NCDC

NATIONAL CURRICULUM DEVELOPMENT CENTRE

Entrepreneurship Education Learner's Book for Advanced Level

Senior 6

THE REPUBLIC OF UGANDA

Ministry of Education and Sports

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Preface

This Learners Book has been written for you, the learner, on the principle that Entrepreneurship Education is not a business course but a life skill. It is a life skill because it will prepare you to function effectively and successfully in this world full of challenges, especially unemployment. The book has therefore been written to tickle, awaken and enhance the development of the potential entrepreneur in you.

By the end of this course, you should have decided to be a successful entrepreneur within or even outside your future field of specialisation. You will be a notch above your fellow professionals who, qualified as they may be, cannot convert their talents into self-employment due to their lack of entrepreneurial skills. Instead they are always hunting for jobs and facing drawbacks such as no employment, low salary, limited promotional opportunities, strikes and early retirement into an uncertain future, among others.

As an entrepreneur, you will create jobs for yourself and other people, in the fields of service provision (education, health, law, transport, media) or goods production (processing, manufacturing and so on).

In this way you will make a contribution to the required socio-economic transformation of the country. However, even if you do not become an entrepreneur yourself, you will utilise the knowledge and skills you will have acquired to work for other entrepreneurs in an innovative way. You will be a more effective employee with sound personal initiative and creativity.

Foreword

Entrepreneurship Education is a new subject on Uganda's education scene. Therefore, there are no standard textbooks available yet in our schools or book outlets. This makes this Learners Book a valuable tool for both teachers and learners.

The strength of this book stems from several fronts. For example, it has been written in a simple, clear and technically sound language, with illustrations of key issues. Each topic in the syllabus has been adequately covered with accurate and up-to date information synthesized from a variety of authoritative publications.

The presentation of the information is balanced between informing and encouraging you to discover it through studying and analysing case studies. If you seriously study this book and seek the guidance of the teacher as and when necessary, the entrepreneurial world is ready for you to exploit for yourself and others.

However, future editions of this book should include typical examples from the local and regional business communities.

The introduction of Entrepreneurship Education Curriculum in 2000 was timely and students now offer it at both 'O' and 'A' Level. This revised syllabus is taking cognizance of issues that have been raised by stakeholders to make the subject take a more practical approach.

It is needless to say that entrepreneurial competences (attributes, knowledge and skills) are a sine qua non not only for job creation and self-employment but also for producing enterprising persons.

I, therefore, urge all stakeholders in the Entrepreneurship Education curriculum to give it full support from all points of view to ensure its success.

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i) The International Labour Organisation (ILO) through its Youth Entrepreneurship Facility (YEF) for committing financial as well as human resources for revising the 'A' Level Entrepreneurship Education curriculum and making it more relevant and practical. We are highly indebted to its generosity.

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v) NCDC takes this opportunity to also appreciate all those who played a role in conceiving, preparing and producing the first Entrepreneurship Education curriculum, including among others, Uganda Manufacturers Association (UMA), the Private Sector Development Program (PSDP), the United Nations Development Program (UNDP), the United Nations Industrial Development Organisation (UNIDO), Uganda Revenue Authority (URA) and the Capital Markets Authority (CMA). Their respective initiatives, cooperation and support were responsible for the successful preparation of the first curriculum which has formed the basis of this revised edition.

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The National Curriculum Development Centre takes responsibility for any shortcomings that might be identified in this publication and welcomes suggestions for effectively addressing the inadequacies. Such comments and suggestions may be communicated to NCDC through: P.O Box 7002, Kampala or admin@ncdc.go.ug or www.ncdc.go.ug.

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Term One

1

Business Planning

1.1 Introduction to Business Planning

A modern business requires a well developed business plan. A business plan is a document that summarises the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realised. There are two types of a business plan, formal and informal.

A formal business plan is a detailed document that usually follows a standard format. Formal business plans are necessary for securing outside funding for business, including small business associations (SBA) loans and private capital. Formal business plans include an appendix area that contains important supporting documents.

An informal business plan can consist of almost anything. In this case, the definition of a business plan is purely in the eyes of the business owner. Informal business plans may be nothing more than ideas scribbled down on paper. However, the more detailed and accurate the business plan, the more useful it is as a guide to conducting business. Informal business plans are not presented to others; they are merely a planning tool for the business owner.

Rationale for Writing a Business Plan

i) **To test the feasibility of a business idea**

Writing a business plan is the best way to test whether or not an idea for starting a business is feasible, other than going out and doing it. In this sense, the business plan is your safety net. Writing a business plan can save you a great deal of time and money if working through the business plan reveals that your business idea is untenable. Often, an idea for starting a business is discarded at the marketing analysis or competitive analysis stage, freeing you to move on to a new (and better) idea.

ii) **To give your new business the best possible chance of success**

Writing a business plan will ensure that you pay attention to both the broad operational and financial objectives of your new business and the details, such as budgeting and market planning. Taking the time to work through the process of writing a business plan will make for a smoother start-up period and fewer unforeseen problems as your business becomes established.

iii) **To secure funding, such as bank loans**

You are going to need both operating and start-up capital to start a new business and you have no hope of getting any money from established financial institutions such as banks without a well developed business plan. And established businesses often need money, too, to do things such as buy new equipment or property or to see them through market downturns. Having a business plan gives you a much better chance of getting the money you need to keep operating or to expand.

iv) **To make business planning manageable and effective**

A business plan is essential if you are thinking of starting a business, but it is also an important tool for established businesses. Viable businesses are dynamic; they change and grow. The company's original business plan needs to be revised as new goals are set. Reviewing the business plan can also help you see what goals have been accomplished, what changes need to be made, or what new directions your company's growth should take.

v) **To attract investors**.

Whether you want to shop your business to venture capitalists, or attract angel investors, you need to have a solid business plan. A presentation may raise their interest, but they will need a well-written document they can take away and study before they will be prepared to make any investment commitment.

Be prepared for your business plan to be scrutinized; both venture capitalists and angel investors will want to conduct extensive background checks and competitive analysis to be certain that what is written in your business plan is indeed the case.

Writing a business plan is time-consuming, but it is essential if you want to have a successful business that is going to survive the start-up phase. The process of writing a business plan can do wonders to clarify where you have been and where you are going.

1.2 The Structure of a Business Plan

Despite their many differences, all business plans have certain elements in common that all potential investors expect to find. Additionally, an appendix is often included that contains detailed information, often presented in the form of tables or graphs. Within this more or less required structure, the business plan is free to grow in its own direction.

a) **Executive Summary**

This section sets out the broad parameters of the future business. It should cover only the core activities of the business to 'set the scene'.

i) **Business overview**

What is the business all about in general terms? What industry is it in? What is the key benefit, rather than the product or service that you are going to provide? What are the products or services? Who buys them? Write a general statement about where the business will be in two to five years and how this will be achieved.

ii) **Product or service features**

Give a brief explanation about the product(s) or service(s) and outline features that are going to give you an edge in the market place. State clearly what you are actually going to sell.

iii) **Market analysis**

Outline what market the product or service is going to be aimed at and why. What research is there to support your business expectations?

iv) **Marketing strategy**

Make a broad statement of the marketing plan and the tools to be used.

v) **Key objectives and financial overview**

List your key objectives. There will only be a few at this summary level but they will be the ones that are essential for you to achieve. For example:

- Achieve sales in the first year of Shs 1,000,000 and a gross profit of Shs 200,000.
- Achieve a net profit before tax in the first year of Shs 140,000.

Explain the basic financial needs of the new business, starting with the initial capital and your expected cash needs to run the business.

b) **Detailed Plan**

This section goes into the details that will make the business plan a 'working' and ultimately a 'control' document. It is therefore important that care is taken to get it right. It is not just a collection of words but a document that really sets out what is going to happen and can be reviewed at any time to check progress. If this business plan is going to be used for the basis of obtaining finance then it will be critically reviewed.

i) Market analysis

It is essential to show that there is a sound customer base for the business. You should answer the following questions:

- Who will buy your products or services?
- What is the geographical area?
- Is the market growing or declining?
- Is the market segmented and if so, how?
- What influences will affect the market?
- How are you going to reach your customers?
- Are there seasonal trends?
- What is the pricing sensitivity?
- What competitive edge do you have?
- Explain how you carried out your customer and market research.
- Where did you get the information?

Customers are usually uninterested in product or service features. They want to know what the benefits are of the product or service features. This is particularly so with a new product. Why should the customer buy your product rather than somebody else's?

ii) Competition

Be very careful to identify competitive products, services or businesses. Do not "assume" that there are no competitors. If you look hard enough you will find them. Check the business directory, look in magazines, check the internet and look in places you would expect them to advertise. How do you compare to your competitors on pricing, product, promotion and distribution? How are you going to position your product or service against them? Tabulate a list that shows your features against theirs and what gives you a competitive edge. Do not ignore the negatives if there are any, as you must address them.

iii) Product(s) or service(s)

Describe the product(s) or service(s) you are going to offer. Discuss the branding, the packaging (where applicable), ongoing product development and so on. An analysis should be done of the features and their benefits and they should be compared to the major competitors.

iv) Marketing strategy

A good marketing strategy is vital to the success of a business. Customers must know about the product(s) or service(s). They must be exposed to them before they can consider buying them. List in detail the key strategies and explain how they will work and dovetail together if relevant. The strategies might include:

- Pricing – how is this to be used?
- Promotion – what type, where and how often?
- Literature – what type and how will it be used?
- Customer service – what benefits?
- Advertising – what and where and the outline cost.
- Product or service launch plan
- Show what your total marketing spend will be for the first and second year.

v) Product or service production

You should spell out how the product(s) or services(s) are to be produced and priced. For example, is there a manufacturing process or is it a bought-in item. The outline cost and price basis should be listed, that is, what proportion is material, labour and overhead recovery and how do they all relate to the selling price. If it is a service then who provides it and on what basis is the cost charged?

vi) SWOT analysis: strengths, weaknesses, opportunities and threats

A SWOT analysis highlights the strengths and weaknesses within the business and identifies opportunities and threats in the external business environment. This is a very important analysis. Strengths are those that the company can exploit. Weaknesses are areas of the business that need to be addressed. Opportunities show the market place areas that can be built on. Threats are those issues that could affect the business.

In addition to listing the strengths, weaknesses, opportunities and threats, you should also assess what each means to the shape, direction, and tactical running of the business.

vii)Business structure

There are many options as to how a new business can be structured. For example, is it going to be as a Sole Trader; a Partnership; a Limited Partnership or a Proprietary Company? Are there Trade Marks or Patents and will the company trade under a business name or a company name? You should provide a clear description on the proposed ownership structure and why it is being chosen.

viii) Management and ownership

Describe the background of the key persons in the business and what other staff or contractors will be required. What level of remuneration is either expected or anticipated. Briefly list any issues that might be pertinent with the employment of staff.

ix) Key objectives

You should list your objectives or goals for the first year of operation. It is important to separate your objectives/goals under the operating sections of your business such as Sales and

Marketing, Production and Finance. They should be succinct and must be both quantifiable and measurable. For example:

Sales and Marketing**:**

- To achieve Shs 500,000 sales in the first quarter.
- To achieve Shs 600,000 sales in the second quarter.
- To achieve 10% market share.
- Finance:
- To achieve maximum debtor days of 30
- To reduce the overdraft from Shs 200,000 to Shs 100,000

x) Financial information

There are a number of key financial items that need to be prepared to show the progress and health of the business.

Establishment costs: It is vital to assess the total funds required to set up the business and cover its operating costs until it becomes profitable. These should be listed and totalled. They should be split between pre-business costs and initial costs of operating.

First years projected profit and loss: You should calculate the Profit and Loss for the first 12 months. For a new business this should be done on a monthly basis and should include the establishment costs. Make sure that you include all Sales Revenue, Cost of Sales (what the product costs are), the resultant Gross Profit/Loss and all the Overhead Expenses. It is important to ensure that you do not overestimate the sales revenue and underestimate the overhead costs. There is no point in fooling yourself by massaging the numbers to look good if you know they are unlikely to. Shown below is an example of a simple Profit and Loss schedule. It is important for you to give careful thought to the make-up of the items, particularly the expenses. Sales Revenue and Product Costs should be expanded if there are distinct product categories.

Projected Profit & Loss – first year (Tabulate)

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	**Total**
Sales Revenue												
Less												
Product costs												

Gross Margin
% Of sales
Less Expenses
Salaries
Rent
Telephone
Electricity
Advertising
Entertainment
Insurance
Legal
Office supplies
Motor vehicle
Etc
Total Expenses
NET PROFIT
Provision for Tax
Profit After Tax

Cash flow projections

(Add a row of monthly headings to cover one year period)

Cash revenues

Revenue from Product Sales

Revenue from Service Sales

Total cash revenues

Cash disbursements

Cash payments to trade suppliers

Management draws

Salaries and wages

Promotion expenses paid

Professional fees paid

Rent/mortgage payments

Insurance paid

Telecommunications payments

Utilities payments

Total cash disbursements

Reconciliation of cash flow

Opening Cash Balance

Add: Total Cash Revenues

Deduct: Total Cash Disbursements

Closing Cash Balance

Remember, the closing cash balance is carried over to the next month. Once again, to use this template for your own business, you will need to delete and add the appropriate revenue and disbursement categories that apply to your own business.

The main danger when putting together a cash flow projection is being over optimistic about your projected sales. Once you have your cash flow projections completed, it is time to move on to the balance sheet.

1.2.1 Executive Summary

An executive summary is an overview. The purpose of an executive summary is to summarise the key points of a document for its readers, saving them time and preparing them for the upcoming content.

Many formal documents contain executive summaries. They are known as executive summaries because the section is supposed to provide a high level view of what is in the document. They are included under the theory that busy executives do not have time for all the details. However, if they come across interesting information in the summary, they know they can get more information by reading the corresponding section of the document that contains the details, without bothering to read the entire document.

A business plan's executive summary should be the first thing in the business plan, after the table of contents (although some business plan writers place the executive summary before the table of contents). While the executive summary comes first in business plans, it is important that it is written last - after all the supporting information has been developed. It is almost impossible to effectively summarise business plans when you are not really sure what they contain.

Additionally, business plan writers often make several important discoveries as business plans are being written. That is another reason why the executive summary should be written last. It is difficult to summarise anything if you are not certain what you are summarising.

The executive summary is usually no longer than 10% of the original document. It can be anywhere from 1-10 pages long, depending on the report's length. In summary:

i) Executive summaries make a recommendation.
ii) Accuracy is essential because decisions will be made based on the summary by people who have not read the entire document.
iii) Executive summaries frequently summarise more than one document.

Summaries that highlight the major points of a long piece are called abstracts. The purpose of an abstract is to allow readers to decide whether or not they want to read the longer text.

The purpose of an executive summary

An executive summary should be the first thing in your report after a contents page. Its purpose is to give an overview of everything that you have written, including key recommendations and conclusions so that the reader (typically an executive) can read the summary and gain a complete understanding of what is in the report without having to wade through the whole thing.

Hundreds of thousands of small business owners and entrepreneurs set out each year to write or re-write their business plan. After spending up to hundreds of hours crafting the perfect plan, they simply take the heading from each of the major sections and throw together a summary of the plan in 20 minutes. The purpose of your executive summary is not merely to "summarise" your business plan. The purpose is far greater. Your executive summary should be used to:

i) Make a memorable first impression

You only have one chance to make a first impression. You could have the greatest business plan ever created, but with a poor executive summary your readers will not even make it to the heart of the plan. Your summary is a sign of what is to come for the reader. If you put them to sleep in the first two pages they certainly will not consider digging in to your 40 page business plan.

ii) Leave the reader intrigued; asking for more

Much like a movie preview your executive summary should raise the readers' appetite for the main course. You want to point out some of the exciting attributes of your plan, but do not give away all its twists and turns. Disclose just enough information to leave the reader curious. Your goal should be to compel the reader to dig into the meat of your business plan to answer questions they may have about some of the plan's details.

iii) Differentiate. Stand out

Depending on who your readers are, they may have seen hundreds even thousands of business plans and executive summaries. You need to stand out right away. If you can hook them from the beginning, they may actually give your plan a chance.

Ultimately the purpose of your executive summary is to compel the reader to read on, but who really has time for a 40 page business plan? That is why it is vital to make a memorable first impression, leave the reader intrigued and differentiate your plan from the rest.

Tips for writing an effective executive summary

Do I need to write a business plan? Answer: Yes! Once you have an idea for starting a business that you want to pursue, writing a business plan should be one of the first things you do.

People think of writing a business plan as something that is only necessary if you are trying to get a business loan or persuade investors that your business is worth their money. In fact, writing a business plan is necessary no matter how you intend to finance your new business.

The main purpose of writing a business plan when you are starting a business is to test the viability of your business idea. Writing a business plan will tell you if the business has a chance of success.

Writing a business plan before you start a business forces you to do the research and get the information that you will need to turn your idea into a successful venture. And if your plan shows you that that particular business idea will not work, Abandon it and try another idea.

If you do not write a business plan when you are thinking of starting a business, in the best case scenario, you will be floundering around, squandering time and resources. In the worst case scenario, your new business will fail – because of things you could have known if you had written a plan. The bottom line is that if you invest some time and energy into writing a business plan, you have got a much better chance of avoiding business failure.

Keep the executive summary polished

Using a few sentences from each section in your business plan is often a good way to build your executive summary. However, keep in mind that this one section may be the most important section in the document when it comes to high-level decision makers deciding to invest in your business. It also acts as an enticement to learn more about the details contained in the business plan.

Strive to keep the executive summary brief and to the point. You will probably want to re-write this section several times to get it just right. It should be highly polished, professional and to the point. It can be a good idea when writing executive summaries of business plans to have the section reviewed by someone else. Can they understand what the document is about and why the business is a winner? Such feedback can be invaluable.

Structure of the Executive Summary

i) The background of the business: This indicates the location, address and ownership of the business.
ii) The objectives of the business: This explains the short term goals of the business. Businesses are established with various objectives.
iii) The products/ services the business offers: This explains the key products or services that the business is producing.
iv) An overview of the market for the products/ services: This explains the marketing strategies the business is intending to use to sale its product or service.

v) The competitive advantage of the business: This explains the position of the business in the competitive environment as compared to other businesses dealing in similar goods and services.

vi) The projected growth: This is the anticipated expansion and growth of the business.

vii) The key members of the business: These are the stakeholders and all members included in the ownership of the business.

viii) Funding requirements of the business: This refers to the anticipated flow of funds in the business.

1.2.2 Production Plan

When writing the business plan, the production or operating plan section describes the physical necessities of your business' operation, such as your business' physical location, facilities and equipment. Depending on what kind of business you will be operating, it may also include information about inventory requirements and suppliers and a description of the manufacturing process.

Keeping focused on the bottom line will help you organise this part of the business plan. Think of the operating plan as an outline of the capital and expense requirements your business will need to operate from day to day.

You need to do two things for your readers in the operating section of the business plan: show what you have done so far to get your business off the ground (and that you know what else needs to be done) and demonstrate that you understand the manufacturing or delivery process of producing your product or service. So divide the operating section of the business plan into two parts.

i) **The development section**

In this section, describe how your product or service will be made, and identify the problems that may occur in the production process.

