

From  
the People of Japa

**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**



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

## **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>1</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>2</sup>. Women's participation in the economy is only 14.8%<sup>3</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.

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<sup>1</sup> KRG Youth Labour Market and Entrepreneurship Opportunities in the KRG Assessment; Save the Children May 2014

<sup>2</sup> Ministry of Planning of the Kurdistan Regional Government (2015 data)

<sup>3</sup> Ibid.

<sup>4</sup> This Training Guide is based on previous UNIDO EDP manuals developed in various projects e.g. Uganda, Vietnam, Sudan, Solomon Islands, Zanzibar, and other countries.

## 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.

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<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

**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.

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*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

## **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**

## 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**

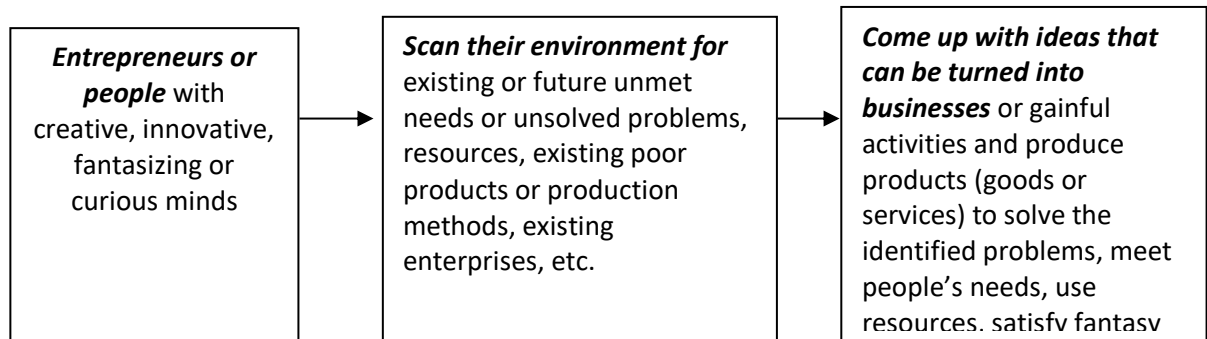
- PRESERVING OF FRUITS AND VEGETABLES
- PRESERVING OF FISH AND OTHER MARINE PRODUCTS
- FISH AND SEA FOOD PRODUCTION
- FLOUR MILLING AND STARCH PRODUCTION
- PRODUCTION OF FEED MEAL FOR PIGS AND POULTRY
- WOOD AND BAMBOO BASED PRODUCTS MANUFACTURING
- MANUFACTURING COCONUT-BASED PRODUCTS
- PRODUCTION OF 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.

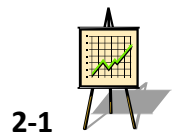
#### 2. Presentation and Activities

- 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.



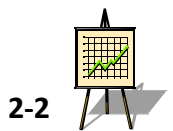
2-1

## **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**

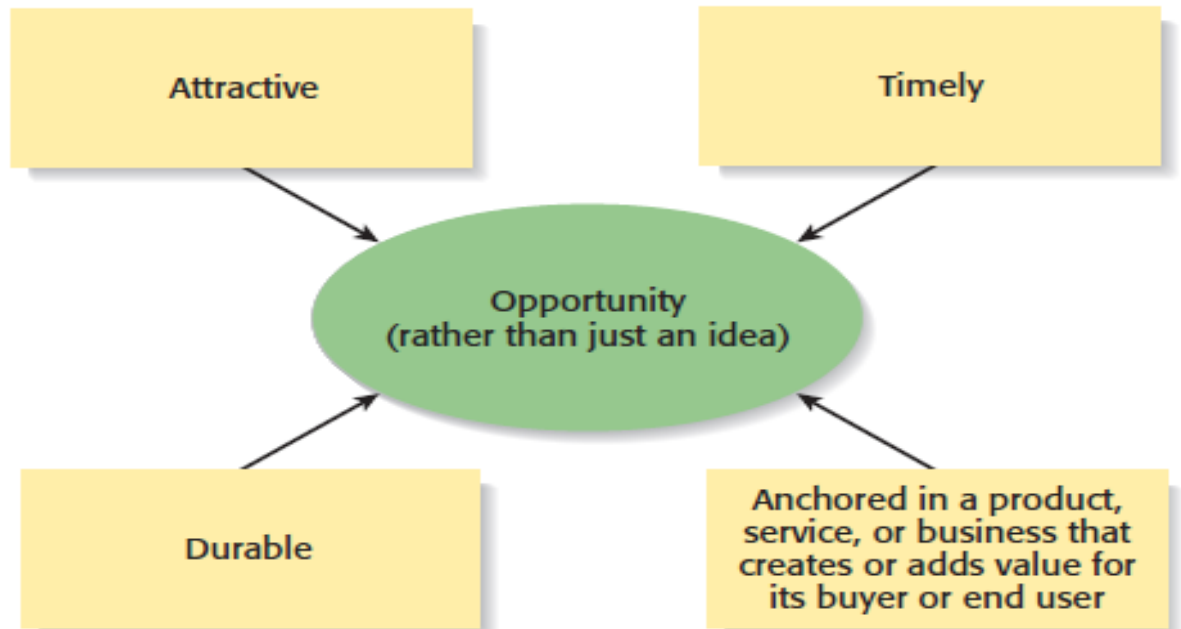
A business opportunity is a prospect or chance of entering into a viable business activity by identifying and exploiting gaps in the market. The identified chances that can be turned into real and profitable business activity are referred to as business opportunities. On the other hand, an opportunity 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.



