan format as guide. You should not include items that do not apply to your specific type of business (production/manufacturing, vending/trading, service, extraction, agricultural). Include any additional items that you think are relevant.**
- v) Try to gather as much relevant and useful information as possible about your business and include them in your business plan.
- vi) Spend time and extra effort in writing your first business plan. It is a good investment that you will profit from in the future. Writing it prepares you not only to have knowledge of your business but also to identify its uncertainties and demands, finding and laying out how you are going to run it, what you will require in terms of workers, machinery and equipment, how you are going to sell your products, etc. It will also serve as a practice for future business planning activities as your business grows, changes and expands.



## **A BUSINESS PLAN FORMAT FOR A MANUFACTURING/PRODUCING BUSINESS**

### **III.**

**E**

#### **EXECUTIVE SUMMARY**

### **IV. INTRODUCTION**

#### **III. MARKETING PLAN**

- k. Products (Goods) offered
- l. Customers
- m. Competition
- n. Pricing
- o. Terms of Sales
- p. Advertising and Promotion
- q. Distribution Strategy
- r. Other Marketing Elements
- s. Projected Sales
- t. Marketing Expenses

#### **IV. PRODUCTION PLAN**

- k. Production Process
- l. Premises and Location
- m. Machinery and Equipment
- n. Plant Capacity
- o. Labor Requirement
- p. Raw Materials
- q. Packaging Materials
- r. Utilities
- s. Factory Overhead Expenses
- t. Production Cost

#### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- g. Key Personnel and Other Staff
- h. Pre-operating activities
- i. Timetable for implementing pre-operating Activities
- j. Office Facilities
- k. Administrative Expenses
- l. Pre-Operating Expenses

#### **VI. FINANCIAL PLAN**

- i. Total Business Costs
- j. Financing Plan
- k. Projected Profit and Loss Statement
- l. Projected Cash Flow Statement
- m. Projected Balance Sheet
- n. Projected Cash Budget
- o. Financial Analysis
- p. Financial Assumptions

#### **VII. RISK ASSESSMENT**

#### **VIII. APPENDICES**



## ***A BUSINESS PLAN FORMAT FOR A VENDING / TRADING BUSINESS***

### **V. EXECUTIVE SUMMARY**

### **II. INTRODUCTION**

### **III. MARKETING PLAN**

- k. Products (goods) Offered
- l. Customers
- m. Competition
- n. Pricing
- o. Terms of Sales
- p. Advertising and Promotion
- q. Distribution Strategy
- r. Other Marketing Elements
- s. Projected Sales
- t. Marketing Expenses

### **IV. PROCUREMENT PLAN**

- d. Procurement process
- e. Business Premises and Location
- f. Procurement Costs

### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- g. Key Personnel and Other Staff
- h. Pre-operating Activities
- i. Timetable for implementing pre-operating Activities
- j. Office Facilities
- k. Management and Administrative Expenses
- l. Pre-Operating Expenses

### **VI. FINANCIAL PLAN**

- i. Total Business Costs
- j. Financing Plan
- k. Projected Profit and Loss Statement
- l. Projected Cash Flow Statement
- m. Projected Balance Sheet
- n. Projected Cash Budget
- o. Financial Analysis
- p. Financial Assumptions

### **VII. RISK ASSESSMENT**

### **VIII. APPENDICES**



## **A BUSINESS PLAN FORMAT FOR A SERVICE BUSINESS**

### **VI. EXECUTIVE SUMMARY**

### **II. INTRODUCTION**

### **III. MARKETING PLAN**

- k. Products (Services) Offered
- l. Customers
- m. Competition
- n. Pricing
- o. Terms of Sales
- p. Advertising and Promotion
- q. Distribution Strategy
- r. Other Marketing Elements
- s. Projected Sales
- t. Marketing Expenses

### **IV. PRODUCTION PLAN**

- h. Production process
- i. Business Premises and Location
- j. Production Capacity
- k. Equipment
- l. Utilities
- m. Overhead Expenses
- n. Production Costs