Show your awareness of your industry's standards and regulations by telling which industry organisations you are already a member of and/or which organisations you plan to join and what steps you have taken to comply with the laws and regulations that apply to your industry.

Explain who your suppliers are and their prices, terms, and conditions. Describe what alternative arrangements you have made or will make if these suppliers let you down.

Explain the quality control measures that you have set up or that you are going to establish.

When writing this section for the business plan, start by explaining what you have done to get the business operational, and follow this with an explanation of what still needs to be done. Next, include a subsection titled "Risks" that outlines the potential problems that may interfere with the production process and what you are going to do to negate these risks. The rest of the development stage part of the operating plan will be divided into subsections such as "Industry association membership", "Suppliers" and "Quality control".

ii) **The production process section**

The second section of the production plan part of the business plan is the production process section. The production process section lays out the details of your business' day to day operations.

Remember, your goal for writing this section of the business plan is to demonstrate your understanding of the manufacturing or delivery process for your product or service.

Make sure you include the following details of your business operation:

i) General: Do an outline of your business day to day operations, such as the hours of operation, and the days the business will be open. If the business is seasonal, be sure to say so.

ii) The physical plant: What type of premises are they and what is the size and location? If possible include drawings of the building, copies of lease agreements, and/or recent real estate appraisals. You need to show how much the land or buildings required for your business operations are worth, and tell why they are important to your proposed business.

iii) Equipment: The same principle as ii) above goes for equipment. Besides describing the equipment necessary and how much of it you need, you also need to include its worth and cost, and explain any financing arrangements.

iv) **Assets**: Make a list of your assets, such as land, buildings, inventory, furniture, equipment and vehicles. Include legal descriptions and the worth of each asset.

v) **Special requirements**: If your business has any special requirements, such as water or power needs, ventilation or drainage provide the details in your operating plan. Also include what you have done to secure the necessary permissions, such as zoning approvals.

vi) **Materials**: Explain where you are going to get the materials you need to produce your product or service and what terms you have negotiated with suppliers.

vii) **Production**: Explain how long it takes to produce a unit and when you will be able to start producing your product or service. Include factors that may affect the time frame of production and how you will deal with potential problems such as rush orders.

viii) **Inventory**: Explain how you will keep track of inventory.

ix) **Feasibility**: Describe any product testing, price testing, or prototype testing that you have done on your product or service.

x) **Cost**: Give details of product cost estimates.

When you are writing this section of the business plan, you can use the headings above as subheadings and then provide the details in paragraph format. If a topic does not apply to your particular business, leave it out.

The best part is that once you have worked through this business plan section, you will not only have a detailed operating plan to show your readers but you will also have a convenient list of what needs to be done next to make your business a reality.

1.2.3 Management /Human Resource Plan

This explains the personnel needed in the business, their recruitment, remuneration and retention for full production.

The human resource plan needs to be flexible enough to meet short-term staffing challenges, while adapting to changing conditions in the business and environment over the longer term. Human resource planning is also a continuous process.

1.2.4 Financial Plan

This comes at the end of your business plan. The financial plan section determines whether or not your business idea is viable, and is a key component in determining whether or not your business plan will attract any investment.

Basically, this section consists of three financial statements - the income statement, the cash flow projection and the balance sheet - and a brief explanation/analysis of these three statements.

You need to first gather some of the financial data you will need to prepare these financial statements for your business plan by examining your expenses. Think of your business expenses as broken into two categories; your start up expenses and your operating expenses.

All the costs of getting your business up and running go into the start up expenses category. These expenses may include:

i) Business registration fees
ii) Business licensing and permits
iii) Starting inventory
iv) Rent deposits
v) Down payments on property
vi) Down payments on equipment
vii) Utility set up fees

This is just a sampling of start up expenses. Your own list will probably expand as soon as you start writing them down.

Operating expenses are the costs of keeping your business running. Think of these as the things you are going to have to pay each month. Your list of operating expenses may include:

i) Salaries (yours and staff)
ii) Rent or mortgage payments
iii) Telecommunications
iv) Utilities
v) Raw materials
vi) Storage
vii) Distribution
viii) Promotion
ix) Loan payments
x) Office supplies

xi) Maintenance

Once again, this is just a partial list to get you going. Once you have your operating expenses list complete, the total will show you what it will cost you to keep your business running each month.

Multiply this number by six, and you have a six month estimate of your operating expenses. Then add this to the total of your start up expenses list, and you will have a ballpark figure for your complete start up costs.

Now let us look at putting some financial statements for your business plan together, starting with the Income Statement.

Components of financial plan

The income statement shows your revenues, expenses, and profit for a particular period. It is a snapshot of your business that shows whether or not your business is profitable at that point in time: revenue - expenses = profit/loss.

While established businesses normally produce an income statement each fiscal quarter, or even once each fiscal year, for the purposes of the business plan, an income statement should be generated more frequently - monthly for the first year.

Here is an income statement template for a service-based business. It is followed by an explanation of how to adapt this income statement template to a product-based business.

TABULATE THIS

Your business name

Income Statement for the year ending ______________

(Row listing each month)

Revenue

Revenue: Services

Service 1

Service 2

Service 3

Total revenue: Services

Revenue: Miscellaneous

Bank Interest

Total revenue: miscellaneous

Total revenue

Expenses

Direct costs

Materials

Equipment Rentals

Salary (Owner)

Wages

Total direct costs

General and administration

Accounting and Legal Fees

Advertising and Promotion

Bad Debts

Bank Charges

Depreciation and Amortization

Insurance

Interest

Office Rent

Telephone

Utilities

Credit Card Commissions

Credit Card Charges

Total general and administration

Total expenses

Net income before income taxes

Income taxes
Net income
Not all of the categories in this income statement will apply to your business. Leave out those that do not apply and add relevant categories to adapt this template to your business.

To use this template as part of the business plan, you will need to set it up as a table and fill in the appropriate figures for each month (as indicated by the line "row listing each month").

If you have a product-based business, the revenue section of the income statement will look different. Revenue will be called Sales, and inventory needs to be accounted for as in the example below:

TABULATE THIS

Sales
Cost of sales

Opening inventory

Purchases

Ending inventory

Gross profit

The expense portion of the income statement, however, is very similar to the template provided above.

The next financial statement that you need to include in the financial plan section of your business plan is the cash flow projection.

The cash flow projection shows how cash is expected to flow in and out of your business. It is an important tool for cash flow management and lets you know when your expenditures are too high or when you might want to arrange short term investments to deal with a cash flow surplus. As part of your business plan, a cash flow projection will give you a much better idea of how much capital investment your business idea needs.

For a bank loans officer, the cash flow projection offers evidence that your business is a good credit risk and that there will be enough cash on hand to make your business a good candidate for a line of credit or short term loan.

Do not confuse a cash flow projection with a cash flow statement. The cash flow statement shows how cash has flowed in and out of your business. In other words, it describes the cash flow that has occurred in the past. The cash flow projection shows the cash that is anticipated to be generated or expended over a chosen period of time in the future.

While both types of cash flow reports are important business decision-making tools, we are only concerned with the cash flow projection in the business plan. You will want to show cash flow projections for each month over a one year period as part of the financial plan portion of your business plan.

There are three parts to the cash flow projection. The first part details your cash revenues. Enter your estimated sales figures for each month. Remember that these are cash revenues; you will only enter the sales that are collectible in cash during the specific month you are dealing with.

The second part is your cash disbursements. Take the various expense categories from your ledger and list the cash expenditures you actually expect to pay that month for each month.

The third part of the cash flow projection is the reconciliation of cash revenues to cash disbursements. As the word "reconciliation" suggests, this section starts with an opening balance which is the carryover from the previous month's operations. The current month's revenues are added to this balance. Then the current month's disbursements are subtracted, and the adjusted cash flow balance is carried over to the next month.

The balance sheet is the last of the financial statements that you need to include in the financial plan section of the business plan. The balance sheet presents a picture of your business' net worth at a particular point in time. It summarises all the financial data about your business, breaking that data into three categories namely assets, liabilities and equity.

Below are some important definitions:

Assets are tangible objects of financial value that are owned by the company.

A liability is a debt owed to a creditor of the company.

Equity is the net difference when the total liabilities are subtracted from the total assets.

All accounts in your general ledger are categorised as an asset, a liability or equity. The relationship between them is expressed in this equation: assets = liabilities + equity.

For the purposes of your business plan, you will be creating a pro forma balance sheet intended to summarise the information in the income statement and cash flow projections. Normally, a business prepares a balance sheet once a year.

Here is a template for a balance sheet that you can use, with some adjustments, for your business plan (or later on when your business is up and running):

TABULATE THIS

Your company name

Balance sheet as at __________ (date)

Assets

Current Assets

Cash in Bank

Petty Cash

Net Cash

Inventory

Accounts Receivable

Prepaid Insurance

Total Current Assets

Fixed Assets

Land

Buildings

Less Depreciation

Net Land & Buildings

Equipment

Less Depreciation

Net Equipment

Total assets

Liabilities

Current Liabilities

Accounts Payable

Vacation Payable

Federal Income Tax Payable

Total Canada Customs & Revenue

WCB Payable

Pension Payable

Union Dues Payable

Medical Payable

Total Current Liabilities

Long-Term Liabilities

Long-Term Loans

Mortgage

Total Long-Term Liabilities

Total liabilities

Equity

Earnings

Owner's Equity - Capital

Owner - Draws

Retained Earnings

Current Earnings

Total Earnings

Total equity

Liabilities and equity

Once again, this template is an example of the different categories of assets and liabilities that may apply to your business. The balance sheet will reproduce the accounts you have set up in your general ledger. You need to modify the categories in the balance sheet template above to suit your own business.

Once you have your balance sheet completed, you are ready to write a brief analysis of each of the three financial statements. When writing these analysis paragraphs, you want to keep them short and cover the highlights, rather than writing an in-depth analysis. The financial statements themselves (the income statement, cash flow projections and balance sheet) will be placed in your business plan's appendices.

Financial data section of a business plan

When you are learning how to make a business plan, it is important to note that the financial data section of your plan includes financial statements and a forward looking view of the financial situation of your business. This section includes:

i) Your balance sheet
ii) Breakeven analysis
iii) Income statement
iv) Statement of cash flows

How much information you provide in this section depends on the purpose of your business plan. If you are seeking funding, you will want to provide more detailed information. At the very least you should include your profit and loss history and projections as well as your statement of cash flows. You may also decide to provide important summary information in this section in a table with statements that support the number in your tables referenced in your appendix section.

You may need an accountant to prepare these statements correctly, if they have not already been prepared. You will want to include both historical financial statements and forward-looking financial statements. Your projected and historical profit and loss information is especially important. Be sure to explicitly state any assumptions made in your calculations for future performance.

The financial data section is one that lends itself to tables, graphs and charts. Be sure to include them where appropriate. One of the most important lessons when learning how to make a business plan is that tables, graphs and charts can give your reader a quick glimpse of data without getting bogged down in text. Business plan software is very helpful in creating charts and graphs that look appealing and that convey information effectively. Alternatively, you can create your own using tools like Microsoft Excel or a business bookkeeping package such as quick books.

1.2.5 Marketing Plan

When writing the business plan, the marketing plan section explains how you are going to get your customers to buy your products and/or services. The marketing plan, then, will include sections detailing your:

i) Products and/or services and your unique selling proposition

ii) Pricing strategy

iii) Sales/distribution plan

iv) Advertising and promotions plan

The easiest way to develop your marketing plan is to work through each of these sections, referring to the market research you completed when you were writing the previous sections of the business plan.

(Note that if you are developing a marketing plan on its own, rather than as part of a business plan, the marketing plan will also need to include a target market and a competitive analysis section.

i) **Products/services**

This part of the marketing plan focuses on the uniqueness of your product or service, and how the customer will benefit from using the products or services you are offering. Use these questions to write a paragraph summarising the following aspects for your marketing plan:

What are the features of your product or service? Describe the physical attributes of your product or service and any other relevant features, such as what it does, or how your product or service differs from competitive products or services.

How will your product or service benefit the customer? Remember that benefits can be intangible as well as tangible. For instance, if you are selling a cleaning product, your customers will benefit by having a cleaner house, but they may also benefit by enjoying better health. Brainstorm as many benefits as possible to begin with, and then emphasise the benefits that your targeted customers will most appreciate in your marketing plan.

What is it that sets your product or service apart from all the rest? In other words, what is your unique selling proposition? What is the message you want your customers to receive about your product or service that is at the heart of your marketing plan? The marketing plan is all about communicating this central message to your customers.

ii) **Pricing strategy**

The pricing strategy portion of the marketing plan involves determining how you will price your product or service; the price you charge has to be competitive but still allows you to make a reasonable profit.

The keyword here is "reasonable". You can charge any price you want to, but for every product or service there is a limit to how much the consumer is willing to pay. Your pricing strategy needs to take this consumer threshold into account.

The most common question small business people have about the pricing strategy section of the marketing plan is, "How do you know what price to charge?"

Basically you set your pricing through a process of calculating your costs, estimating the benefits to consumers, and comparing your products, services, and prices to others that are similar.

Set your pricing by examining how much it costs you to produce the product or service and adding a fair price for the benefits that the customer will enjoy. Examining what others are charging for similar products or services will guide you when you are figuring out what a "fair" price for such benefits would be. You may find it useful to conduct a breakeven analysis.

The pricing strategy you outline in your marketing plan will answer the following questions:

- What is the cost of your product or service? Make sure you include all your fixed and variable costs when you are calculating this; the cost of labour and materials are obvious, but you may also need to include freight costs, administrative costs, and/or selling costs, for example.
- How does the pricing of your product or service compare to the market price of similar products or services? Explain how the pricing of your product or service is competitive. For instance, if the price you plan to charge is lower, why are you able to do this? If it is higher, why would your customer be willing to pay more? This is where the "strategy" part of the pricing strategy comes into play. Will your business be

more competitive if you charge more, less, or the same as your competitors and why?

- What kind of return on investment (ROI) are you expecting with this pricing strategy, and within what time frame?

iii)**Sales and distribution plan**

Remember, the primary goal of the marketing plan is to get people to buy your products or services. The sales and distribution part of the marketing plan details how this is going to happen.

Traditionally there are three parts to the sales and distribution section of the marketing plan, although all three parts may not apply to your business.

- Outline the distribution methods to be used. How is your product or service going to get to the customer? For instance, will you distribute your product or service through a website, through the mail, through sales representatives or through retail?
- What distribution channel is going to be used? In a direct distribution channel, the product or service goes directly from the manufacturer to the consumer. In a one stage distribution channel it goes from manufacturer to retailer to consumer. The traditional distribution channel is from manufacturer to wholesaler to retailer to consumer. Outline all the different companies, people and/or technologies that will be involved in the process of getting your product or service to your customer.
- What are the costs associated with distribution? What are the delivery terms? How will the distribution methods affect production time frames or delivery? (How long will it take to get your product or service to your customer?)
- If your business involves selling a product, you should also include information about inventory levels and packaging in this part of your marketing plan. For instance:
- How are your products to be packaged for shipping and for display?
- Does the packaging meet all regulatory requirements (such as labelling)?
- Is the packaging appropriately coded, priced and complementary to the product?

- What minimum inventory levels must be maintained to ensure that there is no loss of sales due to problems such as late shipments and back orders?

Outline the transaction process between your business and your customers. What system will be used for processing orders, shipping, and billing?

What methods of payment will customers be able to use? What credit terms will you offer customers? If you will offer discounts for early payment or impose penalties for late payment, they should be mentioned in this part of your marketing plan.

What is your return policy? What warranties will you offer the customer? Describe these or any other service guarantees. What kinds of after-sales support will you offer customers and what will you charge (if anything) for this support? Is there a system for customer feedback so customer satisfaction (or the lack of it) can be tracked and addressed?

Outline your sales strategy if it is applicable to your business. What types of salespeople will be involved (commissioned salespeople, product demonstrators, telephone solicitors, etc.)? Describe your expectations of these salespeople and how sales effectiveness will be measured. Will you offer a sales training program? If so, describe it in this section of the marketing plan.

Describe the incentives salespeople will be offered to encourage their achievements (such as getting new accounts, the most orders, and so on).

Lastly, when you are writing a marketing plan, you need to develop an advertising and promotion plan.

iv) **Advertising and promotion plan**

Essentially the advertising and promotion section of the marketing plan describes how you are going to deliver your unique selling proposition to your prospective customers. While there are literally thousands of different promotion avenues available to you, what distinguishes a successful advertising and promotion plan from an unsuccessful one is focus - and that is what your unique selling proposition provides.

You need to first determine what message you want to send to your targeted audience. Then look at these promotion possibilities and decide which to emphasise in your marketing plan:

Advertising - The best approach to advertising is to think of it in terms of media and which media will be most effective in reaching your target market. Then you can make decisions about how much of your annual advertising budget you are going to spend on each medium.

What percentage of your annual advertising budget will you invest in each of the following?

- The Internet
- Television
- Radio
- Newspapers
- Magazines
- Telephone books/directories
- Billboards
- Direct mail
- Cooperative advertising with wholesalers, retailers or other businesses?

Include not only the cost of the advertising but your projections about how much business the advertising will bring in.

Sales promotion - If it is appropriate to your business, you may want to incorporate sales promotion activities and items into your advertising and promotion plan, such as:

- free samples
- coupons
- point of purchase displays
- product demonstrations

Marketing materials - Every business will include some of these in their promotion plans. The most common marketing material is the business card, but brochures, pamphlets and service sheets are also common.

Publicity is another avenue of promotion that every business should use. Describe how you plan to generate publicity. While press releases spring to mind, that is only one way to get people spreading the word about your business. Consider:

- product launches
- special events, including community involvement

- writing articles
- getting and using testimonials

Tradeshows can be incredibly effective promotion and sales opportunities, assuming you pick the right ones and go equipped to put your promotion plan into action.

Other promotion activities

Your promotion activities are truly limited only by your imagination. If you plan to teach a course, sponsor a community event, or conduct an email campaign, you may want to include it in your advertising and promotion plan. Remember, sporadic unconnected attempts to promote your product or service are bound to fail. Your goal is to plan and carry out a sequence of focused promotion activities that will communicate with your potential customers.

While small businesses often have miniscule (or non-existent) promotion budgets, it does not mean that small businesses cannot design and implement effective promotion plans. Visit the business promotion library for a host of inexpensive ideas to get your promotion plan off the ground.

No business is too small to have a marketing plan. After all, no business is too small for customers or clients. And if you have these, you need to communicate with them about your products and/or services.

If it applies to your business, outline your sales strategy in this section when you are writing a business plan. For example, will there be a sales force? Will sales training be provided? Will your sales team be given incentives to encourage them to increase sales and meet or exceed their goals?

The 5 Ps of marketing

For years, marketers referred to the 4 Ps (product, price, place and promotion) of marketing. Only recently has a fifth P been added. Whether you subscribe to the theory that there are four Ps or five Ps of marketing, this is essentially referred to as your 'marketing mix'.

Not all marketers subscribe to the theory that the 5^{th} P - People - should be included, but the people responsible for providing service to your customers can be vital in making your small business successful.

Product is the product or service offered to the customer by your small business. The physical attributes of your products or services, what they do, how they differ from your competitors and what benefits they provide to your potential customers.