## Hand Out 4 (b)

### **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.

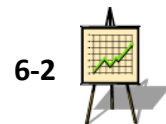


## **Session: The Marketing Concept**

### **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

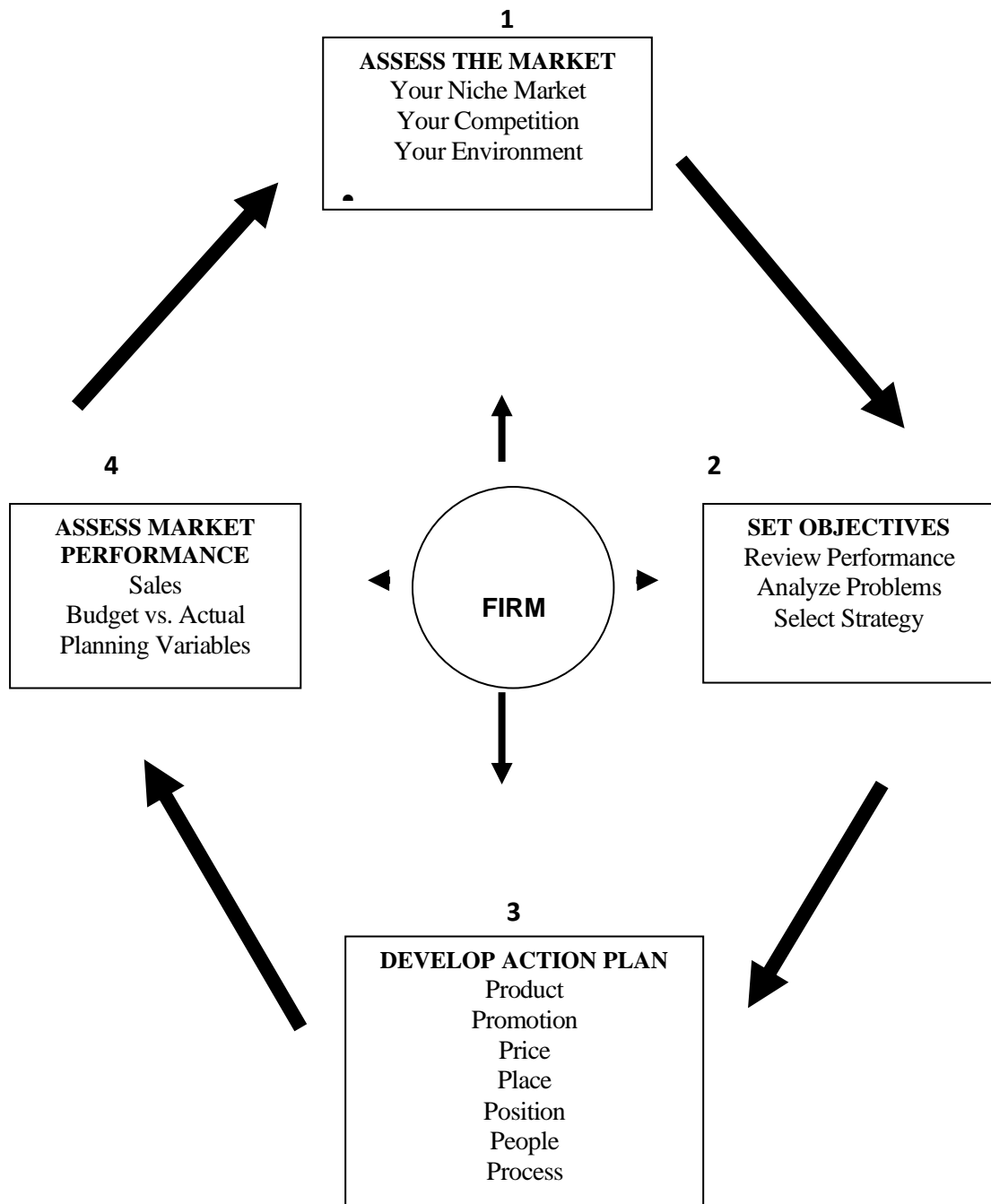
## ELEMENTS OF THE MARKETING CONCEPT

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	Classify
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.

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<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.



8-1

## **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



8-3

## 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.



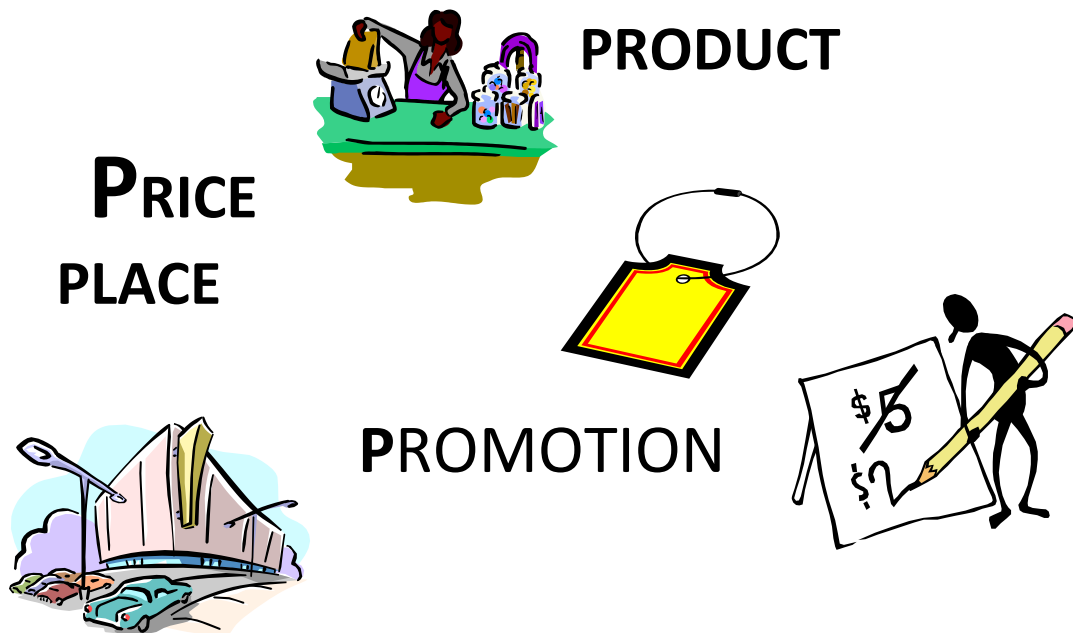
8-6

## **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:

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

- 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
- 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.

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<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:

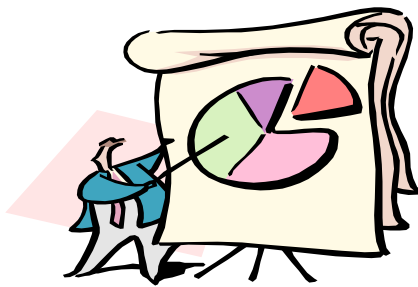
- **Geographic:** Offer specialized products to customers who live in certain neighborhoods or regions. Example, Akre flour is sold more in some towns than in others.
- **Demographic:** Direct advertising to families, young professionals, or the occupation of consumers. Example, small knockdown furniture 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.

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

- 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.

## 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

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<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

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.