### **V. MANAGEMENT AND ADMINISTRATION PLAN**

- f. Key Personnel and Other Staff
- g. Timetable for implementing pre-operating Activities
- h. Office Facilities
- i. Management and Administrative Expenses
- j. Pre-Operating Expenses

### **VI. FINANCIAL PLAN**

- i. Total Business Costs
- j. Financing Plan
- k. Projected Profit and Loss Statement
- l. Projected Cash Flow Statement
- m. Projected Balance Sheet
- n. Projected Cash Budget
- o. Financial Analysis
- p. Financial Assumptions

### **VII. RISK ASSESSMENT**

### **VIII. APPENDICES**

## SESSION 38

### BUSINESS PLAN PRESENTATION

6 hours 

#### OBJECTIVE



By the end of this session, the trainees will be able to present their business plans to a bank panel and other key stakeholders.

#### TRAINING MATERIALS



- \* Flip Chart 38-1: Evaluation Form – Business Plan Evaluation
- \* Flip Chart 38-2: TIPS on How to Approach a Bank for Loan Request
- \* Flip Chart and markers
- \* White board or chalk board

#### SESSION GUIDE

##### 1. Introduction

- a. Introduce the session by telling the trainees that in this session, they are to present their business plans to a “bank panel”.

##### 2. Presentation and Activities

- a. Discuss the criteria for evaluation of their business plans. Show Flip Chart 38-1. Explain that their presentations will be rated considering quality and completeness of the business plan and, uniqueness of the business, micro and macro viability of the business and the entrepreneur himself/herself.
- b. **First Meeting:** Business Plan Presentation – Trial Run. Tell the trainees that before the actual presentation of their business plans to a “bank panel” they are to practice their presentation to be able to gain more confidence through role plays within their small groups.
- c. Ask the trainees to individually present their business plans to the designated “banker” in their group. Each participant is given 10 minutes for presentation and 5 minutes for critiquing. The rest of the group members to use the evaluation form for business plan presentation (Flip Chart 38-1) to evaluate their colleagues’ business plans.
- d. After each one has presented, gather the trainees into a plenary. Ask them to share the lessons learnt from their business plan presentation exercise. Discuss and summarize the lessons learnt. Explain the tips on how to approach a bank for a loan (Flip Chart 38-2).

- f. **Second Meeting:** Introduce the members of the bank panel. Inform the trainees that during the presentation, their business plans are to be evaluated based on the criteria shown on Flip Chart 38-1. Inform the trainees that they are to present their business plans to the designated “bank panel”. They have 8 minutes for the presentation.
- g. After the presentation, request each member of the “bank panel” to give a 3-5 minute feedback on the business plan presentation by the trainees and on ways of further improving their business plans.
- h. Thank the “bank panel” for giving time for the business plan presentation.
- i. Then gather the trainees into a plenary. Again ask them to share the lessons they have learnt from the presentation of their business plans. Discuss and summarize lessons learnt.
- j. Ask the trainees to revise and finalize their business plans according to the members of the “bank panel” and the lessons they have learnt from the exercise.

## 2. Summary

- a. End the session by referring back to the session’s objective and by emphasizing to the trainees that if they plan to apply for loan funding from financial institutions, they should prepare for the requirements needed for their applications as well as completing their business plans in line with the inputs from the bank panel as well as the lessons learnt from the exercise.
- b. For those who do not plan to apply for loan, encourage them to also revise and complete their business plans in line with the inputs from the bank panel as well as the lessons learnt from the exercise. Remind the trainees that the business plan will serve as guide in their business operations and it should be reviewed at least yearly. Emphasize to them that all their monthly, quarterly and annual plans must be drawn in such a way that they help them achieve the targets, objectives and goals stated in their business plans.
- c. Distribute to the trainees copies of their respective filled-up business evaluation forms with written feedback from the members of the “bank panel”.