Price refers to your pricing strategies that will help you reach your target profit margin. It is how you will price your product or service so that the price remains competitive but allows you to make a good profit. When calculating price, ensure that you have included both fixed expenses and variable expenses and be sure that your price will allow you to reach your breakeven point within a reasonable amount of time. Also discuss if your price will be lower or higher than your competition and how you can accomplish that while maintaining both demand for your products or services and a profit.

Place (distribution) – this is where your small business will sell its products or services and how it will get those products or services to your customers in your target market. For example, the percentage of sales you expect through the Internet and the percentage of sales you expect through door to door selling. Additionally, what your delivery terms and costs will be, and how you will handle the cost of getting your products or services to your customers. When you are writing a business plan, you also want to indicate if there are any shipping or labelling requirements that need to be considered and how you will meet those requirements. Finally, outline how a transaction takes place and what return policies are in place.

Promotion refers to the methods of promotion you will use to communicate the features and benefits of your products or services to your target customers. Will you advertise? If so, where will you do so? What percentage of advertising will be handled by each advertising vehicle? How much business do you anticipate that each form of advertising will result in? How much is this all going to cost? Also indicate if you plan to offer coupons or other incentives to get customers in the door.

The last P, **people,** refers to how your level of service and the people who will provide that service will be used in marketing your products or services to the customer. Who are the people that will be providing this service and what kind of training will they receive? Do you plan to offer any incentives to your customer service representatives and how do you plan to measure customer satisfaction?

Essentially, the 5 (or 4) P's of marketing will form the basis of your marketing plan. If you want to make your marketing plan a standalone document, you will also want to include the information you prepared in the market analysis section for your business plan.

2

Production Management

2.1 Introduction to Production Management

Production management is the process of planning for production and ensuring your production plans are put into efficient operation.

You cannot just hope that raw materials will be available, that the right production methods will be used, and that the right amounts of the required product will be produced. No matter what kind of production plant you operate, you will have to make many decisions. Below are some of the questions to guide your production management decisions.

i) What kind of product will you make?
ii) Does the kind of product depend on customer wants?
iii) Does the kind of product depend on the skills you have or can hire?
iv) To what extent is quality important?
v) Does quality depend upon raw materials?
vi) Does quality depend upon men and/or equipment?
vii) How will you control the quality of your product?
viii) How much should you spend for high quality?
ix) How much should you produce?
x) Does volume depend upon present market demand?
xi) How much inventory can you afford to carry?
xii) What equipment is required?
xiii) Is it cheaper to use equipment or labour? Which mix of equipment and labour is most economical?
xiv) Should you buy or lease equipment?

xv) How should you lay out your plant?

xvi) Will better layout mean more production? Will a carefully planned plant layout increase production?

xvii) How can work methods be improved?

xviii) How much does it cost to produce the product at different production volumes?

xix) What are the production costs for raw materials, labour, and overhead?

xx) Is selling price highly dependent on production costs?

xxi) What price should you sell your product?

xxii) These are just a few of the areas you are going to have to make decisions about. This topic is designed to show you how to go about getting information to help you make the decisions.

Type of product or service to be produced

A product is a good or service that is intended for sale. A business can offer both goods and services. A service is a type of economic activity that is intangible is not stored and does not result in ownership. For example accounting, banking, cleaning, consultancy, education, insurance, expertise, medical treatment, or transportation. Goods are tangible and services are intangible. For example, a tailor can make suits (a good that is tangible). On the other hand a pump attendant who puts the fuel in your car offers a service which is intangible.

Capacity planning and design

Capacity planning and design focuses on the factors and operational ingredients needed to produce the targeted number of units of a product or service. These factors include the physical capacity needed, the equipment and tools required, the amount of labour demanded, the time projected to produce the total number of products or services, the amount of raw materials and supplies needed, and any other support space or assistance. Example: Consider the production of a table by a small manufacturer using basic hand tools. Capacity assumptions might be as follows:

Space needed: a 6.1m x 6.1m room (approximately 37.16$m^{2)}$

Equipment: saws, lathe, tables, vices, planes, chisels, hammers

Labour: one worker producing one table per day.

Time: One table per day from this worker

Raw materials: Wood, glue, nails, dowels, storage, materials handling, and support systems for raw materials and finished products.

Using these and other factors, the planner can then determine the total amount needed in each category by multiplying by the targeted number of units.

Note

i) The management of production operations involves turning inputs into outputs to satisfy customer tastes and preferences, needs and wants.

ii) Every business must find a way to convert inputs, with added value, into something the customer will buy. The best businesses do this through high efficiency and productivity management. This implies efficient utilisation of resources like machines and equipment, labour, space, raw materials, time and money required in facilitating production activities.

iii) (iii) The number of units/services to be produced by the business should be based on the market share and nature of demand for the business product(s). The market share is normally determined as a percentage of the industry's market. For instance, upon determining the total demand for tables in an area, the company's sales represent its market share when expressed over the whole market area demand.

Production processes

This is how the business intends to produce or procure the desired goods and services. It involves carrying out the following activities:

i) Market research
ii) Developing a product idea
iii) Translating a product idea into product design
iv) Sourcing/acquiring raw materials
v) Carrying out actual production while observing quality standards
vi) Packaging the product
vii) Branding the product

viii) Storing the product
ix) Distributing the product
x) Making a follow up with customers to find out how the product is performing in the market
xi) Making any improvements desired

Factors affecting production decisions

i) Facilities and organisation - What is required to produce and sell the product?
ii) Sales potential - How much, why, and when will your customers buy?
iii) Costs - Can you make the product at a cost which will allow you to set a reasonable price?
iv) Sales promotion and growth - Will sales promotion lead to more sales? How much and what type of promotion is required? Can you meet additional production demands with your present plant?
v) Money requirements - How much initial investment is required? How much money do you require for operating capital? Will your revenues generate the money needed for expansion?
vi) Labour requirements - How many and what type of employees do you need? Are you going to pay wages or some other form of compensation for labour (such as piece work)? Do you need training programs? Where can you get the needed employees?
vii) Supply sources - What raw materials and components will you need? Where can you obtain the supplies required in the quantity and quality needed? What prices must you pay for your supply of raw materials?
viii) Transportation - How are you going to handle raw materials and finished goods? Do you need special transportation? Do other factors outweigh transportation costs?
ix) Acceptance by community - What is the general feeling of the population to your operation? Will the community help or hinder your business?
x) Legal requirements - What licenses are required? What processes are patented and cannot be used by you? How do you patent your process? What are the local business requirements?

2.2 Purchasing Skills

Purchasing is keeping production supplied with the required goods and services, at the right time and at the right price. Purchasing is not merely a matter of buying. It proves to be a linking element between the major functions of the enterprise that makes the product and the distribution channel that serves the customers' need. Purchasing contributes to every aspect of enterprise operations.

For proper purchasing, one should keep abreast with the supplier's activities. It is important to know of any change in price, delivery, quality or availability of goods and services. Build a close relationship with your suppliers. Suppliers may allow you credit in a time of stress. However, be careful not to overdo this practice.

Doing business with suppliers

Entrepreneurs should follow specific procedures when purchasing goods, materials and equipment from suppliers. Such procedures include the following:

Step 1: Determine your business needs

By conducting market surveys, you will know who your customers are and what products they want. These customer needs will determine the:

i) Materials and equipment your business will need to produce goods for sale to customers.
ii) Finished goods to buy from suppliers for resale to customers.
iii) Amount of each product to buy as inventory.
iv) Price to pay for quantities of goods purchased from suppliers.
v) Specific times goods and materials need to be received from suppliers.

Step 2: Identifying potential suppliers

Determine which suppliers sell the goods, materials or equipment you need by:

i) asking your business friends, people who work with you, and others. Try to find out which suppliers your competitors use.

ii) contacting organisations that support small businesses, for example, the local chamber of commerce may identify honest and reliable suppliers.
iii) reviewing newspapers, magazines, trade journals and businesses in the telephone directory for names and addresses of potential suppliers.
iv) determining what goods, materials or equipment each supplier has to sell and the prices, discounts, credit and delivery service they provide.
v) determining with the help of other entrepreneurs the reliability of each supplier.

For example: Does the supplier usually deliver on time? Does the supplier accept returned goods or materials? How responsible is the supplier for the quality of goods or materials? Is the supplier honest in conducting business?

Step 3: Contact the supplier

Contact a supplier either by visiting the supplier's office personally or using cost-effective communication means. Each potential supplier should provide written information to you regarding the kinds of goods, materials or equipment they can provide. Specific questions include:

i) Does the supplier have what you need in the qualities and quantities you need?
ii) What is the smallest quantity you can purchase?
iii) Do you need to pay cash or can you get credit?
iv) How much credit can you get and how soon do you need to pay it back?
v) Will you get discounts if you buy large quantities or pay quickly?
vi) How much discount can you get?
vii) Will the supplier deliver to your business?
viii) How soon after the order is placed will they deliver?
ix) Do you have to pay for transport or is delivery free?

Note

Make sure that the supplier provides a response to your questions in writing. Ask for a written quotation. If there are any disagreements between you and your suppliers at a later date, a written quotation makes them easier to resolve.

Step 4: Select the best suppliers

Compare the quotations received from various suppliers to determine what each of the different suppliers can offer. A quotation is a written response to your enquiry to the supplier. In a quotation, the supplier provides you with detailed information about the goods, materials or equipment, prices, payment, delivery and any other conditions related to your order.

The entrepreneur must decide what conditions and priorities are most important in selecting suppliers. Is it credit, reliability, prices, discounts or other considerations? When a decision has been made regarding the suppliers who best match the needs of the business:

i) Try to negotiate with the suppliers to receive even better conditions.

ii) Choose the best suppliers for your business.

Step 5: Order goods

Make sure your order is in writing. Think carefully about the quantities you need:

i) What is the smallest quantity you can order?

ii) How much is there in each bulk package?

iii) Can you order less than one bulk package?

Step 6: Check the goods as soon as they are received

A supplier usually sends a delivery note with the goods or materials. The delivery note lists details of the goods. The supplier will want you to sign the delivery note as proof that you have received the goods listed.

Some suppliers send an invoice instead of a delivery note. An invoice lists the goods bought, where and how (cash/cheque) the supplier is to be paid. Check the goods against the invoice. If you collect the goods or materials from the supplier yourself, the type and quality should be checked before taking them away.

Check the delivery note or invoice against your order. Check that everything ordered has been received on time. If there is something wrong, notify the supplier immediately. Do not sign the delivery note or pay for the goods until the problem has been resolved.

Step 7: Make sure that the invoice is correct

If you are buying on credit, compare the invoice with the delivery note. The list of goods or materials must be the same on both. Make sure that you have received everything you are asked to pay for and that the prices and totals are correct. If the invoice is not correct, notify the supplier immediately and determine the best way to solve the problem.

Step 8: Make the payment to the supplier by cash or cheque

Make sure to get a receipt so there is proof of payment.

2.3 Inventory Management

Inventory management systems are the rule for enterprises which smaller businesses and vendors should have. The systems ensure customers always have enough of what they want and balance that goal against a retailer's financial need to maintain as little stock as possible. Mismanaged inventory means disappointed customers, too much cash tied up in warehouses and slower sales.

Modern inventory management systems must have the ability to track sales and available inventory, communicate with suppliers in near real-time and receive and incorporate other data, such as seasonal demand. They must tell a store owner when it is time to reorder and how much to purchase.

2.3.1 Purchasing of raw materials

Raw materials refer to basic materials from which products are made through a transformation process. Raw materials may be natural or artificial. Examples of natural raw materials include cotton for cloth, timber for furniture and clay for bricks. Artificial raw materials include plastics, nylon, and tar.

Entrepreneurs need to purchase the correct inputs from appropriate sources through good planning which involves:

i) Identifying the materials, tools, and equipment needed for each task or duty.

ii) Gathering information on legal sources of inputs, availability, prices and terms of sale being offered.

Sources of inputs will vary from one locality to another. They could include manufacturers, wholesalers and distributors of particular inputs. The following can guide your decisions on purchasing inputs:

How much raw material is required? Once you have a good idea of the production level you want to achieve, find out the type, quantity and quality of raw materials needed. These should be specified according to square metre, kilogramme, tons or pieces which will be used per month. For quality, specify whether you require unprocessed or processed inputs.

Price: After determining the quality and quantity of raw material needed, find out their costs and list these costs next to the material and prepare a list of average monthly raw materials requirement and their costs. Include duties and relevant taxes, if raw materials are imported.

Reliability of raw materials: The supply of raw materials for production should be reliable. Raw materials should be available in good quantity and quality and on time. This ensures continuous production activities to take place.

What are the sources of raw materials? The following three factors are critical:

- The price should be as low as possible but maintaining quality
- Their source should be close to the production site to reduce transport costs
- The source should be reliable.

If raw materials are not available for most part of the year, at least two alternatives are possible. Either the factory will have to reduce production, or it must build up a stock of raw materials when they are plentiful so that production can be continuous. If the latter is chosen, additional working capital is required and should be included in the calculation of your cash needs and determination of your projects' investment requirement so that the business can cope with this situation. For example, think of the problem of obtaining fruits for a fruit processing plant during off-season.

2.3.2 Purchasing plan

A small entrepreneur has to appreciate the critical importance of purchasing. Purchasing is not merely a matter of buying. It proves to be a linking element between the major functions of the enterprise that makes the product and the distribution channel that serves the customers' need. When purchasing, the following steps should be considered:

i) Determine the proper quantity of each item needed.

ii) Establish and follow quality standards.

iii) Ensure on-time delivery of items needed.

iv) Purchase at the right value for the quantity and quality of items bought.

Price is often the most important factor, but quality, delivery, service and reliability, are also part of the value equation.

2.3.3 Selection of raw materials

Various manufacturing enterprises use different types of raw materials. However, all these enterprises consider the following factors when selecting and purchasing raw materials:

i) **Location of raw materials:** The location of the sources of raw materials for the business production process. Sources that are nearer the business are preferred to those that are far.

ii) **Cost of raw materials:** Cheaper raw materials which are affordable but of acceptable quality are preferred to the expensive ones.

iii) **Quality of raw materials:** Manufacturers usually select good quality raw materials in order to produce high quality products.

iv) **Terms of purchase:** That is, whether the supplier's terms of sale are on credit or cash basis. Most manufacturers select raw materials from where suppliers offer favourable terms of purchase including discounts, credit facilities and other such terms.

v) **Lead time:** How long it takes for the supplier to deliver the raw materials demanded.

vi) **Amount of units of raw materials used per production cycle:** The amount of raw materials to be selected normally corresponds with the amount of goods to be produced per production cycle. Businesses prefer using raw materials that yield more output than the inputs used.

vii) **Amount of raw materials to be maintained in inventory:** This depends on the policy of the business and the rate at which goods produced are bought. If goods produced are sold off immediately, an entrepreneur may store more raw materials for continuous production to meet customer demands. However, if the rate of sales for goods produced is low, then fewer raw materials may be maintained in stock.

viii) **Availability and reliability:** An entrepreneur must check to ensure that the raw materials to be selected are available whenever he/she needs them.

ix) **Risk of damage:** Businesses usually prefer using raw materials that are least likely to get damaged.

x) **Amount of waste:** Businesses prefer to use raw materials that produce as little waste as possible.

Activity

Lake Victoria Technical Consult received an order to manufacture two types of boats. The cost of material for manufacturing one boat per type was Shs 10,000. However, when raw materials are purchased for making 20 and more boats, the cost is reduced to Shs 9,500 per boat. The company decided to make 30 boats for type A and 25 for type B. When the boats were supplied, the buyer accepted 15 boats of type A and 10 for type B.

1. What was the cost of raw materials for type A?
2. What was the cost of raw materials for type B?
3. What were the total sales for type A?
4. What were the total sales for type B?
5. Calculate the profit or loss for Lake Victoria Technical Consult from this order.

2.4 Labour Requirements/Employees

Labour is human effort, physical or mental, engaged in the production of a good or provision of a service in return for payment. Labour is one of the three factors of production, along with capital and land. Labour can also be used to describe work performed, including any valuable service rendered by a human agent in the production of wealth, other than accumulating and providing capital. Labour is performed for the sake of its product or, in modern economic life, for the sake of a share of the aggregate product of the community's industry

Types of labour

A skilled worker is any worker who has some special skill, knowledge, or (usually acquired) ability in their work. Such a worker possesses knowledge and skill in his area of work and can produce best production. A skilled worker may have attended a college, university or technical school. Or, a skilled worker may have learned their skills on the job. Examples of skilled labour jobs are engineering and computer manufacturing.

A semi-skilled worker is one who possesses particular skills in his area and can perform a job in his area. However, this type of worker requires close supervision.

An unskilled employee is one who possesses no special training and whose work involves the performance of simple duties which require the exercise of little or no independent judgement or previous experience although a familiarity with the occupational environment is necessary.

Labour planning involves the determination of the number of workers, skills and wages or salaries of the labour force.

Reasons why labour is needed

i) Increases production of goods and services.

ii) Manages business operations.

iii) Combines with other factors of production to aid production.

iv) Facilitates exploitation of would-be idle resources.

v) Increases government revenue through payment of tax.

Factors to consider when determining the number and type of employees to work in a planned business:

i) **Types of skills required.** This looks at the types of skills required for some particular business/industry and work they do in relation to the production process - for example, carpentry skills for carpentry business or negotiation and communication skills for marketing.

ii) **Number of jobs available:** This may vary with the size of the business such that the smaller the size of the business, the less the jobs available, and the larger the size of the business, the more the jobs. On the other hand, the more the jobs that are available, the higher the number of employees that will be needed.

iii) **Family members supporting the business:** If the family members can support the business, then fewer employees will have to be recruited.

iv) **Costs of hiring labour in relation to business output and profits.** If the costs involved are high, profits of the business are reduced and consequently few people are employed.

v) **The level of demand for the products.** If the products have a high demand, entrepreneurs will employ many workers and if the demand is low, few workers will be employed.

vi) **The level of technology used in business.** If high technology is used, fewer workers will be employed.

After analysing the above factors, an entrepreneur should decide on the number of employees to recruit considering the following:

i) Qualifications of the employees.

ii) Working experience of the employee.

iii) Age of the employee.

iv) Source of employees – that is, where to get the employee from. Potential sources are university/college, employment agency or other enterprises.

v) Use of interpersonal relations - how the employee interacts with others.

2.5 Production Machinery, Equipment and Facilities

2.5.1 Technology for Small Enterprises

Technology refers to the know-how, design and intellectual input of doing things. Technology is constantly changing the demands of consumers. Businesses use new technologies to produce new products and services. Entrepreneurs should realize that new technological developments such as the Internet and cell phones increase the exchange of information and may have an effect on the operations of their business. Entrepreneurs may not be aware of the nature and effects of all new technologies, yet, they must try to determine technical developments which are likely to have the greatest impact on their business operations. Notably, technologies that increase the efficiency and reduce costs are of high interest for enterprises. Some technologies such as energy saving light bulbs or better insulations are easy to implement and are accessible to all small enterprises.

Small businesses are flexible and can innovate and introduce new products. Conversely, small businesses may not have the expertise, time or capital to develop and market a new product. A small business must be realistic in judging the demand for a new product, the financial aspects of developing a new market and the time required to introduce the new technology.