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.*



9-3

# 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**

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

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

**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.

$$\text{Selling Price} = \text{Cost} + (\text{Cost} \times \text{markup percentage})$$

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.

$$\text{Selling price} = 2,000 + (2,000 \times 150\%) = \text{ID } 2,000 + 3,000 = 5,000$$

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.

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

**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)

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



9-6

## 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

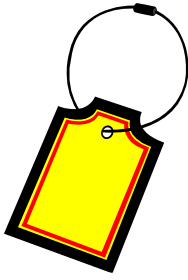
*Example: Pick-up price, delivered price*

- 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 the growth of the market and to increase his 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.

## **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



10-5

## **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>
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## 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.

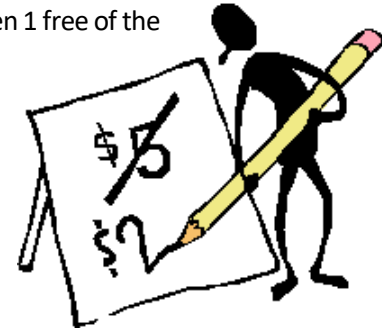
#### ***Promotion***

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

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<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

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

selection in 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**

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

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.

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.

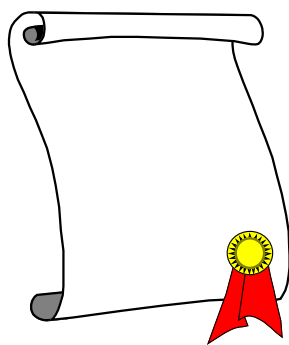
If you have the highest quality, be sure to sell the benefits of high quality. Tell the customers what highest quality products mean to them. How will it make them feel? What needs of theirs will be met?

### **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



11-3

## **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

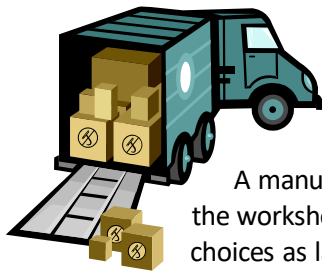


11-4

**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***

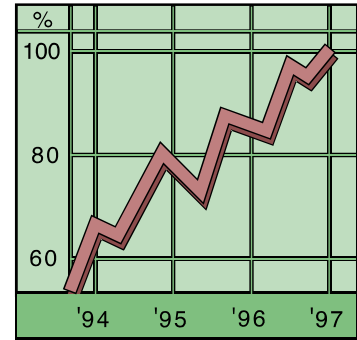
The entrepreneur has to decide on where to locate the business premises. The nature of the product is important in location decision. If the buyers buy the products largely on impulse, then the location must be at a place where there is a high customer traffic and visibility. On the other hand, location 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.

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<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>
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\_\_\_\_\_  
**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)

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## 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.