### **NOTES FOR THE TRAINER IN COURSE OF PREPARING FOR THE TRAINEES BUSINESS PRESENTATION EXERCISE**

- *The duration of six (6) hours is divided over two sessions i.e. 3 hours for the first meeting (i.e. role play) and 3 hours for the second meeting (i.e. actual presentation of the business plan to a “bank panel” and plenary discussions).*
- ***During the first meeting** the Trainers could act as the bankers during the individual presentations of business plan in the sub-groups. If the number of trainers is not enough, designate some group members to act as bankers. But brief them in advance of the criteria for evaluation.*
- ***During the second meeting** invite representatives from financial institutions to act as bank panel during the business plan presentation. You could also invite other key stakeholders from the business sector (in particular business associations, business support organizations, youth development promotion and support organizations) to participate in the exercise.*
- *The “bank panel” should be briefed in advance regarding the criteria they are to use in evaluating each business plan presented and the comments and suggestions they are expected to give as their feedback.*





38-1

## EVALUATION FORM BUSINESS PLAN PRESENTATION

Name of Trainee: \_\_\_\_\_

Nature of business: \_\_\_\_\_

No	Indicators		Score	Total Score
1	Quality of the business plan	Completeness of business plan		4
		Accuracy of information and calculations		4
		Uniqueness of the proposed business		4
2	Micro Viability	Marketing Viability		5
		Production & Technology		5
		Management & Administration		5
		Financial Viability		10
3	Macro Viability	Employment generation, value added potential, effects on environment and other contribution to national economy		5
4	Person	Familiarity with the project and relevant experience		5
		Negotiation and presentation skills, Persuasive conclusion and entrepreneurial confidence		3
TOTAL				50

Rating: 1 – Poor, 2 – Fair, 3 – Good, 4 – Very Good, 5 – Excellent

### 5. Indication of “Bank’s” response (Please tick)

\_\_\_ Not interested (please specify) \_\_\_\_\_  
\_\_\_\_\_

\_\_\_ Interested to consider but needs improvements (please specify) \_\_\_\_\_  
\_\_\_\_\_

\_\_\_ Favorable for consideration

### 6. Comments and recommendations for improvement (please use back of page).

\_\_\_\_\_  
Name of “Bank/Credit” Institution

\_\_\_\_\_  
Signature of Evaluator

Date: \_\_\_\_\_

**Note:** Signing the above does not represent a firm commitment to help the trainees on the part of the financial institution representative.



38-2

## **TIPS on How to Approach a Bank for Loan Request**

- 1. Make sure that you understand your business and the business plan you have prepared before making an appointment with the financial institution.**
- 2. Make an appointment with your financial institution's loan officer.**
- 3. Be on time for your appointment. If possible be at the financial institution at least 5 minutes before your scheduled appointment.**
- 4. When you enter the Loan Officer's room, greet him/her courteously.**
- 5. Introduce yourself and briefly explain your business and the business plan to the Loan Officer. The Loan Officer will ask questions about your business plan based on their evaluation criteria. Make sure that you understand the questions and try to answer them with confidence.**
- 6. After the interview, ask the Loan Officer when to expect a feedback from them on your loan application. Thank the Loan Officer for his/her time and assure him/her of your co-operation and commitment to pay your loan when credit is granted.**
- 7. Do not forget to say goodbye upon leaving the Loan Officer.**

## **Trainer's Notes**

### **Presentation of the Business Plans**

During this session, trainees are to individually present their business plans to a “bank panel”. Each trainee will be given 8 minutes for presentation of their business plans. The business plan will be evaluated and rated based on the following:

#### **Quality of the business plan**

- Completeness of business plan
- Accuracy of information and calculations
- Uniqueness of the proposed business

#### **Micro viability**

- Marketing viability
- Production and technology viability
- Management and administration viability
- Financial viability

#### **Macro viability**

- Employment generation
- Value added potential
- Effects on environment and other contribution to national economy

#### **Person/Entrepreneur**

- Familiarity with the project and relevant experience
- Negotiation and presentation skills, persuasive conclusion and entrepreneurial confidence



## ENTREPRENEURSHIP DEVELOPMENT TRAINING PROGRAMME EVALUATION FORM

1. Overall Training Assessment	Very Good	Good	Fair	Poor
Relevance of the training				
Effectiveness of the trainers				
Appropriateness of instruction methods used				
Quality and relevance of hand-outs				
Time allocation of all training activities				
Training venue				
Your involvement in all activities i.e. discussion				
Your co-participant's involvement				
Overall Presentation				