Through planning and forecasting, it may be possible to predict some technological changes that might affect sales of current products and the potential for developing new products. Purchasing new technologies, such as a computer, implies a long-term commitment of resources, which most small businesses do not have. Because of day-to-day operational problems, entrepreneurs have little time to do long-range planning, even though new technologies may have a great impact on their businesses in the future.

In areas where customers are more likely to have computers or if you are selling to a large geographic area, using Internet marketing may be a way to attract customers who do not want to travel or have limited time for going to retail outlets. Smaller companies must develop products and markets where they have a chance to succeed and be competitive. Because of shortage of capital resources, entrepreneurs must be able to react quickly to changes in the market and be concerned with the future needs of their customers.

Entrepreneurs should be made aware of new technologies by attending trade exhibitions, contacting small business development agencies, and visiting other areas of their own country as well as neighbouring countries to gain ideas regarding technologies which would be appropriate to their local conditions. In some countries, government agencies, business associations or NGOs offer specialised services to women entrepreneurs to overcome difficulties in accessing new technology, since this has been identified as one of the major barriers to women entrepreneurship. Sponsorships and subsidies to encourage women entrepreneurs' participation in trade fairs are sometimes available through chambers of commerce and business development programs. Similar opportunities may be available for people with disabilities. They would need to check with a local disabled person's organisation or non-governmental organisation that works with disabled persons.

2.5.2 Characteristics of appropriate technologies

The appropriateness of technology for use in a small business is determined by a number of characteristics.

i) **Simple:** For technology to be considered appropriate, it must be simple to operate. The user of such technology must be able to apply it without encountering problems.

ii) **Effectiveness:** Effectiveness of technology is judged by how well it fits in with the objectives of the user.

iii) **Availability:** Some technology may be appropriate for certain purposes but not available locally. Information technology, for example, may be the most appropriate for certain tasks, but it may not be readily available locally.

iv) **Flexibility:** As time changes so do the requirements of technology. Appropriate technology must be flexible enough to adapt to changing times in the future.

v) **Durable:** Technology that is durable requires less maintenance and repairs.

vi) **Efficient:** Technology should be efficient in its utilisation of local resources.

vii) **Cost effective:** The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

2.5.3 Selection of Machinery, Equipment and Tools

To attain and maintain the quality of products and control capacity of production, there is need for an entrepreneur to select machinery, equipment and tools, which can operate efficiently and effectively.

a) **Machinery.** Machinery refers to a group of machines in general that gets work done. A machine on the other hand refers to a device in which each part works together with the other to perform a function, for example, a sewing machine, recording and counting machine, vending machine or washing machine.

b) **Equipment.** Equipment refers to the things needed to do some work. Some machines, which are specific for particular functions are also referred to as equipment. Examples of equipment include office computers, cash counters, calculators, typewriters and weighing scales. The words machinery and equipment are often used interchangeably. Equipment can either be for a general or particular purpose. The particular purpose machines are designed for particular operation and are not flexible. The general purpose machines are flexible and can be used or modified for many different types of operations.

c) **Tools.** A tool is any instrument or apparatus like an axe, hammer or spade which is held in the hands to do some work. Tools can also be equipment although not all tools are equipment.

Factors considered when selecting machinery, tools and equipment

i) Initial cost of the equipment and machinery: Relatively low cost and affordable ones will be chosen over the more expensive ones.

ii) Capacity of machine (how many units or items it can produce within a given time) vis-à-vis the demand that has got to be met. Assuming that other factors are constant (such as the initial cost), machinery with a higher production capacity that enables the entrepreneur to meet his/her demand will normally be selected.

iii) Ease in maintenance and repair. Machinery that has spare parts and repair services available is more desirable than those whose spare parts and maintenance services are scarce and expensive.

iv) Flexibility for adjustment in relation to the customers' changing tastes and preferences. An entrepreneur usually selects machinery that can easily be adjusted to the changing needs of customers.

v) Availability of other equipment required to operate the machinery or equipment especially the complementary machines. If machinery has other complementary machines which are available, an entrepreneur can select it for consistency and continuous production.

vi) Productivity and efficiency of machinery and equipment and the quality of the products. An entrepreneur will choose machinery he considers efficient.

vii) Complexity of the task to be done: If the entrepreneur is to do a complicated piece of work such as constructing a tarmac road in a mountainous area, then he will choose machinery which can do the task.

viii) Life span of machinery and equipment: Machinery, which is more long-lasting (durable), should be selected to reduce on unnecessary costs of buying or replacing other less durable machinery.

ix) Guarantee given by the manufacturer in terms of efficiency, durability, maintenance and safety devices encourages businesses to select that kind of machinery compared to those without guarantee.

x) Sources of machinery and equipment: If the source from which the machinery is purchased is reliable, an entrepreneur will be more likely to buy from it than from the less reliable sources. The reputation of the producer of the machinery is very important.

xi) Machinery, equipment and tools, which are easy and simple to use are more likely to be selected compared to those which are complex.

2.5.4 Production Equipment and Facilities

Common facilities and equipment required to produce a product or service include:

a) **Plant layout and civil works**

It is essential that you know the production process and the machines/equipment that will be needed for each process so that the machines are arranged according to the production flow. Therefore, the entrepreneur needs to carefully consider appropriate layout of the plant which will result in an efficient production flow. This aspect takes care of the following:

i) Storage facilities for materials, supplies, goods in process and finished goods.
ii) Space required for movement and provisions for emergency outlet.
iii) Room for future expansion.
iv) The process flow and flow of materials.
v) Means for inter-departmental communication.
vi) Disposal of industrial waste.

Facilities related to civil works

i) Buildings which can include the factory/workshop and stores and rooms for tea/lunch breaks.
ii) Basic infrastructure facilities such as outdoor works made up of utilities like water and electricity.

b) **Choice of technology and machinery**

In the production process, the equipments needed depend on the kind of technology and machinery chosen. There are two types of technologies to choose in order to produce a product or service:

i) Labour intensive technology is good for a country with cheap labour.
ii) Capital intensive technology which needs skilled labour is appropriate for developed countries.

Based on the technology adopted in relation to the type of machinery or equipment, there is a need to consider the reliability/availability of spare parts.

c) **Plant capacity**

The production of a good/service depends on the capacity of the machine used to produce it. Plant capacity may be defined in two ways:

i) Feasible normal plant capacity refers to the volume or number of units that can be manufactured during a given period.

ii) Normal maximum plant capacity is the capacity which is technically attainable and this often corresponds to the installed capacity guaranteed by the supplier of the plant.

2.5.5 Plant Layout

You must decide on the type of building needed. This will depend on the type of product being made and the type of production operations. When deciding how to lay out your plant, you will have to answer the following questions:

i) What jobs (production operations) have to be done? Can I list these?

ii) Can I draw a chart to show which operations have to be done, first, second?

iii) What is the best way to show which operations have to be done, first or second?

iv) How much room do I need for each operation?

v) Which operations should be located close together?

A good plant layout should arrange men, materials, and equipment so that as materials are being made into the finished product, they move over the shortest distance, in the correct order and in the safest way possible. A good plant layout will do the following:

i) Increase production - work will be easier and will be done faster.

ii) Cut down on expenses - there will be less wasted time and material. You will be able to produce more products with less material and less labour.

iii) Improve working conditions - workers will be more comfortable.

iv) Increase safety - since workers have more room, accidents will occur less often and involve fewer people if they do happen.

v) Improve the way materials are handled - raw materials will be located in the right places; they will not have to be moved as far.

vi) Reduce wasted space - each part of the floor space will be used in the best way.

Activity

How can you simplify the work in your plant?

Work simplification enables manpower to be used efficiently. By simplifying the working methods, you will reduce costs and increase production. Ask yourself the following questions about each operation in your plant.

1. What is the purpose of the operation?
   - i) Why is it being done?
   - ii) Can part or all of this operation be dropped?
   - iii) Does operation make products more useful or easier to sell?
2. Can the design of the part or product be changed so that it needs less work?
   - i) Can other parts be used?
   - ii) Can the part be made by a simpler method?
3. How good is the layout of the work area?
   - i) Does the material move in and out smoothly?
   - ii) Are materials and equipment located in the best places?
   - iii) Could the location of tables and benches be improved?
4. Are the right equipment and tools being used?
   - i) Are the machines well-maintained?
   - ii) Is the equipment either too big or too small?
   - iii) Are operations which could be done faster and better by a machine being done by hand?
5. What work methods are being used?
   - i) Is the worker located in the right place?
   - ii) Would specially designed benches or tables help production?
   - iii) Is time being wasted in waiting for or hunting for tools or materials?
   - iv) Does the worker have a realistic workload?

6. Are the right materials being used?
    i) Could you speed up production by buying the same materials in a different form?
    ii) Could a different material be used?
7. Are materials being handled properly?
    i) Can materials be handled during slack periods in the operation?
    ii) Can re-handling and recounting of materials be avoided?
8. What are working conditions like?
    i) Is the lighting bright enough?
    ii) Is the temperature of the room right?
    iii) Is the work area clean or messy?
9. Are the workers properly trained and supervised?
    i) Who does the training? Is he the right man?
    ii) How is training done?
    iii) How are instructions given to workers?
    iv) Can the operation be broken down into smaller details so that less training and supervision are needed?

You will have better efficiency and bigger profits in your production plant if there is an efficient layout of men, materials and equipment in the plant and good work methods (simple and fast work procedures).

2.6 Production Planning and Control

2.6.1 Components of a Production Plan

The important parts of production planning are:

i) **Raw materials:** These are materials or components needed to make a product.

ii) **Labour planning**: This involves the determination of the number of workers, skills and wages/salaries of the labour force.

iii) **Costing**: This is the determination of the total cost of producing one product, including cost of materials, direct labour and overhead involved.

iv) **Plant location**: The site of the plant chosen should be viewed in relation to other equipment or facilities in the environment.

v) **Office space**: This refers to the amount of office space required for the key personnel to operate. It is important that this is known and it should be charged as a fixed cost.

vi) **Capital equipment**: The number or list of equipment needed in the manufacturing process should be known. It should also be clear whether the equipment is to be rented, or built or purchased. Compliance with health and safety regulations is another consideration for the equipment which has to be looked into.

vii) **Work scheduling:** This is important because it is the only way of ensuring that every worker has enough work at all times. The scheduling should be done properly so there are no loopholes that make the workers idle at certain times.

viii) **Waste disposal** is the placement of waste into or on the land. Disposal facilities are usually designed to permanently contain the waste and prevent the release of harmful pollutants to the environment. The most common method of solid waste disposal is by landfill, where waste is placed into the land. Another waste disposal method used to manage liquid waste is injection wells in which liquids are disposed deep underground. Injection wells are also carefully monitored to ensure that buried wastes do not affect drinking water resources. All business units should carefully plan on how to manage their Wastes.

ix) **Packaging** refers to wrapping, crafting, filling or compressing of goods to protect them or handle, transport, use and preserve them more easily. A business enterprise should plan on the type on packaging to be used.

Generally, the owner of a small manufacturing business must seek a high level of productivity together with efficiency. In most small manufacturing companies, labour costs form a large part of the cost of making the product. Anything done to increase productivity will help the company make profit. One way to tell if the operations are gaining in productivity is by keeping regular records.

2.6.2 Production Control

The term production control implies the existence of a production plan. It is therefore the means to monitor the execution of the production plan in order to achieve its objectives. In most cases, production control is a built-in system in the production plan. Hence its implementation for a small scale production is within the processes/stages of production. The control function helps to give feedback on how smooth production activities are being carried out. Through this way, corrective measures can be taken at the appropriate time.

2.6.3 Important Aspects in Production of Goods and Services

There are various production-related factors, which are quite important and therefore, must be carefully considered in the entrepreneurs' production process. These aspects are discussed below.

a) **Quality control.** No business enterprise can be successful without providing a product of the right quality as demanded by customers. In order to achieve high quality products, an enterprise has to aim at having zero defects in all areas of its operations. This requirement will help in having regular control over raw materials and production processes so as to get quality finished products. Such control is what is referred to as quality control. This control offers the following advantages:

   i) It helps in improving the brand image of the enterprise.

   ii) It facilitates standardisation.

   iii) It helps to reduce costs.

   iv) It enables the enterprise to determine its product costs and prices at competitive levels in advance of production.

   v) It enables the enterprise to comply with standards prescribed by responsible supervisory authorities like Uganda National Bureau of Standards (UNBS).

b) **Technology and technical skills for the production process.** In this modern era, technology is changing very fast and therefore enterprises with superior technology often have an edge over their competitors. The choice of technology to use is a very crucial decision in an enterprise as it is bound to have a long term and lasting impact on the future of the enterprise.

c) **Production process.** The aim of every manufacturing enterprise is to increase productivity. This means that whatever is spent on production should generate the maximum output possible. If this is accompanied by favourable prices, then the enterprise's profitability will be very high. This can only be possible if the costs of production are brought down. Organising the production process is one of the factors that help to bring down the costs of production. The following ways can help an entrepreneur to keep his/her costs of production as low as possible:

   i) The production methods employed should be thoroughly studied to ensure that they are efficient and effective.

   ii) Supporting facilities like tools and fixtures should be introduced wherever possible to ease the process of handling work.

   iii) Time standards should be fixed for all operations. For any operation or process, minimum and maximum time should be noted and then time for the process standardised.

   iv) The time gap between placing of an order and receiving the materials should be established to ensure that raw materials and other supplies are received on time and that they do not disrupt the production processes.

   v) Storage bins should be numbered for easy reference and retrieval.

   vi) The process layout should also be studied to ensure that slack times are removed, repetitive operations and movements are avoided, and that the layout and organisation of work promotes efficiency and effectiveness.

   vii) The employees' duties and responsibilities should be specified to minimise conflicts, duplication, lack of coordination and wastage of other resources. In the choice of the production methods, the aim should be to meet the customers' needs, but also to ensure that he/she increases the business productivity. Production should be done at the minimum costs while sales revenue should be as high as possible.

Case Study: Kagoma Aluminium Saucepans Ltd

Kagoma Aluminium Saucepans Ltd makes aluminium saucepans of varying sizes. The pans are sold in sets of 3 to 7 sizes. Each saucepan is formed in a single stroke of a stamping press. A stamping press is a machine about 3m high which can move a vertical piston through a stroke of about 70cm, exerting many hundreds of kilograms of force per cm^2 of area. For each saucepan, the press operator centres a circular disc of aluminium of the proper diameter over the hollow half of die. The formed pans are put through various disbursing, cleaning and buffing operations before being stored temporarily until they are made up into sets and placed in the warehouse. The owner, Mr Kagoma, believes that in every process, except the stamping one, he can increase the output by employing additional workers.

Equipment

The only equipment in the factory consists of four huge stamping presses. The owner pointed out that presses 01, 02 and 03 are all of about the same size, and smaller than press 04. "The three smaller presses are only able to draw pans up to 23cm in size. These pans are all made from thin aluminium discs. Press 04 can handle any size of pan but is particularly useful for the three largest sizes, which use thick aluminium, and therefore require more pressure." Although the owner was unable to give an estimate of the standard operating rate for the machines, he was happy to supply the record of the previous Friday's production record on our visit. The record kept by four observers each of whom observed a different press for 30 minutes, are summarised in Exhibit 2 below.

Labour

In addition to four press operators, the normal workforce of the factory included 12 to 14 other workers. They perform all other production processes, move raw materials, conduct work in process, and man the storeroom. The owner directs all the workers. He treats the operator of press 04 (his most experienced man), as a "lead" worker to oversee things when he is absent from the factory floor. Each press operator makes his/her own set-up changes at intervals of a few hours, as the owner/manager tries to keep his stocks in balance.

Marketing

The owner could only guess about the total size of the market for saucepans. He said, "We have operated hand-to-mouth for three months. Since I took over, I have tried to catch up with demand. I believe that the former owners produced a total of 15,000 sets in the last full year of operation. Apparently, those sales consisted of about 11,000 of set 01, 3,000 of set 02, and 1,000 of set 03. The demand still seems to run in about those proportions, but I suspect that sales might reach 20,000 sets annually if we can supply that many."

Raw materials

Saucepans are a basic necessity of life. The company has been allowed to import as many aluminium discs as they can process. It is these imported discs that are being used. According to the owner, locally made aluminium discs are available at substantially lower prices than the imported discs. The local supplier makes his discs from reprocessed scrap aluminium. (See Exhibit 3 for raw material and scrap prices). The owner said that he did not like to use the local discs, because scrap rates are around 50% of local aluminium. But, the material tends to catch and tear in the presses rather than drawing smoothly into the pan shape. They have continued to experiment with local aluminium in case imports suddenly become unavailable.

Exhibit 1: Production for the previous Friday

Hours	**Presses**			
	01	02	03	04
8.00 - 10.00	400 (15cm)	360 (17cm)	320 (19cm)	160 (25cm)
10.00 - 10.30	**Coffee/Break**			
12.30 - 1.30	Set-up	360 (17cm)	320 (19cm)	Set up
	LUNCH HOUR CHANGE			
1.30 - 3.00	200 (21cm)	Set-up	200 (19cm)	60 (37cm)
3.00 - 3.30	**Tea Break**			
3.30 - 5.00	200 (21cm)	180 (23cm)	Set up	60 (37cm)

Total Daily Production by Size				
13cm	400	23cm	180	
17cm	720	25cm	160	
19cm	880	31cm	0	
21cm	400	37	120	

Exhibit 2: Presses in operation

Press and Size	Production During Six Minute Intervals						
	1	2	3	4	5	6	Scrap
01 (21cm)	13	12	17	2	18	10	7 Units
02 (23cm)	10	9	11	12	8	10	5 Units
03 (15cm)	0**	0**	20	22	18	24	2 Units
04 (37cm)	3	2	0***	0***	4	4	3 Units
Total all sizes	**2,860**						

Note:

* Workers paused for a short break.

** Press set-up still being changed.

*** Press stopped for adjustment of die.

Exhibit 3: Raw material prices, July (2011)

Discs for	Imported (Shs)	Local (Shs)	Value as Crop (Shs)
15cm	4,400	2,500	1,500
17cm	5,700	3,250	1,950
19cm	7,100	4,050	2,400
21cm	8,600	4,900	2,950
23cm	10,200	5,800	3,500
25cm	18,400	10,500	6,300
31cm	28,300	16,150	9,700
37cm	400/300	23,000	13,800

Activity

1. How many saucepans could be made in 1 week (5 working days)?
2. What was the main raw material and what was its main source?
3. Provide a brief description of the production process and facility layout.
4. Describe the manufacturing processes and production plan layout.
5. What was the market/demand for the company product(s)? How was this verified?
6. In what ways is the imported raw material superior to local ones?

Case Study: Operating a Hardware Store

Ahmed purchased a hardware store about six months ago. He has been curious because his profits have not been as high as the previous owner claims his were. Ahmed decided to check things out so he took a physical inventory and discovered a shortage of about Shs 125,000. He feels that much of the loss is in auto accessories and small tools, but is not sure because he does not break sales out by department.

Ahmed has two full time employees and a part-time high school student. He does all the ordering himself but relies on the part-time worker to check in the merchandise and apply the price to stickers. He often works the floor but seldom rings up the actual sales as one of the full time employees is always at the register.

Activity

1. What are the possible explanations for the inventory shortage?
2. What can Ahmed do to discover where his merchandise is going?
3. What controls can Ahmed initiate to make sure that the losses do not continue?