14-3

## 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

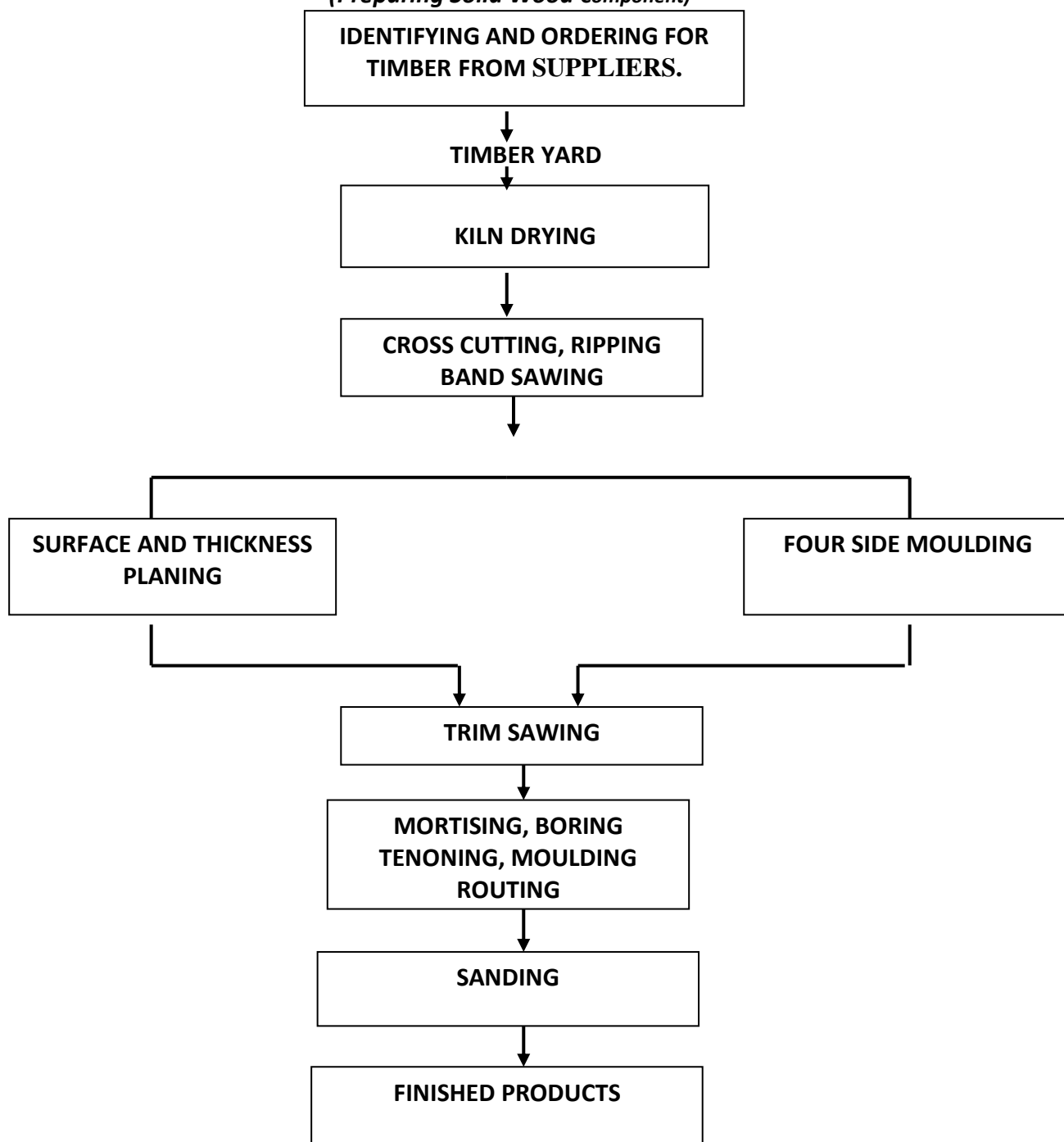
## Uses

- 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
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## 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 complementarily) 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?



16-4

## 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</b>			
<b>“RAW MATERIALS”</b>			
<b>Dara Footwear and Leather Goods Company</b>			
<b>Schedule of Raw Materials Cost</b>			
<b>(Per Month)</b>			
<b>Type of Raw Material</b>	<b>Quantity</b>	<b>Cost/Unit</b>	<b>T</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.*

**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	
Boxes	240p pcs.	6.0	
<b>Total Packaging Materials Cost</b>			<b>1</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.*



17(d)

### 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.

<b>SAMPLE</b> <b>“FACTORY OVERHEAD EXPENSES”</b> <b>Dara s Footwear and Leather Goods Company</b>	
<p>The following is the schedule of factory overhead expenses which are extracted from the other elements already seen in the above:</p>	
<p><b>Schedule of Factory Overhead Expenses</b>  <b>(Per Month)</b></p>	
<b>Factory Overhead</b>	<b>Amount (ID (1000))</b>
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!