2. Are training objectives clearly stated? Yes \_\_\_\_ No \_\_\_\_ Partly \_\_\_\_
3. To what extent were the objectives achieved? Fully \_\_\_\_ Satisfactory \_\_\_\_  
Somewhat \_\_\_\_ Not Achieved \_\_\_\_
4. What specific topics if any should have been:
- Added? \_\_\_\_\_
  - Omitted? \_\_\_\_\_
  - Emphasized more? \_\_\_\_\_
5. At the start of the training you had some expectations. Were your expectations met?  
Yes \_\_\_\_ No \_\_\_\_ If no, please explain. \_\_\_\_\_  
\_\_\_\_\_
6. Other comments/suggestion: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## BIBLIOGRAPHY

- Introduction to Entrepreneurship, SERDEF (Small Enterprise Research and Development Foundation) in cooperation with UP Institute for Small-Scale Industries, Revised Edition, 2007
- Guide for VIP Trainers and Advisers in Solomon Islands, Bejemino, Mercuria F., Honiara, Solomon Islands, December 2005
- Basic Entrepreneurship Trainees' Handbook, *UNIDO* ((REF. N. 9 ACP SU 1-12) and (EE/SUD/07/004)
- Handbook for Village Entrepreneurs in Solomon Islands, Bejemino, Mercuria F., Honiara, Solomon Islands, December 2005
- VIP Manuals, United Nations Industrial Development Organization, UNIDO, Vienna, Austria, January 2002
- Basic Entrepreneurship Development Course, Instructor's Manual, Culaton Viray, Jovita, Butamanya, Billy. UNIDO, Kampala March 2001
- Entrepreneurship Education for Junior Secondary Education, UNIDO/National Institute of Educational Development (NIED), Namibia
- Entrepreneurship Students' Manual, William V.S. Tubman University, Harper, Maryland, Kurdistan Region, Butamanya Billy & Abraham Kiazolu
- Entrepreneurship Students' Manual, Njala University, Sierra Leone, Butamanya Billy
- Mastercrafts Programme Advisor's Handbook, Culaton Viray, Jovita. UNIDO, Uganda
- National Content Standards for Entrepreneurship Education [http://www.entre-ed.org/StandardsToolkit/standards detail.htm](http://www.entre-ed.org/StandardsToolkit/standards%20detail.htm)
- Competency-based Economies through Formation of Enterprise, CEFE – Manual for Trainers, 1998 <http://www.gtz.de/cefe/>
- Women Entrepreneurship Development, Hina Shah and ChandramauliPathak, International Center for Entrepreneurship and Community Development
- Business Skills Development Training Manual, Butamanaya Billy & Dr. Jain Gautum, Private Sector Development Programme, UNDP& MFPED, Uganda 1998
- Entrepreneurship Training Manual for Rural Micro and Small Enterprise Facilitators, Butamanya Billy &SenseriMtatiro, UNIDO/SPIU/MINICOM, Rwanda.
- Marketing Plan Components, <http://www.onlinewbc.org>
- Competitor Analysis, <http://dspace.dial.pipex.com>
- Corporate Image Management, Steven Howard 1997
- Small Business Marketing Guide, Liraz Publishing Company 1999
- Target or Niche Marketing, <http://www.ibizcenter.com>
- How to Create a Unique Selling Proposition, Abraham J. <http://www.smartbiz.com>
- Entrepreneurial Competency Training, Instructor's Manual, Diaz P.H., Entrepreneurship Development for the Collegiate Education Level, Manila, Philippines, 1993
- Trainer's Manual on Entrepreneurship Development, Technonet Asia/U.P. Institute for Small Scale Industries, 1981
- Gender Entrepreneurship Together (GET): Susanne Bauer, Gerry Finnegan and Nelien Haspels Linda Deelen, Heng Seltik and Eva Majurin, ILO Sub-regional Office for East Asia. Job Creation and Enterprise Development Dept. Geneva.
- Training Manual and a Guide for Micro, Small and Medium Entrepreneurs. Ministry of Labor, Economic Empowerment and Cooperatives, Revolutionary Government of Zanzibar.