Case Study: Chichi Production Ltd

Ms Chichi inherited from her father a small household goods manufacturing enterprise. Through her extraordinary talent in setting up an imaginative sales program, Ms Chichi succeeded in profitably developing the company's sales from Shs 200,000 to Shs 2,000,000 per year from 1984 to 1966. Because of the attractiveness of the profit margins to distributors of her products, viz., wholesalers and retailers, she was able to expand her business by opening factories in several regions. Her enterprise grew to Shs 8,000,000 of sales with four factories, a national wide distribution network, and approximately 200 employees.

Background

Ms Chichi is 30 years old. She went through her secondary school education. Upon completing in 1990, she joined university where she graduated in 1999. She then joined her father as his financial controller and accounts head. She now heads her father's family business.

Company growth

Throughout the company's growth stage, Ms Chichi found it difficult to delegate authority, a key management function. When the enterprise was small, Chichi made all financial decisions on new products, advertising, pricing, sales plans and organisation, hiring, operating budgets, production plans, capital expenditures, purchase orders above Shs 100,000, credit given to distributors and other matters.

Long before the company grew to its present size, the key functional managers, Ms Chichi's assistant, the business and factory manager and the sales managers became frustrated by the bottlenecks in the owner/manager's office. They finally approached an outside professional consultant who was close to Ms Chichi and asked him to help solve the problem. When the consultant investigated their complaints, he found them to be justified. He also found Ms Chichi to be receptive to the idea of delegation. She knew the principles of delegation, and was aware of the importance of delegating. He came to the conclusion that Ms Chichi's unwillingness to delegate was due to a justifiable fear of losing control over the enterprise's operations.

Activity

1. Identify and comment on Ms Chichi's management style.
2. Which functional areas did Ms Chichi attach importance?
3. What were Ms Chichi's goals?
4. Advise on Chichi production's oriented organisational structure. What was the labour force at the enterprise?

2.7 Costing of Production

2.7.1 Cost of production

These are the expenses incurred when producing goods and services. These expenses can be looked at in their different types as follows:

Prime cost: The term 'Prime Cost' includes all expenses directly chargeable to a particular job. It is made up of direct labour, direct material and other direct charges (refer to (a), (c) and (d) under Elements of Costing).

Work costs: Work costs include all expenses necessary to produce the various articles, including work management expenses, technical expenses, supervisory and clerical staffs, labourers, rent, charges for power, machine operating expenses, and depreciation allowance on premises, machinery, tools and fixtures. The works cost is made up of items (*a*) to (*e*) under the Elements of Costing.

Total manufacturing cost: The 'total manufacturing cost' includes all the costs which are incurred in production of goods in an industrial organisation. Total manufacturing cost is therefore the sum of the prime cost and work costs.

Administration, selling and distribution cost: This includes all office expenses plus the expenses incurred in selling and distribution.

Total or gross costs: This includes all the administration charges plus the cost of distribution and selling. The gross cost of any component becomes: Total or gross costs = Total manufacturing costs + Administration, selling and distribution costs.

2.7.2 Elements of Costing

An analysis of the various items, which together form the final selling price of a manufactured article sold by a small manufacturing unit at a profit, shows the following:

i) Direct labour,
ii) Indirect labour,
iii) Materials used directly for the job,
iv) Other direct expenses,
v) Management expenses,
vi) Administration, including general office expenses,
vii) Selling charges,
viii) Distribution costs and
ix) Profits.

2.7.3 Projected Production Statement

Introduction

The expression 'cost of production' relates to the manufacturing costs only. It excludes storage of finished goods, packing, dispatch, advertising and administrative expenses. The ascertainment of manufacturing costs for small industry products is of great importance to business operations. No industry small or big, can survive long in the intensively competitive conditions of today without having clear knowledge of cost of production functions at various stages of their business operations. It provides detailed and relevant cost figures for determining the selling price of products or services. It also determines the controlling efficiency of a business unit. Cost of production is an indicator of the efficiency and profitability of a business unit, as it establishes the cost-volume-profit relationship. In a small scale manufacturing unit, it provides data for estimating the costs at various stages of production and distribution of goods and services.

Example: The following illustration will help you understand the concept of various costs discussed above.

A manufacturer of light engineering goods is operating a job costing system. The books of accounts have shown the following expenses for the year. Draw a statement showing the sub-divisions of the total cost.

Item	Amount	Item	Amount
1. Wages	85,500,000	10. Machinery repairs	5,700,000
2. Materials used on job	100,000,000	11. Machinery depreciation	12,800,000
3. Hire of crane for job	1,400,000	12. Wages to storekeeper	800,000
4. Power	10,100,000	13. Workers' salaries	5,400,000
5. Light (factory)	1,800,000	14. Auditor's fees	200,000
6. Wages	24,200,000	15. Office salaries/ expenses	2,900,000
7. Rent	4,600,000	16. Postage and stationery	600,000
8. Salaries to salesmen	9,200,000	17. Driver's wages	4,00,0000
9. Travelling expenses	2,800,000		

Solution

Statement showing total cost for the year ending

Items	*Amount*
Direct material cost	100,000,000
Direct wages	85,500,000
Direct expenses	1,400,000
Prime cost (A)	
Total	186,900,000
Indirect wages	24,200,000
Rent	4,600,000
Workers salaries	5,400,000
Storekeepers' wages	800,000

Power		10,100,000
Light		1,800,000
Machinery repairs		5,700,000
Machinery depreciation		12,800,000
Work cost (B)		65,400,000
Total manufacturing cost (C)	252,300,000	
Auditor's fees		200,000
Postage and stationery		600,000
Office salaries and expenses		2,900,000
Administration overhead (D)	3,700,000	
Salesmen's salaries		9,200,000
Salesmen's allowances etc.		2,800,000
Drivers' wages		4,000,000
Selling and distribution cost (D)	16,000,000	
	19,700,000	
Total or gross cost (E)		272,000,000

2.7.4 Methods of Costing

Different industries follow different methods for ascertaining cost of their products. The method to be adopted by a business organisation will depend on the nature of the production and the type of output.

The following are the important methods of costing.

i) **Job costing:** Job costing is concerned with the finding of the cost of each job or work order. This method is followed by these concerns when work is carried on by the customer's request, such as printer general engineering workshop. Under this system, a job cost sheet is required to be prepared to find out profit or losses for each job or work order.

ii) **Contract costing:** Contract costing is applied for contract work like construction of a dam; building civil engineering contract, etc. Each contract or job is treated as separate cost unit for the cost ascertainment and control.

iii) **Batch costing:** A batch is a group of identical products. Under batch costing, a batch of similar products is treated as a separate unit for the purpose of ascertaining cost. The total cost of a batch is divided by the total number of units in a batch to arrive at the costs per unit. This type of costing is generally used in industries like bakery, toy manufacturing, etc.

iv) **Process costing:** This method is used in industries where production is carried on through different stages or processes before becoming a finished product. Costs are determined separately for each process. The main feature of process costing is that output of one process becomes the raw materials of another process until a final product is obtained. This type of costing is generally used in industries like textile, chemical, paper, oil refining, etc.

v) **Service (operating) costing:** This method is used in those industries which render services instead of producing goods. Under this method, cost of providing a service is also determined. It is also called service costing. Organisations such as water supply department and electricity department, are the best examples of using operating costing.

vi) **Operation costing:** This is suitable for industries where production is continuous and units are exactly identical to each other. This method is applied in industries like mines or drilling, and cement works, etc. Under this system, cost sheet is prepared to find out cost per unit and profits or loss on production.

vii) **Multiple costing:** It is a combination of two or more of the above methods of costing. Where a product comprises many assembled parts or components (as in case of a motor car), costs have to be ascertained for each component as well as for the finished product. For different components, different methods of costing may be used. It is also known as composite costing. This type of costing is applicable to industries producing motor vehicle, aeroplanes, radio, TVs, etc

2.7.5 Ways of Minimising Costs and Maximising Profits

An entrepreneur can minimise costs in the following ways:

i) Paying labour a low wage
ii) Making labour work for long hours
iii) Reducing fringe benefits for labour
iv) Buying raw materials from the cheapest source
v) Avoiding unnecessary costs
vi) Employing few workers

An entrepreneur can maximise revenue by charging the product/service the highest possible price and minimising credit sales.

2.8 Specific Business Control Systems

2.8.1 Mechanism for Controlling Business Assets

The assets which need protection often by multiple systems include:

a) **Cash**

i) All cash should be recorded on sequentially numbered sales slips. Each customer should get a receipt.

ii) You should utilise a daily cash reconciliation worksheet to record all cash receipts and the cash register or sales slips totals.

iii) Do not accumulate cash. If you handle large amounts of cash in your business, you should have a private area for counting your money. You should make frequent trips to deposit the money in your bank.

b) **Accounts receivable**

i) Maintain a file of accounts receivable cards with one card for each active account. All charge sales and amounts received on account should be posted daily so that you always have current balance due.

ii) Analyse your accounts receivable on a regular basis and write letters or make phone calls to accounts that are slow in paying.

c) **Inventory of merchandise for sale or raw materials**

i) Set up a perpetual system with a card for each item. Record all sales/receipts on the card. Enter balance on hand after each transaction.

ii) Take a physical count of inventory at least once a year and post the actual amounts to the cards to determine the shilling value of inventory storage.

iii) Place valuable inventory items in a safe or locked storage room and require that all items removed be recorded in a sign-out book.

iv) If you deal in appliances, auto or other items with serial numbers keep an inventory file on cards by number so that you can then enter the name and address of purchasers. If your merchandise is stolen, the serial numbers can be invaluable in getting the items recovered.

v) Analyse your inventory control cards to determine frequency of use or sales. This data is extremely valuable when it comes to reordering stock or buying new merchandise lines. Buy in amounts which will allow you to keep your stock moving, but set a minimum stock level for each item so that you reorder in time to get delivery before you run out of the item.

d) **Physical assets**

i) Maintain a file of information on all buildings and building improvements, vehicles, furniture, office machines, machinery and tools that you expect to last more than one year.

ii) Maintain a depreciation schedule listing all depreciable equipment and showing your method and amount of depreciation claimed for each year in the life of each item.

e) **Customer merchandise**

i) Keep a file by date on which completed work was promised. If the items are not picked up, call or send a letter to remind the customer.

ii) Do not release goods unless you get cash, a cheque or a signed promise to pay.

2.8.2 Internal Control Systems of Small Businesses

Control over business operations may be exercised in the following areas:

a) **Purchasing**

i) If possible buy from at least two suppliers to keep a check on prices. You will then have an established relationship in case one of your suppliers is affected by a strike, shortage of materials, fire, storm or other event that could leave you without merchandise for your customers if you only had one supplier.

ii) Keep your eyes open, talk to salespeople, read trade magazines, and visit trade shows to determine new products that you should be carrying and to see how marketing trends might affect your present business.

b) **Quality control**

i) Spot check your merchandise to make sure it is up to your own quality standards with respect to the price.

ii) Keep an eye on your merchandise. If you spot slow moving items, reduce the price to get rid of them so you can keep faster moving items on your shelves.

iii) Survey your customers from time to time to determine if they are satisfied with your level of product quality and service.

iv) Discuss merchandise returns with customers to determine the source of their discontent. Do not embarrass them for bringing an item back. You may be able to sell the customer something else, but more important your attitude may well determine whether the customer will want to do business with you in the future.

c) **Employee morale**

Unhappy employees may convey their discontent to your customers. Keep an open channel of communication so that you are made aware of any problems which might reduce efficiency or cause employees to quit/sabotage your business.

d) **Financial analysis**

i) Divide your business into logical profit centres if you are performing more than one function or selling multiple product lines. Establish a record keeping system that allows you to segregate your income and purchases and allocate your operating expenses to the various profit centres so that you can get a profit and loss statement for each. Try to reduce costs and increase sales. Eliminate unprofitable operations.

ii) Compare your operating costs and profits with other similar businesses or industry averages to find areas for improvement.

e) **Cost controls**

i) Analyse your labour efficiency to see if your workers are performing up to their ability. Higher wages for more experienced workers should be reflected in more output or higher quality.

ii) Look for ways to cut frills added extras out of your business without lowering customer satisfaction. Get to know your customers and determine what they really expect from you and how much they are willing to pay.

iii) Continually scrutinise your operating expenses to find ways to reduce costs through more efficient tools, methods or materials.

f) **Sales**

i) Set sales quotas and keep track of your sales. Find out what motivates your employees to perform up to their full potential.

ii) Check the effect of seasonal variation on your sales and examine ways of smoothing out your sales to achieve better utilisation of your facilities throughout the year.

iii) Learn how to advertise your business correctly and efficiently.

g) **Pricing**

i) Be sure to set your prices high enough to provide a gross margin that allows for a reasonable profit after your expenses are met.

ii) Ensure that your prices are in line with competition so that you do not lose sales on the one extreme or go broke on the other. Check your competition frequently and ask your customers if they are satisfied.

iii) Mark down end of season merchandise to get rid of it. You may be able to develop two different types of customers, those who are price conscious and will only buy merchandise at a reduced price and those who are not. You may need both types of customers in your business.

2.9 Technology in Production

Technology means the practice of any or all of the applied sciences that have practical value and/or industrial use. In short, technology is the "How" of doing something.

2.9.1 Types of technology

Generally there are two main types of technologies namely local or indigenous technology and advanced technology.

i) **Indigenous technology**

This is the art developed within a country and passed over the years from generation to generation, often with no development or improvement.

ii) **Advanced technology**

This is that which has been developed from modern scientific principles. This may even be a home-based technology.

Technology can also be classified as:

- Adapted technology
- Transferred technology
- Appropriate technology

An entrepreneur needs to make use of appropriate technology; which means that the technology applied must be relevant to the needs of the localities as opposed to the use of adapted or transferred technology from advanced countries which could be inappropriate to the needs of the entrepreneur.

Problems associated with the use of inappropriate advanced technology include inadequacy of technical expertise and capital to operate the machinery. The maintenance of machinery and equipment is often costly, owing to misuse, electricity voltage fluctuations and dust.

2.9.2 Factors Influencing the Choice of Technology

The choice of technology is influenced by a variety of considerations. These include:

a) **Plant capacity**

This may be defined in two ways.

i) **Feasible normal capacity**

This refers to capacity attainable under normal working conditions which may be established on the basis of the installed capacity, technical conditions of the plant, normal stoppage, down time for maintenance and tool changes, holidays and shift patterns. The feasible normal capacity usually refers to the volume or number of units that can be manufactured during a given period.

ii) **Normal maximum capacity**

This is the capacity which is technically attainable and often corresponds to the installed capacity guaranteed by the supplier of the plant.

However, several factors always influence technology decisions namely:

i) Technological requirements

For many industrial projects particularly in processing industries, there is a certain minimum economic size determined by the technological factor. For example, a cement plant should have a capacity of at least 300 tonnes per day.

ii) Input constraints

In developing countries, there may be constraints on the availability of certain inputs such as power supply fluctuations, scarcity of basic raw materials and inadequate foreign exchange for imports.

iii) **Investment cost**

The relationship between capacity and investment cost is an important consideration, since investment cost per unit of capacity decreases as the plant capacity increases. The initial cost of the technology is therefore, a major factor determining choice of technology.

iv) **Market conditions**

If the market for the product is likely to be strong, a plant of higher capacity is preferable. If, however, the market is likely to be uncertain, it might be advantageous to start with a smaller capacity plant and make provisions for expansion with the growth of the market.

v) **Resources of the business**

The resources, managerial and financial, available to a business define a limit to its capacity decision since they can determine the capability of obtaining a specific type of plant.

vi) **Government policy**

The capacity level may be constrained by governmental policy which may require a license and approval for operation.

***vii)* Availability of spare parts**

Entrepreneurs usually prefer to use technology whose spare parts are readily available to that whose spare parts are scarce.

***viii)* Skilled manpower requirement**

The technology to be used is determined by the availability of skilled manpower to operate it. If the manpower is available and inexpensive, then that is good technology.

Activity

1. How will the use of new technology increase market share?
2. How will technology affect business profits in the short term and long term?
3. Has a market study been conducted to determine the demand for the new product?
4. How long will it take for a new product to gain consumer acceptance?
5. Are personnel, materials and capital available to produce and market the new product?
6. Does the entrepreneur have enough knowledge and experience to introduce the new technology into the business?
7. How will the new technology affect the size and current operation of the business?
8. How will competitors react to the introduction of the new technology?
9. How will technology help an entrepreneur save time or do their job more effectively?
10. How will technology reduce the use of raw materials/inputs and reduce negative effects on the environment?

2.10 Structuring Time for Increased Productivity

i) **Making productive use of your "hidden" time**

"Hidden" time is time that you previously mismanaged, consumed with distractions, or used for other tasks or activities that you turn into productive time for pursuing your priority tasks. What are your "hidden" times? Think about your average workday, weekday evening, or free day. Is there time you might reorganise into your "hidden" concentrated time? If necessary, create time logs and analyse how you spend your time. Identify any "hidden" times.

Hidden time may be moments or minutes that you turn into productive use just as much as blocks of time you structure in to your day. For example, you might use the five minutes you usually spend waiting for the bus, or the half hour waiting in someone's office, to plan, dictate, read, work on your laptop computer, return or receive calls on your cell phone, or just relax and meditate.

ii) **Using your energy highs and lows**

Another way to improve the way you plan and schedule a day is to become aware of your personal energy highs and lows. No two persons have the same biological rhythms - your neighbour may thrive on five hours of sleep a night but you feel like a zombie unless you get at least eight.

A primary consideration in planning and scheduling your day is, therefore, whether you are a morning, afternoon, or evening type of person (or some combination of the three), try to plan your time within your own energy cycles. Another concern is how much sleep you really need. You may need ten hours, or only five; there is no absolute rule about needing eight hours a day.

iii) **Executive time ('Nine to Fivers')**

Few people today are exactly "nine to fivers" since "start up" time -getting dressed, having breakfast, commuting back and forth - can aid or interfere with actual work time as much as how early you get to the office, how late you stay, and how much "after hours" studying, entertaining, or travelling you are expected to do.

Those in formal settings may benefit even more from stringent self checks. Much work may be so reutilised that one could mistakenly believe that their physical presence is equivalent to working. Your boss may tell you to do a report, and then ask you to do six other things. You let the report slide, complete the other things, and when she asks for that report, you say you need a little more time to polish it, and then write it in a hurry.

The telephone may be your biggest help, and your greatest annoyance. As the treasurer of a 550 employee freight company put it: "We have come full circle. Before the phone it was difficult to reach someone. With voice mail, we have the same problem."

To get around this, be as explicit as possible in your voice mail, or with your secretary, about when and how someone could reach you. A specific time, such as "I'll be back from my meeting by eleven tomorrow morning" or "Call after four p.m." is better than a general greeting without any useful details.

If you work in a structured traditional office setting, try to pinpoint the uninterrupted work periods available to you, for example, from arrival to lunch or from after lunch till departure. Then, except for necessary interruptions, use those blocks of work time to concentrate and accomplish your short and long term goals. Try to reserve fifteen minutes at the end of each day to review that day's "to do" list, noting where you achieved your goals, where you fell short, and setting your priorities for the next day. It may be counterproductive to your job, or to your personal needs, to frequently work outside your office. Good planning should minimise the frequency with which this occurs.