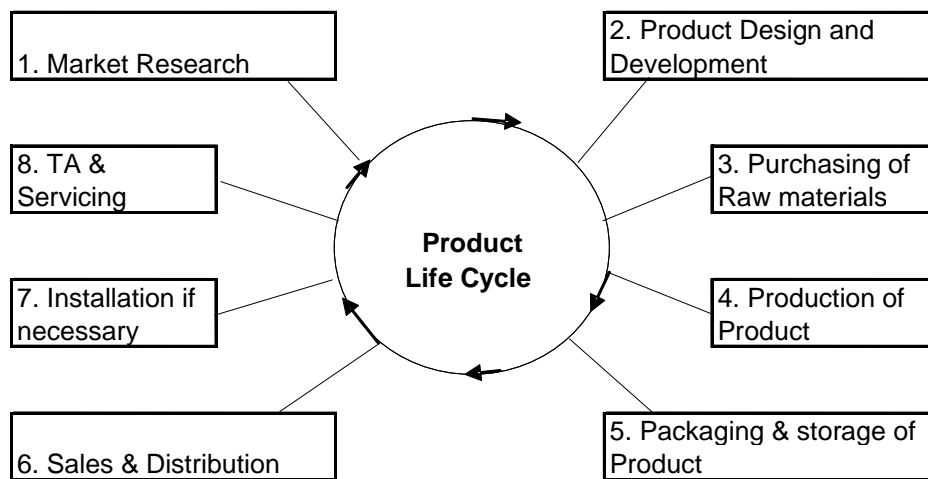
18-4

## 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.**

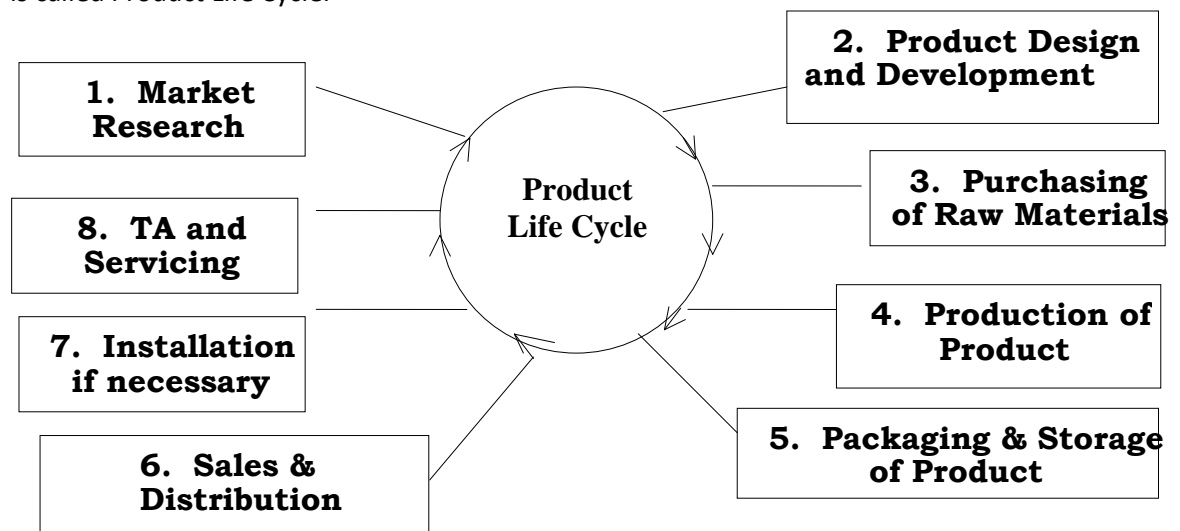
## Product Life Cycle

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.

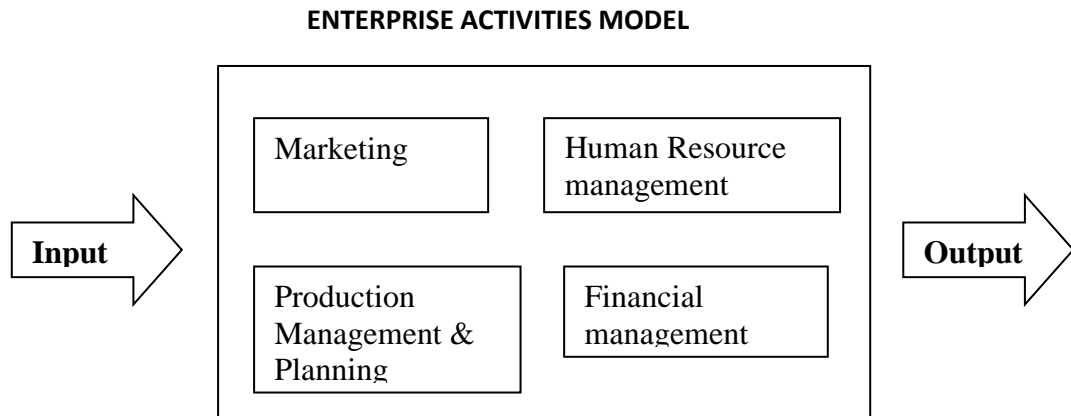


The Product Life Cycle merely views an enterprise from the angle of Production Management (Steps 2, 3, 4, 5, 7 and 8 in the diagram) and Marketing Management (Steps 1 and 6).

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.



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



19-3

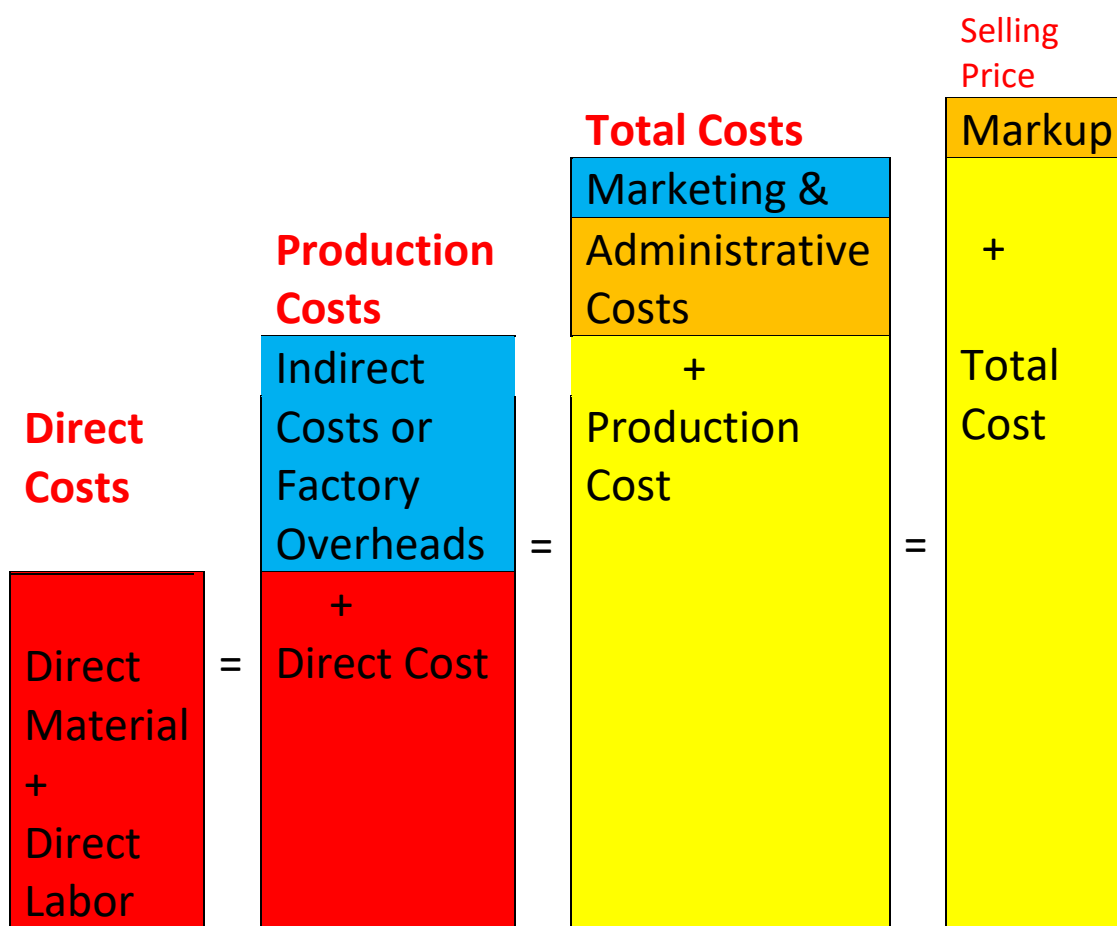
# IMPORTANCE OF COSTING

- 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)?**

**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>		
<b><i>Nature of Cost</i></b>	<b><i>Explanation</i></b>	<b><i>Amount (ID) (1000)</i></b>
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 plod 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.



20-2

# 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)

<b>Factory Overhead</b>	<b>Amount (ID)</b>
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 Chart 21-2 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 Chart 21-3). 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 Chart 21-5 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.