Remember, unrealistic deadlines should be revised well in advance of any due dates. You have to be as clear as possible about what deadlines you are capable of meeting. But you also do not work in a vacuum. Sometimes it is management, not you, that is guilty of imposing impossible deadlines.

Sometimes the best way to get the most work done at the office is to work around traditional office hours.

2.10 Effective Time Management/ Control

i) Spend time planning and organising

Using time to think and plan is time well-spent. In fact, if you fail to take time for planning, you are, in effect, planning to fail. Organise in a way that makes sense to you. If you need colour and pictures, use a lot on your calendar or planning book. Some people need to have papers filed away; others get their creative energy from their files. So forget the "shoulds" and organise your way.

ii) Set Goals

Goals give your life, and the way you spend your time, direction. Set goals which are specific, measurable, realistic and achievable. Your optimum goals are those which cause you to "stretch" but not "break" as you strive for achievement. Goals can give creative people a much-needed sense of direction.

iii) Prioritise

Use the 80-20 Rule originally stated by the Italian economist Vilfredo Pareto who noted that 80 percent of the reward comes from 20 percent of the effort. The trick to prioritising is to isolate and identify that valuable 20 percent. Once identified, prioritise time to concentrate your work on those items with the greatest reward. Prioritise by colour, number or letter - whichever method makes the most sense to you. Flagging items with a deadline is another idea for helping you stick to your priorities.

iv) Use a to do list

Some people thrive using a daily To Do list which they construct either the last thing the previous day or first thing in the morning. Such people may combine a To Do list with a calendar or schedule. Others prefer a "running" To Do list which is continuously being updated. Or, you may prefer a combination of the two previously described To Do lists. Whatever method works is best for you. Don't be afraid to try a new system - you just might find one that works even better than your present one!

v) Be flexible

Allow time for interruptions and distractions. Time management experts often suggest planning for just 50 percent or less of one's time. With only 50 percent of your time planned, you will have the flexibility to handle interruptions and the unplanned "emergencies." When you expect to be interrupted, schedule routine tasks and save (or make) larger blocks of time for your priorities. When interrupted, ask Alan Lakein's crucial question, "What is the most important thing I can be doing with my time right now?" to help you get back on track fast.

vi) Consider your biological prime time

That is the time of day when you are at your best. Are you a "morning person," a "night owl," or a late afternoon "whiz?" Knowing when your best time is and planning to use that time of day for your priorities (if possible) is effective time management.

vii) Do the right thing right
Noted management expert, Peter Drucker, says "doing the right thing is more important than doing things right." Doing the right thing is effectiveness; doing things right is efficiency. Focus first on effectiveness (identifying what is the right thing to do), then concentrate on efficiency (doing it right).

viii) Eliminate the urgent
Urgent tasks have short-term consequences while important tasks are those with long-term, goal-related implications. Work towards reducing the urgent things you must do so you will have time for your important priorities. Flagging or highlighting items on your To Do list or attaching a deadline to each item may help keep important items from becoming urgent emergencies.

ix) Practice the art of intelligent neglect
Eliminate from your life trivial tasks or those tasks which do not have long-term consequences for you. Can you delegate or eliminate any of your To Do list? Work on those tasks which you alone can do.

x) Avoid being a perfectionist
In the Malaysian culture, only the gods are considered capable of producing anything perfect. Whenever something is made, a flaw is left on purpose so the gods will not be offended. Yes, some things need to be closer to perfect than others, but perfectionism, paying unnecessary attention to detail, can be a form of procrastination.

xi) Conquer procrastination
One technique to try is the "Swiss cheese" method described by Alan Lakein. When you are avoiding something, break it into smaller tasks and do just one of the smaller tasks or set a timer and work on the big task for just 15 minutes. By doing a little at a time, eventually you'll reach a point where you will want to finish.

xii) Learn to say "no"
Such a small word - and so hard to say. Focusing on your goals may help. Blocking time for important but often not scheduled

priorities such as family and friends can also help. But first you must be convinced that you and your priorities are important - that seems to be the hardest part in learning to say "no." Once convinced of their importance, saying "no" to the unimportant in life gets easier.

xiii) Reward yourself

Even for small successes, celebrate achievement of goals. Promise yourself a reward for completing each task or finishing the total job. Then keep your promise to yourself and indulge in your reward. Doing so will help you maintain the necessary balance in life between work and play. As Ann McGee-Cooper says, "If we learn to balance excellence in work with excellence in play, fun, and relaxation, our lives become happier, healthier, and a great deal more creative."

2.10.2 Personal inventory on attitude towards time

Time management planning

Time management is a technique for allocation of the manager's own time through setting goals, assigning priorities, identifying and eliminating time wasters and use of managerial techniques to reach goals efficiently.

Time is a unique resource because everyone has 24 hours a day and 168 hours a week—no more, no less.

There is no such thing as lack of time; there is just lack of planning. Efficient time management involves organisation and planning, which can result in accomplishing a great deal. Planning the use of every minute is important even if some of the time is used for doing nothing, as long as all important tasks are provided for.

Once time is lost or wasted, it cannot be recovered. Inefficient time management causes people to waste a very important resource. Time cannot be stored, it has to be used up or it will slip away. TIME IS FINITE; if you waste time you lose it.

Managers provide plans for others by setting strategies, policies and procedures, yet they tend to devote insufficient time to this important function. This tendency is a direct result of the pressures faced by managers to get the job done in the present and the manager's feeling that time is not available to do everything. They therefore need to plan the use of their own time. Time is a universal constant; we cannot slow it down, speed it up, hoard it, or borrow it. Thus, managing time really means managing ourselves.

Time-management is a full planning technique because:-

i) It deals with the manager's time

ii) It is a technique by which each manager is challenged to use his/her time more efficiently and avoid setting time standards for others and not allocating him/herself time.

iii) It is a general purpose technique for systematising one's own efficiency without undue sophistication.

Case Study

Tina comes home from school and looks over her homework assignments and estimates that she has about three hours' worth of work. She arrives home at 2:30 pm, changes into jeans and listens to the end of her favourite radio show until 3:00 pm. Then she does her household chores until 4:30 pm, after which she helps prepare dinner, eats and helps wash the dishes. From 6:00 pm until 8:00 pm, she listens to the radio again. She starts her homework at 8:00 pm and has to stop at 9:30 pm because that is her bedtime. Before she goes to bed, she thinks about the fact that her homework is not done and what kind of problems she will have with her teachers.

Activity

1. What is Tina's problem?
2. What very important resource is she wasting?
3. What can Tina do to handle the problem?
4. Is your schedule anything like Tina's and do you have the same problem?
5. What could you do to manage your time more efficiently and to accomplish more tasks?
6. Develop a schedule for Tina that would solve her problem.
7. List some other consequences of poor time management.

Tips on Time Management

i) Efficient time management means that you must organise and plan. To get the most use out of the available time you have each day, set your priorities (what is most important) and do the most important things first.

ii) Activities tend to fall into three areas: (a) things that must be done, (b) things that should be done, and (c) things that are least important or do not have to be done at all.

iii) It is recommended that you make a list of all things that you want to accomplish in a day. Then set up a rating system for your list, for example: "A" for the most important things, "B" for the things that should be done, "C" for the least important things. You should only complete the "C's" if time allows but ensure that all the rest get done.

iv) Following a schedule helps to control the time needed to complete tasks. It is sometimes necessary to adjust a time schedule due to unforeseen circumstances.

Activity

1. Make a list of your personal, family, school, and work activities.
2. Choose five activities you would like to accomplish by the end of the day. Rank each activity by level of importance (A, B, C) and indicate how much time is needed for each activity.
3. Set up a schedule for the day to complete these activities.
4. Did your schedule work? How would you change your schedule to make it work better for you? Would you spend less or more time on a particular activity? Would you omit or change an activity?

Time management techniques

i) Identify goals: Make sure you understand what you want to accomplish each month, week and day. List your work goals in order of importance. Start working on your most important goals first, setting aside all other work until this is achieved.

ii) Self-motivation: Entrepreneurs should be able to motivate themselves to produce high output in work which they have to do within a specific time frame.

iii) Establish a deadline: More work can be done if you set specific deadlines to achieve certain tasks. Make sure that the deadlines are realistic.

iv) Take notes: Keep a notepad handy at all times. Record thoughts and ideas and jot down such things as names, telephone numbers, future appointments and things to do.

v) Be goal-oriented: You should do those activities which lead to significant results. Be selective in your work activities and try not to do everything.

vi) Work in blocks of time: Try to do major tasks in blocks of time (three or four hours) during the period of the day when you feel most effective.

vii) Ask questions before work: Before beginning to work, make sure you have answers to such questions as: What? Where? Who? How? Why?

viii) Be action-oriented: Once you have decided to solve a specific problem, outline your specific course of action and then do it.

ix) Be reflective: Reflective thinking is the act of learning from one's past, present and potential future activities.

x) Plan in detail for tomorrow: At the end of each day's work, prepare a time schedule for the following day's activities.

xi) Question yourself on time using: In order to manage time properly, question your use of time.

Better management of time would include activities such as:

i) Having alternative plans

ii) Choosing the quickest, safest and most convenient time and mode of travel

iii) Making decisions quickly

iv) Keeping diaries

v) Selecting priorities

vi) Delegating duties

vii) Avoiding unnecessary interruptions

viii) Conducting meetings properly

ix) Reducing paper work

x) Choosing useful reading materials

xi) Avoiding queues

Analysing your use of time

Developing a time chart to write down specific activities is one way of determining whether your activities are essential or not. An example of such a time chart is given in the table on page 96. There is space for 16 hours of activities (the average number of hours most people are awake). The time chart is divided into 30-minute segments; it is your responsibility to indicate the hours in the "time" column, since people begin their daily activities at different times.

The time chart has space to record the time, activity, goal and outcome. Each activity performed should have a definite goal, with the result recorded in the "outcome" column. The length of "time" and "outcome" in relation to "goal" will give some evidence of the effectiveness of spending time on any given activity. At the end of each day, tick those activities which were not essential and try to avoid them in the future.

Learners should fill in a time chart for one week to show exactly how they spent their time in relation to goals. In some instances, learners may be doing things that are in no way related to their main goals. Only by being aware of the importance of time can learners make their activities purposeful. The box at the top of the time chart has enough space to indicate the main task for the day and the date. Concentrating on achieving the main task will help the learners to accomplish positive results by the end of each day.

If it is possible for learners to use a daily time chart for three or four weeks, they should be able to determine how much time they spend on various activities, the types of objectives they believe are important, and the outcome of their various activities. Weekends can be included.

There are many things that can be accomplished during the week. The results given on the time chart for a period of one week or longer can assist in reviewing past activities and provide guidelines for future activities so that time is used more efficiently.

Entrepreneurs can waste time by:

i) talking with people about personal matters unconnected with work;

ii) having unnecessary or extra-long group meetings;

iii) allowing too many interruptions;

iv) being disorganised;
v) engaging in little or no delegation;
vi) being indecisive; and
vii) being late or absent.

How do you spend your time?

TIME CHART			
Main task:			**Date:...................** **Day: ....**
Time	**Goal**	**Activity**	**Outcome**
:00			
:30			
:00			
:30			
:00			
:30			
:00			
:30			
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2.11 Packaging

Packaging refers to wrapping, crafting, filling or compressing of goods to protect them or handle, transport, use and preserve them more easily.

Importance of packaging

For packaging of a product to be successful, an entrepreneur must ensure that it is easy to use and open, is of practical size and has instructions which can be easily followed and understood. Packaging is important in the following ways:

i) **Protection:** Good packaging materials are usually strong enough to protect the contents from rough handling and external conditions.

ii) **Portability:** Well packed goods are easy to handle and transport especially liquids, cereals and flour. For example, soda bottles in a crate are easy to carry.

iii) **Provides relevant information:** Packaging provides important information to the public such as ingredients of the product as well as the manufacture and expiry dates.

iv) **Provides name of the producer:** Packaging provides the name of the producer which helps to make producers more responsible when producing goods. In case of any problem, the producers can be contacted for compensation or even sued.

v) **Preservation:** Packaging helps in preserving the contents. Goods especially food products and chemicals are protected against atmospheric germs and contamination.

vi) **Promotion:** Goods packed well and attractively create a good product image. This facilitates the selling of the product because the customer can easily identify the product through its appearance and then purchase it.

vii) **Portioning:** The products may be packaged in relatively small sizes according to weights, length, volume or common usage. This makes it easy to handle, use and better still, price. This also increases the products' appeal to a large section of customers, for example, children, adults, institutions and so on.

viii) **Distribution:** Packaged goods can easily be delivered to customers. For example mails.

ix) **Ease of selling:** Some packaged goods make it easy to sell the goods through different channels such as shops or automatic machines.

x) **Self-service:** This is also possible with packaged products.

xi) **Instructions labels** on packaged goods serve as a guide to educate the customers about the content and the usage of the product.

xii) **Product differentiation:** Packaging helps to make one's goods look different from those of the competitors.

2.11.1 Types of Packaging

The common types of packaging include:

i) Bottles and cans

ii) Bags (paper, polythene and plastic)

iii) Plastic containers

iv) Bales

v) Tins

vi) Boxes or cartons

The nature of goods determines the type of packaging that can be used on them. For instance, beer, soft drinks, juices, wine and other liquid products are put in bottles, tins, cartons, drums or cans. Cotton, jute and other bulky products are pressed into bales. Fragile goods like fruits, candles and butter are packed in boxes or tins. Thus, packaging makes it easy to handle the products, preserves them and also distinguishes them from others.

The different types of materials used for packaging include:

i) Metals - aluminium, tinplate and steel

ii) Plastic - polythene papers, jerry cans and bottles

iii) Wood – cartons and packing cases

iv) Paper - paper, board and corrugated board

v) Glass - bottles

vi) Laminates - aluminium foils and plastic films

vii) Polyesters

viii) Hessian/jute for bags, etc.

Factors considered when choosing packaging materials

i) Sources of packaging materials and supplies.

ii) Availability of the packaging materials in the required amounts.

iii) Unit cost of packaging materials required per production cycle and inventory levels to be maintained.

iv) Cost of packaging in relation to the value of the good being packaged.

v) Type of goods to be packed - liquid, solid or gas.

vi) Purpose of packaging.

vii) Means of transport to be used.

viii) Nature of the product.

Activity

1. Look around your school and identify the products that can be packaged. Suggest how you would package these products.
2. Design the packages for your products.
3. Outline the advantages and disadvantages of each type of packaging.

2.11.2 Product Life Cycle (PLC)

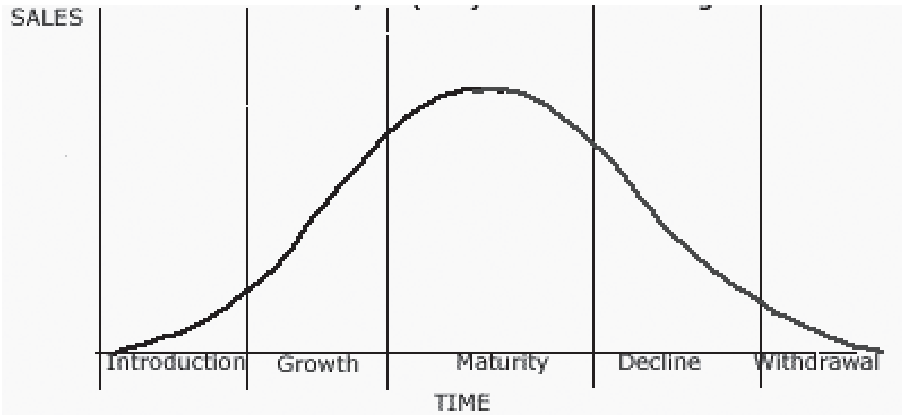
The period of time over which an item is developed, brought to market and eventually removed from the market. To say that a product has life is to assert four things.

1. That the products have limited life.
2. Product sales pass through distinct stages, each seller different challenges, opportunities and problems to the seller.

3. Profits rise and fall at different stages of product life cycle
4. Products require different marketing, financial, manufacturing, purchasing and human resource strategies at each life cycle stage.

Summarising major events during product life cycle stages

This provides a summary of the major differences between the stages in the Product Life Cycle with respect to sales, costs, profits, types of customers, and the nature of competition. The major events during the PLC stages are as follows:



a) **Introduction stage**

At the introduction (or development) stage, the market size and growth is slight. It is possible that substantial research and development costs have been incurred in getting the product to this stage. In addition, marketing costs may be high in order to test the market, undergo a launch promotion and set up distribution channels. It is highly unlikely that companies will make profits on products at the introduction stage. Products at this stage have to be carefully monitored to ensure that they grow. Otherwise, the best option may be to withdraw the product.

Characteristic of the introduction stage

i) Sales generally are low and somewhat slow to take off. Customers are characterised as 'innovators.'

ii) Production costs tend to be high on a per unit basis because the firm has yet to experience any significant economies of scale.

iii) Marketing costs required for creating customer awareness, interest, and trial and for introducing the product into distribution channels are high.

iv) Profits, because of low sales and high unit costs, tend to be negative or very low.

v) Competitors tend to be few in number, indeed there may be only one major player in the marketplace - the innovating firm.

b) **Growth stage**

The growth stage is characterised by rapid growth in sales and profits. Profits arise due to an increase in output (economies of scale) and possibly better prices. At this stage, it is cheaper for businesses to invest in increasing their market share as well as enjoying the overall growth of the market. Accordingly, significant promotional resources are traditionally invested in products that are firmly in the growth stage.

Characteristics of the growth stage

i) Sales increase rapidly during the growth phase. This increase is due to:

(a) consumers rapidly spreading positive word-of-mouth (WOM) information about the product;

(b) an increasing number of competitors enter the market with their own versions of the product; (

c) and a "promotion effect" through advertising and other forms of promotion to create market awareness, stimulates interest in the product, and encourages trial.

ii) Costs are declining on a per unit basis because increased sales lead to longer production runs and, therefore, economies of scale in production.

iii) Because sales are increasing and, at the same time, unit costs are declining, profits rise significantly and rapidly during this stage.

iv) Customers are mainly early adopters and early majority. It is the early adopter, specifically, that is responsible for stimulating the WOM effect. During the latter part of growth, the first major segment of the mass market, called the early majority, enters the market. This category of consumers is somewhat more price-sensitive and lower on the socio-economic spectrum. As a result, these consumers are somewhat more risk averse and, therefore, more hesitant to adopt the product.

v) Competition continues to grow throughout this stage. As the competition recognise the profit potential in the market, they enter the market with their own versions of the product. As competition intensifies, strategies turn to those that will best aid in differentiating the brand from those of competitors. Attempts are made to differentiate and find sources of competitive advantage. In addition, firms identify ways in which the market can be segmented and may develop focused marketing strategies for individual segments.

c) **Maturity stage**

The maturity stage is, perhaps, the most significant stage for all markets. It is in this stage that competition is most intense as companies fight to maintain their market share. Here, both marketing and financing become key activities. Marketing expenses have to be monitored carefully, since any significant moves are likely to be copied by competitors. The maturity stage is the time when most profit is earned by the market as a whole. Any expenditure on research and development is likely to be restricted to product modification and improvement and perhaps to improve production efficiency and quality.