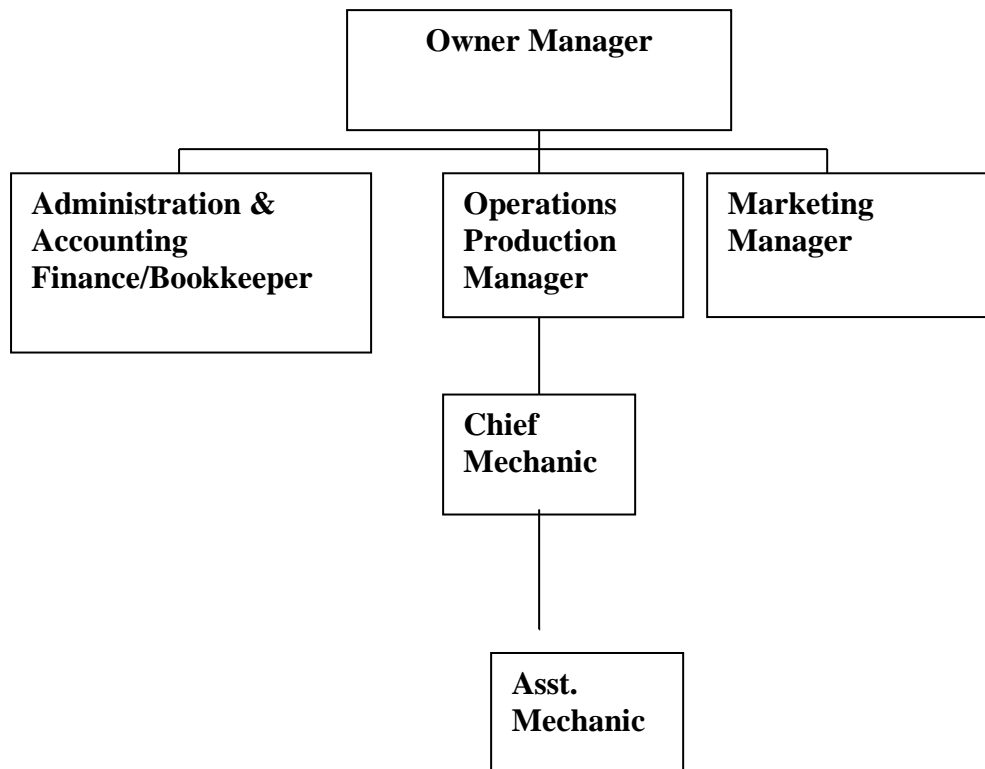
21-3

## 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**



21-6

## **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 Chart 23-2, 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 Chart 23-4. 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 Chart 23-4.
- 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 pre-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.



23-1

## 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



23-2

### 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.***



**23-3**

## **Timetable of Activities**

**The following activities need to be undertaken by Mr. Dara before he can start his business operations:**

- |  |                |
|--|----------------|
| <b>1.      Preparing the business plan</b>         | <b>6 Weeks</b> |
| <b>2.      Registering the business</b>            | <b>1 Week</b>  |
| <b>3.      Securing business premises</b>          | <b>1 Week</b>  |
| <b>4.      Securing Business Operating License</b> | <b>1 Week</b>  |
| <b>5.      Applying for a loan and approval</b>    | <b>6 Weeks</b> |
| <b>6.      Contacting equipment suppliers</b>      | <b>1 Week</b>  |
| <b>7.      Renovation of building</b>              | <b>2 Weeks</b> |
| <b>8.      Hiring labor</b>                        | <b>1 Week</b>  |
| <b>9.      Installing the equipment</b>            | <b>1 Week</b>  |
| <b>10.    Purchasing raw materials</b>             | <b>1 Week</b>  |
| <b>11.    Orienting / training staff</b>           | <b>1 Week</b>  |
| <b>12.    Trial production</b>                     | <b>1 Week</b>  |

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.



Hand Out 23

## 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																



23-4

# 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.*

<b>ADMINISTRATIVE EXPENSES</b>	<b>AMOUNT (ID)  (1000)</b>
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>	
--------------------------------------	--



23-5

# 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

- a. Introduce this session by presenting and discussing its objectives (Flip Chart 24-1)
- b. 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

- a. 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.
- b. Guide the trainees to review and discuss the guiding questions for preparing a management and administration plan.
- c. 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

- a. 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)
Total Salaries			

### 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:

$$= \frac{\text{ID 48,000}}{24 \text{ months}}$$

$$= \underline{\text{ID 2,000.}}$$

The process of periodically recovering some of the pre-operating expenses is known as amortization.