The characteristics of the maturity stage

i) Sales continue to grow during the early part of maturity, but at a much slower rate than experienced during the growth phase. At some point, sales reach the peak. This peak may last for extended periods of time. In fact, the maturity phase of the life cycle is the longest phase for most products. As a result, most products at any given point in time probably are at maturity. And, most decisions made by marketing managers will be decisions about managing the mature product.

ii) Costs continue to rise during maturity because of market saturation and continually intensifying competition. When this slowing of sales is combined with the increasing costs associated with this stage, the result is that profits will have reached their highest level and must, from this point on, decline.

iii) The only remaining customers to enter the market will be the late majority and the laggards. These customer groups are by far the most risk averse and most hesitant to adopt new products. These price sensitive customers will not buy products until prices have dropped significantly. Many laggards, the last group to adopt, often do not do so until the product is virtually obsolete and in danger of being displaced by new technologies.

iv) Competition is most intense during this stage. The intensity of competitive in-fighting drives the changes in costs and profitability.

d) **Decline stage**

In the decline stage, the market is shrinking, reducing the overall amount of profit that can be shared amongst the remaining competitors. At this stage, great care has to be taken to manage the product carefully. It may be possible to take out some production cost, to transfer production to a cheaper facility or sell the product into other, cheaper markets. Care should be taken to control the amount of stocks of the product. Ultimately, depending on whether the product remains profitable, a company may decide to end the product.

Characteristics of the decline stage

i) Sales continue to deteriorate through the decline stage. And, unless major change in strategy or market conditions occur, sales are not likely to be revived. Costs, because competition is still intense, continue to rise. Large sums are still spent on promotion, particularly sales promotions aimed at providing customers with price concessions.

ii) Profits, as expected, continue to erode during this stage with little hope of recovery.

iii) Customers, again, are primarily laggards.

iv) There are, generally, a significant number of competitors still in the industry at the beginning of decline. However, as decline progresses, marginal competitors will flee the market. As a result, competitors remaining through the decline tend to be the larger, more entrenched competitors with significant market shares.

e) **Withdrawal**

At this point there is a downturn in the market. For example, more innovative products are introduced or consumer tastes change. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing expenditure and cost cutting.

Examples

Set out below are some suggested examples of products that are currently at different stages of the Product Life Cycle:

Introduction	Growth	Maturity	Decline
Third generation mobile phones	Portable players	DVD personal computers	Typewriters
E-conferencing	Email	Faxes	Handwritten letters
All-in-one racing skin-suits	Breathable synthetic fabrics	Cotton T-shirts	Shell suits
Iris-based personal identity cards	Smart cards	Credit cards	Cheque books

2.11.3 Problems with Product Life Cycle

In reality, very few products follow such a prescriptive cycle. The length of each stage varies enormously. The decisions of marketers can change the stage, for example, from maturity to decline by price-cutting. Not all products go through each stage. Some go from introduction to decline. It is not easy to tell which stage the product is in. Remember that PLC is like all other tools.

Term Two

3

Marketing Management

3.1 Marketing

Marketing involves identifying, anticipating and satisfying customer needs effectively and profitably. It encompasses market research, pricing, promotion, distribution, customer care, your brand image and much more. Selling is the process by which you accumulate as much information about the needs of your client as possible, and present your solution, while simultaneously marketing your company and your products.

Differences between selling and marketing

i) Marketing focuses on customers' needs while selling focuses on seller's needs.

ii) In marketing, a customer enjoys supreme importance, while in selling, a product enjoys supreme importance.

iii) In marketing, there is an integrated approach to achieve long-term goals while in selling there is a fragmented approach to achieve immediate gains.

iv) In marketing an entrepreneur converts customer's needs into a product, while in selling, he converts products into cash.

v) In marketing there is caveat venditor (let the seller beware) while in selling there is caveat emptor (let the buyer beware).

vi) In marketing, profits are realized through customer satisfaction; while in selling profits are realised through sales volume.

Target Market Population

In handling marketing issues, one has to plan for product promotion and he/she begins with deciding on ones target market population, For example, the target population could include children, men, ladies, students, low or high income people and so on.

Basis for selection of a target market population

A target market population is a group of people one is supposed to sell his/her products to. The target population is where the likely buyers of one's product will be secured. These potential buyers would be the point of focus in planning a marketing strategy.

Factors that determine a target market population

i) Income levels

Income level refers to the incomes of different categories of people. It is the total income that each group of people gets on daily or weekly or monthly or yearly basis. The level of people's income affects their demand for or their ability to purchase a given product.

i) **Consumption habits**

This is the behaviour of consumers in consuming different products. The pattern of their expenditure on items and what they generally like to buy depends to a great extent on their consumption habits for example, smokers, alcoholics and sports people.

ii) **Competitors**

These are the businesses, which are dealing with and selling similar products or those that can be substituted for yours. When there is more than one business selling similar products, then they are referred to as competitors. Competitors have similar objectives to those of the entrepreneur in question, - to grow, make profits and succeed. Effectively, the businesses fight to gain more customers, sell more, make more profits and grow.

iii) **Market share**

To determine if there are enough potential customers to keep an entrepreneur and his/her competitors in business, the entrepreneur should try to quantify how many potential customers exist in a reasonable area and try to estimate how many potential customers he/she can attract from the competitors to his/her business. Competitors play a key role in determining one's market share.

iv) **Age and sex**

Within a target market population, there are people of different ages. The population is also divided into different sexes. The different groups may require a variety of specified products and different sizes, colours and shapes of products.

v) **Trends**

- Are there population shifts (for example, more people coming to live in the target areas?)
- Are there legal or regulatory development/changes?
- Are there changes in the economic situation? Are more people getting employed? Are there cheaper goods being sold?
- Have there been any lifestyle changes?
- Do people now have more disposable income?

The above factors are key indicators for any given entrepreneur if she/he is to determine her/his market share.

To be able to get the information regarding the above-mentioned aspects, the entrepreneur needs to carry out a market research or survey. The aim of the market research/survey is to find out who the customers are, what the customers want, where and when they want the products. This research can also expose problems in the current product, and find areas for expansion and improvement in the current products in order to satisfy customer demand. Market research should also encompass identifying trends that may affect sales and profit levels presently and in the future.

Market research should give the entrepreneur more information about the customers other than just who they are. The entrepreneur should use this information to determine matters such as his/her market share, the effectiveness of the advertising and promotion, and the response to new product development that he/she has introduced on to the market.

The research conducted should provide information on the following:

a) **Customer's wants**

i) Is the need for the product short lived or long lived?

ii) How often are the products required?

iii) Are customers looking for quicker service?

iv) Do customers want guarantees with the products?

v) Will customers come frequently or seldom?

vi) Are customers looking for wider distribution or more convenient locations?

b) **Competition**

i) What is the competitor's market share?

ii) How much sales volume do they do?

iii) How many similar firms exist?

iv) What attracts customers to them?

v) What strengths do they advertise?

3.2 The Marketing Plan

A marketing plan outlines the specific actions you intend to carry out to interest potential customers and clients in your product and/or service and persuade them to buy the product and/or services you offer.

When writing the business plan, the marketing plan section explains how you are going to get your customers to buy your products and/or services.

3.2.1 Preparing a Marketing Plan

In preparing a marketing plan you need to have a marketing strategy, implementation guide and other necessary resources.

How to create a marketing plan

Firms that are successful in marketing invariably start with a marketing plan. Large companies have plans with hundreds of pages; small companies can get by with a half-dozen sheets. Put your marketing plan in a three-ring binder. Refer to it at least quarterly or better yet monthly. Leave a tab for putting in monthly reports on sales/manufacturing; this will allow you to track performance as you follow the plan.

The plan should cover one year. For small companies, this is often the best way to think about marketing. Things change, people leave, markets evolve, and customers come and go. Later on you could create a section of your plan that addresses the medium-term future two to four years down the road. But the bulk of your plan should focus on the coming year.

You should allow yourself a couple of months to write the plan, even if it is only a few pages long. Developing the plan is the "heavy lifting" of marketing. While executing the plan has its challenges, deciding what to do and how to do it is marketing's greatest challenge. Most marketing plans kick off with the first of the year or with the opening of your fiscal year if it is different.

Who should see your plan? All the players in the company should. Firms typically keep their marketing plans very, very private for one of two very different reasons: either they are too skimpy and management would be embarrassed to have them see the light of day, or they are solid and packed with information, which would make them extremely valuable to the competition.

You cannot do a marketing plan without getting many people involved. No matter what your size, get feedback from all parts of your company: finance, manufacturing, personnel, marketing, supply and so on. This is especially important because it will take all aspects of your company to make your marketing plan work. Your key people can provide realistic input on what is achievable and how your goals can be reached. They can share any insights they have on any potential marketing opportunities, adding another dimension to your plan. If you are essentially a one-person management operation, you shall have to wear all your hats at one time but at least the meetings will be short!

What is the relationship between your marketing plan and your business plan or vision statement? Your company's business plan provides the environment in which your marketing plan must flourish. The two documents must be consistent.

3.2.2 The marketing mix

The marketing mix has four key marketing decision areas to be made in a marketing program including a) products and services; b) promotion, c) distribution and d) pricing. The marketing mix is used to describe how owners can combine these four areas into an overall marketing program.

The four areas include:

i) **Products and services**

Effective strategies for a small business may include: concentrating on a narrow product line, developing a highly specialised product/service or providing a product/service package containing an unusual amount of service.

ii) **Promotion**

This marketing decision area includes advertising, salesmanship and other promotional activities. In general, high quality salesmanship is a must for small businesses because of their limited ability to advertise heavily.

iii) **Price**

Determining price levels and/or pricing policies (including credit policy) is the major factor affecting total revenue. Generally, higher prices mean lower volume and vice versa. Small businesses, however, can often command higher prices because of the personalised service they can offer.

iv) **Place/distribution**

The manufacturer and wholesaler must decide how to distribute their products. Working through established distributors or manufacturers' agents generally is most feasible for small manufacturers. Small retailers should consider cost and traffic flow as two major factors in location site selection, especially since advertising and rent can be reciprocal. In other words, low-cost, low-traffic location means you must spend more on advertising to build traffic.

The nature of the product/service is also important in location decisions. For purchases that are made largely on impulse (for example, purchases of soda or candy), visibility is a critical factor in determining the location of such products. On the other hand, location is less a concern for products/services that customers are willing to go out of their way to find (such as hotel supplies).

3.2.3 The Benefits of a Marketing Plan

A marketing plan provides you with the following major benefits:

i) **Rallying point**

Your marketing plan gives your team something to rally behind. If you want your employees to feel committed to your company, it is important to share with them the company vision for the years to come. People do not always understand financial projections, but they can get excited about a well-written and well thought out marketing plan. You should consider releasing your marketing plan - perhaps in an abridged version - companywide. Do it with some fanfare and generate some excitement. Your workers will appreciate being involved.

ii) **Chart to success**

We all know that plans are imperfect things. How can you possibly know what will happen 12 months or five years from now? Isn't putting together a marketing plan an exercise in futility and a waste of time better spent meeting with customers or fine-tuning production? Yes, possibly but only in the narrowest sense. If you do not plan, you are doomed. An inaccurate plan is far better than no plan at all.

iii) **Company operational instructions**

Your first bike or your first radio came with a set of instructions to help you put together or understand your complex product. However, your company is far more complicated to put together and run than either of them. Your marketing plan, just like the aforementioned instructions, is a step-by-step guide for your company's success. It is more important than a vision statement. To put together a genuine marketing plan, you have to assess your company from top to bottom and make sure all the pieces are working together in the best possible way. What do you want to do with this enterprise you call the company in the coming year? Consider it a to-do list on a grand scale. It assigns specific tasks for the year.

iv) **Captured thinking**

You do not allow your financial people to keep their numbers in their heads. Financial reports are the lifeblood of the numbers side of any business, no matter what size. It should be no different with marketing. Your written document lays out your game plan. If people leave, if new people arrive, if memories falter, the information in the written marketing plan stays intact to remind you of what you agreed on.

v) **Top-level reflection**

In the daily hustle and bustle of competitive business, it is hard to focus your attention on the big picture, especially those parts that are not directly related to the daily operations. You need to take time periodically to consider whether the business is providing you and your employees with what you want, whether there are some innovative wrinkles you can add and whether you are getting all you can out of your products, your sales staff and your markets. Writing your marketing plan is the best time to do this high level thinking. Some companies send their top marketing people away to a retreat. Others go to the home of a principal. Some develop marketing plans at a local hotel, away from phones and fax machines, so they can devote themselves solely to thinking hard and drawing the most accurate sketches they can of the immediate future of the business.

Ideally, after writing marketing plans for a few years, you can sit back and review a series of them, year after year, and check the progress of your company. Of course, sometimes this is hard to make time for (there is that annoying real world to deal with), but it can provide an unparalleled objective view of what you have been doing with your business over a number of years.

3.3 Market Survey/Research

Marketing research is the systematic gathering, recording, and analysing of data about problems relating to the marketing of goods and services. It involves finding out what catches customers' attention by observing their actions and drawing conclusions from what you see. Every small business owner-manager must ask him/herself the following questions:

i) Who are my customers and potential customers?
ii) What kind of people are they?
iii) Where do they live?
iv) Can and will they buy my product/service?
v) Am I offering the kinds of goods or services they want - at the best place, at the best time and in the right amounts?

vi) Are my prices consistent with what buyers view as the product's value?

vii) Are my promotional programs working?

viii) What do customers think of my business?

ix) How does my business compare with my competitors?

Marketing research is not a perfect science. It deals with people and their constantly changing likes, dislikes and behaviour, which can be affected by hundreds of influences. Marketing research does, however, try to learn about markets scientifically: to gather facts and opinions in an orderly, objective way; to find out how things are, not how you think they are or would like them to be and to find out what people want to buy, not just what you want to sell them.

3.3.1 Purpose of a Market Research

It is tough to sell people what they do not want. That is pretty obvious. Just as obvious is the fact that nothing could be simpler than selling people what they do want. Big business does marketing research to find out what consumers want. Small business needs market research too.

For once, small businesses hold an edge. The giants hire experts to define the mass market in which they sell. Owners or managers of a small business are close to their customers; they can learn much more quickly about customers' likes and dislikes and buying habits.

Small business owners often have a feel for their customers and markets that is gained from years of experience. But experience can be a two-edged sword, as it includes a tremendous mass of information acquired at random over a number of years. This information may no longer be timely or relevant to making selling decisions when it is collected. In addition, some facts may be vague or misleading.

Marketing research helps you to focus and organise marketing information. It ensures that such information is timely. It provides what you need to:

i) Reduce business risks.

ii) Spot problems and potential problems in your current market.

iii) Identify likely profit from sales opportunities.

iv) Get your basic facts about your market to help you make better decisions and set up plans of action.

3.3.2 Tools of Market Research

i) **Personal contacts**

You can conduct an informal survey by talking to your family and friends. You may ask them what new businesses they think are needed in town, or you may ask if there are products or services they are not able to purchase locally. Another way to get information is to ask: If you were to start your own business, what would it be? What products or services would you offer? Why? Answers to these questions may give you some new ideas to think about.

ii) **Observation**

When you observe business activities in the community, you are conducting an informal survey. Observation might reveal the need for particular enterprises. Perhaps there is no bicycle repair shop in town, but there appears to be a large number of bicyclists in the area. You may also have noticed that a hotel service is needed. If you live near a tourist area, you may be able to sell items made by local craftsmen.

iii) **Questionnaires**

In formal surveys, questionnaires can be used where a list of questions is prepared and then used during interviews. Persons from throughout the community should be interviewed, especially those who are potential customers for the new enterprise.

iv) **Interviews**

These are formal discussions in which people involved give their views on different areas of interest. During the interview the business' shortcomings might be identified. The more people you interview, the better your chances are of identifying these shortcomings. For example, consumers may not be satisfied with the existing automotive parts service business in a town. However, they may continue to patronise this business merely because there is no other choice. An automotive parts entrepreneur who pleases the customers may not have to worry about competition. The existence of several businesses of one type does not necessarily mean that you cannot start a similar type of business.

v) **Brainstorming**

Brainstorming is a technique used to solve a problem by generating as many ideas as possible. As you search for new business ideas, you will probably brainstorm by yourself. You can get practice in brainstorming by getting together with two or three people. One person should be the leader and another should be the recorder. The recorder's job is to list the ideas as they are stated. Ideas should be compiled on a chalk-board or a large sheet of paper for everyone to see.

Brainstorming begins with a question from the leader. Another person in the group gives an answer, and then everyone else changes it or adds to it. Each idea leads to one or more additional ideas. The result is a chain reaction of ideas. The leader should be ready to add an idea when others run out of ideas. This often restarts the brainstorming process.

3.3.3 Identification of Market Size, Market Share and Profitability of the Product

Marketing is a complex phenomenon encompassing a wide range of activities such as buying, selling, transportation, storage, grading, financing and risk taking. The marketability of the goods that are produced or services rendered by the entrepreneur is an important factor. As a condition for success in business, the entrepreneur has to know the state of the market well in advance.

Activity

1. Describe your market area in terms of customer profile (age, education, location, income) and geography. A customer profile will help you focus your advertising to reach your potential customers.
2. What business are you really in?
3. What are the reasons for your choice of business?
4. Now that you have described what you want in terms of customers profile and location, what is it about your operation that will make these people want to buy your product or service? For instance, quality work, competitive prices, guaranteed completion dates, effective advertising or unique designs may make your business superior to those of your competitors.

Entrepreneurs planning the marketing phase of the business need to know the habits of their target customers. The following questions can help determine customer's tastes and preferences:

1. Why will the customer buy the product or service?
2. Is a big selection or exclusive presentation desired? Is uniqueness a factor?
3. How much sales attention and other services are wanted? Are deliveries installations, and the like important?
4. Are purchases made on impulse or are prices carefully compared?
5. Are purchases seasonal or steady throughout the year?
6. What is the motivation or need being solved by the purchase?
7. Who makes the purchasing decision? Who makes the purchase?
8. Who uses the product and for what purpose?
9. Are the people brand-conscious or price-conscious?
10. Is the target market responsive to good promotion and advertising? What kind?
11. How important are location, convenience and special surroundings?
12. How much quality does the customer want to pay for?

As a rule of thumb, in order to market a product, your job begins with identifying a specific group of people out of the entire population towards whom you will focus all your marketing efforts. This is your target market. As said earlier, you should define your target market by identifying specific characteristics that they have in common. For example, a magazine publisher could define his target market by saying that the kind of people most likely to buy the products are women aged between 20 and 35, who live in Kampala and who have children of primary school age.

Your target market should be so clearly defined that you can practically see them with your eyes closed. You should be able to pick out someone in a crowd of people and say, "There goes one of the people in my target market."

In order to find out how big the share of your market is, you can seek official statistics on the size of the total market for different categories of goods and services. They are available in publications at the Ministry of Trade and Industry, as well as in various private trade and industry publications. Libraries are also a useful source of information. Market research companies, too, are excellent sources, and would give advice possibly for a small fee or refer you to the most appropriate publication for your specific needs. The following steps will help you in finding out the potential size of your market.

i) Establish the total number of homes in the target trading area: say, 1,000.

ii) Establish (from official sources) the average annual household income: say, Shs 30,000.

iii) Multiply the total number of homes and average annual household income to arrive at total annual income for the particular trading area: in this case it will equal Shs 30,000,000

iv) Establish what percentage of household income is spent on the specific product category by a particular group. For example, 16.7% is spent on "clothing and footwear" by the ethnic group x.

v) Multiply to arrive at the value (size) of total annual market in the trading area: 16.7% of Shs 30,000,000 equals: Shs 5,010,000.

vi) Assume a 25% market share of that which will equal Shs1,252,500.

3.4 Marketing Strategy

Marketing strategy includes identifying customer groups (target markets) which a small business can serve better than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and services towards that particular market segment (managing the marketing mix). Ideally the strategy should address customer needs which are not currently being met in the market and which represent adequate potential size and profitability. A small business cannot be all things to all people, so it must analyse its market and its own capabilities so as to focus on a specific target market.

3.4.1 Tools for Effective Marketing Strategy

Most business owners rely on two or three marketing strategies to attract new business. However, there are several ways to attract new business to your door. Here are a few:

i) **Networking**

Networking is perhaps the most commonly used approach by small business owners. However, it is often poorly executed. Many people attend a networking function and take the wrong approach by trying to meet as many people as they can. They bounce from person to person, handing out business cards like it is an Olympic event and they are vying for the gold medal. They fail to realise that the most effective way to network is to cultivate relationships and give referrals to other members first.

ii) **Referrals**

This marketing strategy is a close second in preferred methods of generating new business ideas. The key here is to ensure that you take a proactive approach rather than a passive one. Instead of assuming that a satisfied client will refer someone to you, ask for that referral. Tell people who your ideal client is and ask for their help in finding these types of clients. A real estate agent sends a card every year to people she sold a house to and reminds them that she loves referrals. It is not pushy, does not sound like she's begging, and most likely it helps generate new ideas.

iii) **Writing**

This often under-utilised marketing strategy is an excellent way to become recognised as an industry expert. Every industry has trade magazines and most are hungry for good content. The Internet is also filled with websites and e-zones looking for material to send to their subscribers and customers. This marketing strategy alone has helped drive traffic to people's websites more than anything else. It is sometimes challenging to come up with ideas and to write an 800 word article but the investment of time and effort is definitely worth it.

iv) **Newsletters**

This is another powerful marketing strategy to keep your name in front of your customers and prospects. Provide key insight into business challenges and offer solutions to them. In other words, help your prospects and customers solve problems. Some newsletters are nothing more than advertising so be sure to provide valuable information to your customer. Although it is less expensive to send a newsletter electronically, you can issue it in paper format. A local real estate agent regularly sends out a one-page update of the housing market in his neighbourhood. (More: Newsletters Are Smart Marketing.)

v) **Cold calling**

Without a doubt, this is usually the most challenging way to market a business. Very few people actually enjoy cold calling. However, it can be a good way to uncover qualified prospects in a relatively short period of time. Be sure to start your conversation with a good opening to capture the other person's attention.

vi) **Give free information to interested prospects**

You do not need to give away all the information relevant to your product or service. Instead, offer information that will help your target market with their problems.

vii) **Offer a guarantee**

A concern many people have when changing suppliers is the risk associated with the change. They may not be completely satisfied with their existing supplier but the risk of choosing a supplier who may be worse can prevent them from changing. Eliminate this concern and offer a guarantee.

viii) **Advertising**

This can be a great marketing strategy if you know how to create a good advertisement. The best marketers know that great sales copy is what makes the difference. Most advertisements focus on the company's product features instead of the customer's problem. Create a great advertisement by concentrating on the problem you can solve.

3.5 Potential Customers

Potential customers are a group of people sharing common needs and characteristics that a business decides to serve.

Characteristics of Potential Customers

The entrepreneur should know the potential customers for his/her enterprise using characteristics such as:

i) **Age:** This is important where the product is aimed at a specific age group, for example, toys for children. As a general rule, people at different ages have different requirements for different reasons.

ii) **Sex:** Will the customers be mainly women or men? Is the product by its nature aimed at a specific sex? Note that the purchaser of the product is not always the adviser e.g. a man may buy clothes for his wife, girlfriend or daughter.

iii) **Location:** Customers can be defined by where they live, work and where they go. A small restaurant may cater to workers in nearby offices.

iv) **Occupation/employment**: Research has shown that there are varying degrees of correlation between a person's occupation and tastes/attitudes. Which social class or occupational group is your product going to appeal to?

v) **Income**: Not many businesses appeal to all ranges of income. If your business is going to focus on high-priced quality products, your customers will be in a high income bracket.

vi) **Leisure activities**: The leisure industry is an ever-growing one. Define customers according to their leisure activities (participants in certain sports).

vii) **Usage:** A useful form of defining your market is by identifying segments based on the way your product is used by your customer. On a simple level, heavy use/medium use/low use/or skilled use/unskilled use.

Another method used to identify potential customers is to segment the market through questions about the product/service. Is the product/service bought:

i) frequently as an everyday essential?

ii) as a treat or luxury?

iii) most often as a gift?

iv) only bought after long and serious consideration?

v) bought on the advice of others?

vi) used only by the customer?

vii) often on impulse without much thought?

viii) to help customer enjoy their leisure time?

ix) to save the customer money?

x) to deal with emergencies?

xi) always for the same purpose/uses?

xii) for many different purposes/uses?

xiii) to help the customer belong to a particular lifestyle or image?

The customers who buy this product/service can be most usefully described by: sex, age, marital status and number of children, household site, accommodation, neighbourhood, employment status, education, religious activity and beliefs and lifestyle.

3.5.1 Market Segmentation

Market segmenting is dividing the market into groups of individual markets with similar wants or needs. A company divides these markets into distinct groups which have distinct needs, wants and behaviour or which might want different products & services. Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private. Although industrial market segmentation is quite different from consumer market segmentation, both have similar objectives. All of these methods of segmentation are merely proxies for true segments, which do not always fit into convenient demographic boundaries.

3.5.2 Objectives of market segmentation

Market segmentation is the first of three important steps in developing marketing strategy. Segmentation groups customers with similar needs and responses; targeting determines which segments to serve; positioning is about how the product (or product portfolio) should compete with others in the market.

The objectives of market segmentation are to more accurately and profitably meet the needs of selected customers.

Precisely how this can be achieved will vary by company capability. For example, a single product company may be able to boost sales and cut advertising costs if they can target consumers with a high likelihood of product purchase. On the other hand, a company with several brands in a category will benefit by positioning each brand within the portfolio against a distinct set of consumer needs. Ideally each brand should be sufficiently distinct so that there is little cannibalisation.

3.5.3 Basis of Market Segmentation

There is a large collection of possible segmentation bases. Some of these are briefly described below.

i) **Demographics**

Consumers can be grouped on the basis of characteristics such as age or household composition. This is easy to do and it is easy to reach such segments using the mass media. But age and other demographics are only loosely related to behaviour.

ii) **Socioeconomic characteristics**

Similarly, characteristics such as income, occupation and education can be used to derive segments that are easy to reach. Such segments are indicators (although not perfect) of behaviour such as lifestyle, price sensitivity and brand preference.

iii) **Product usage**

Potential to use the firm's product is behaviour-based segmentation. Potential could be determined by asking questions about disposition to use (such as awareness, used in the past, would consider using) in a survey and respondents grouped accordingly. The problem is then how to reach the most attractive segments. This is done either by using a large-scale single source survey that asks consumers about product disposition and media usage or by relating product disposition to demographics. Both approaches are usually imperfect as behaviour is rarely strongly correlated with demographics or media usage.

iv) **Psychographics**

Personality, attitudes, opinions, and lifestyles are often used as segmentation bases. These characteristics have some relationship to behaviour and provide insight into how to communicate with chosen segments. Reaching the chosen segments is then the issue, as discussed under product usage, above.

v) **Generation**

Generation refers to people born in the same period of time. Such people share much in common. Not only are they of a similar age, but they experienced similar economic, cultural, and political influences in their formative years. Thus generation is probably a better segmentation basis than age and just as easy to reach.

vi) **Benefits sought**

Some people are price sensitive, others seek quality or service. Some people are brand loyal, while others frequently switch brands. It is possible to group consumers on the basis of these factors. Note that price/quality sensitivity can vary by category. Some people are very concerned about the quality of the food they eat but will buy cheap laundry detergent. Others will feed themselves any rubbish but are fussy about cleanliness. This is a very powerful basis for segmentation but it is not easy to buy media on this basis. These segments can be reached by the message (self-selection) but this is not necessarily cost effective.

vii) **Geography**

There are two reasons why people who live in the same area may share similar characteristics. First, some areas have more expensive properties than others and so people with similar socioeconomic characteristics may cluster together. Second, they have similar transport and shopping options. It is easy to reach particular areas by using local newspapers, cinema, outdoor, and selective direct mail but mass media is less effective.

viii) **Geo-demographic**

There are several commercial geo-demographic segmentation schemes available, that combine demographics and geography as a segmentation basis. This approach aims to identify groups of small geographic areas that have similar demographic profiles. These tend to suffer from the fallacy of averages. Some areas may be genuinely relatively homogenous but many are not and this can be very misleading.

ix) **Discussion**

The segmentation basis used depends on the decision to be made. For pricing decisions, for example, the segmentation basis should be price sensitive. For advertising decisions, the bases could include benefits sought; media use; or psychographics (or some hybrid of these).

Clearly, one segmentation basis will not be ideal for all marketing decisions. Nor will one segmentation basis be ideal for all industries – food, detergents, clothing, and motor vehicles all satisfy different needs and have different levels of purchase involvement.

Nonetheless, many companies do use "generic" segmentation schemes. They need to satisfy themselves that in doing so:

i) The generic scheme satisfies the criteria set out below; and

ii) That they do not risk being at a disadvantage to competitors who use a customised segmentation scheme.

3.5.4 Criteria for Selecting Segmentation Basis

The market segments identified should satisfy three criteria.

i) **Internal homogeneity/external heterogeneity**

This means that potential customers within a segment should have similar responses to the marketing mix variable of interest but a different response to members of other segments.

ii) **Parsimony**

This is the degree to which the segmentation makes every potential customer a unique target. That is, the segmentation should identify a small set of groupings of substantial size.

iii) **Accessibility**

This is the degree to which marketers can reach segments separately using observable characteristics of the segments.

3.5.5 How Market Segmentation can Increase Profit

Increasing profits is the major objective of companies. We can write the profit for a product down as a formula:

Profit = Volume*(Price - Variable Cost) - Marketing Costs - Fixed Costs

There are several ways in which effective segmentation can boost profits.

i) By better meeting customer needs, through better positioning to chosen segments, we may be able to increase market share and hence volume.
ii) By better meeting needs, we may also be able to increase price without sacrificing much volume.
iii) By only targeting the most profitable segments, we may be able to reduce marketing costs.

3.5.6 Reasons for Market Segmentation

There are several reasons why businesses should attempt to segment their markets carefully as summarised below:

i) **Better matching of customer needs**

Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution.

ii) **Enhanced profits for business**

Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits.

iii) **Better opportunities for growth**

Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product.

iv) **Retain more customers**

Customer circumstances change. For example they grow older, have families, change jobs or get promoted and/or change their buying patterns. By marketing products that appeal to customers at different stages of their life (life cycle), a business can retain customers who might otherwise switch to competing products and brands.

v) **Target marketing communications**

Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that (1) the key customers are missed and (2) the cost of communicating to customers becomes too high/unprofitable. By segmenting markets, the target customer can be reached more often and at a lower cost.

vi) **Gain share of the market segment**

Unless a business has a strong or leading share of a market, it is unlikely to be maximising its profitability. Minor brands suffer from lack of economies of scale in production and marketing, pressures from distributors and limited space on the shelves. Through careful segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors. In other words, segmentation offers the opportunity for smaller firms to compete with bigger ones. Market segmentation is the basis for customer orientation and differentiation.

It is well known that suppliers in mass markets mostly compete on price. Demand for those products that are clearly differentiated from competition and that offer a particular value to customers has lower price elasticity; hence, only those products can sustain a higher price level and higher margins. The precondition for providing such added value is detailed knowledge about customers' preferences. These preferences will probably be diverse in the total market, but fairly homogenous within distinguishable segments.

4

Sales Promotion

Sales promotion refers to all activities other than advertising and personal selling that help to increase sales of a particular commodity. Advertising can be used as a means of communication to inform potential customers about incentives for sales promotion.

The importance of sales promotion, to dealers, lies in the fact that existing stocks can be quickly disposed of when there is change in the fashion or taste of consumers. It is also important to the dealers because customers are induced not to change over to new brands.

Sales promotion is important to consumers as goods are available at cheaper rates. It also provides information about improvement in quality of goods.

4.1 Objectives of Sales Promotion

The main objective of sales promotions is to increase sales. However, there are also some other objectives of sales promotion which include:

i) **To introduce new products**

Have you ever heard about distribution of free samples? Perhaps you know that many companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for consumption.

ii) **To attract new customers and retain the existing ones**

Sales promotion measures help to attract or create new customers for the products. While moving in the market, customers are generally attracted towards the product that offers discounts, gifts, prizes and so on upon purchase. These are some of the tools used to encourage the customers to buy the goods. Thus, it helps to retain the existing customers, and at the same time it also attracts some new customers to buy the product.

iii) **To maintain sales of seasonal products**

There are some products like air conditioners, fans, refrigerators, coolers, winter clothes, room heaters, sunscreen lotion and glycerine soap which are used only in particular seasons. To maintain the sale of these types of products normally the manufacturers and dealers give off-season discount. For example, you can buy a cooler in winter at a reduced price. Similarly, you may get a discount on winter clothes during summer.

iv) **To meet the challenge of competition**

Today's business faces competition all the time. New products frequently come to the market and at the same time improvement also takes place. It is therefore important to have sales promotions in order to retain the market share of the seller or producer in the market.

4.2 Importance of Sales Promotion

The business world today is a world of competition. A business cannot survive if its products do not sell in the market. Thus, all marketing activities are undertaken to increase sales. Producers may spend a lot on advertising and personal selling. Still the product may not sell. So incentives need to be offered to attract customers to buy the product. Thus, sales promotion is important to increase the sale of any product.

Sales promotion is important for manufacturers because:

i) it helps to increase sales in a competitive market and thus, increases profits.
ii) it helps to introduce new products in the market by drawing the attention of potential customers.
iii) when a new product is introduced or there is a change of fashion or taste of consumers, existing stocks can be quickly disposed off.
iv) it stabilises sales volume by keeping its customers with them. In the age of competition it is quite much possible that a customer

may change his/her mind and try other brands. Various incentives under sales promotion schemes help to retain the customers.

Sales promotion is important for consumers because;

i) the consumer gets the product at a cheaper rate.
ii) it gives financial benefit to the customers by way of providing prizes and sending them to visit different places.
iii) the consumer gets all information about the quality, features and uses of different products.
iv) certain schemes like `money back offer' create confidence in the mind of customers about the quality of goods.
v) it helps to raise the standard of living of people. By exchanging their old items they can use latest items available in the market. Use of such goods improves their image in society.

4.3 Sales Promotion Strategies

A sales promotion strategy is an activity that is designed to help boost the sales of a product or service.

Sales are the lifeblood of a business. Without sales there would be no business in the first place. Therefore it is very important that if a business wants to succeed, it should have a sales promotion strategy in mind. The primary objective of a sales promotion is to improve a company's sales by predicting and modifying your target customer's purchasing behaviour and patterns.

Sales promotion is very important as it not only helps to boost sales but it also helps a business to draw new customers while at the same time retaining older ones. There are a variety of sales promotional strategies that a business can use to increase their sales.

Sales promotion strategies can be done through:

i) an advertising campaign;
ii) public relation activities;
iii) a free sampling campaign;
iv) a free gift campaign;
v) a trading stamps campaign;
vi) through demonstrations and exhibitions;

vii) through prize giving competitions;

viii) through temporary price cuts;

ix) through door-to-door sales;

x) telemarketing; and

xi) personal sales letters and emails.

The importance of a sales promotion strategy cannot be underestimated because it boosts a business' sales.

When developing a sales promotion strategy for your business, it is important that you keep the following points in mind:

i) Consumer attitudes and buying patterns.

ii) Your brand strategy.

iii) Your competitive strategy.

iv) Your advertising strategy.

v) And other external factors that can influence your products availability and pricing.

There are three types of sales promotion strategies:

i) A push strategy;

ii) A pull strategy; or

iii) A combination of the two.

A 'push' sales promotion strategy involves 'pushing' distributors and retailers to sell your products and services to the consumer by offering various kinds of promotions and personal selling efforts. What happens here is that a company promotes their product/services to a retailer who in turn promotes it to the consumer. The basic objective of this strategy is to persuade retailers, wholesalers and distributors to carry your brand, give it shelf space, promote it by advertising and ultimately 'push' it forward to the consumer. Typical push sales promotion strategies include; buy-back guarantees, free trials, contests, discounts and specialty advertising items.

A 'pull' sales promotion strategy focuses more on the consumer instead of the reseller or distributor. This strategy involves getting the consumer to 'pull' or purchase the product/services directly from the company itself. This strategy aims its marketing efforts directly to the consumers with the hope that it will stimulate interest and demand for the product. This pull strategy is often used when distributors are reluctant to carry or distribute a product. Typical pull sales promotion strategies include; samples, coupons, cash refunds or rebates, loyalty programs and rewards, contests, sweepstakes, games and point-of-purchase displays.

A combination of sales promotion strategy is just that; it is a combination of a push and a pull strategy. It focuses both on the distributor as well as the consumers, targeting both parties directly. It offers consumer incentives side by side with dealer discounts.

4.3.1 Methods of Sales Promotion

A business person must communicate with his/her customers to promote sales. This can be done using the following methods:

i) **Free samples**

You might have received free samples of soda by Century Bottling Company or other beverage companies while purchasing various items from a supermarket. Sometimes these free samples are also distributed by the shopkeeper even if you do not purchase any item from his shop.

Free samples are distributed to attract consumers to try out a new product and thereby create new customers. Some businessmen distribute samples among selected persons in order to popularise the product. For example, in the case of medicine, free samples are distributed among physicians, in the case of textbooks, specimen copies are distributed among teachers.

ii) **Premium or bonus offer**

A milk shaker along with Nescafe, a mug with Bournvita, a toothbrush with toothpaste, 30% extra in a pack of one kilogram are some examples of premium or bonus given free with the purchase of a product. They are effective in inducing consumers to buy a particular product. This is also useful for encouraging and rewarding existing customers.

iii) **Exchange schemes**

This refers to offers to exchange an old product for a new one at a price less than the original price of the product. This is useful for drawing attention to product improvement. 'Bring your old mixer-cum-juicer and exchange it for a new one just by paying

Shs 50,000' or 'exchange your black and white television with a colour television' are various popular examples of exchange schemes.

iv) **Price-off offer**

Under this offer, products are sold at a price lower than the original price, for example, Shs 200 off on the purchase of lifebuoy soap or Shs 500 off on a pack of 250 grams of Garden Tea. This type of scheme is designed to boost sales in off peak seasons and sometimes while introducing a new product in the market.

v) **Coupons**

Sometimes, coupons are issued by manufacturers either in the packet of a product or through an advertisement printed in the newspaper or magazine or through mail. These coupons can be presented to the retailer while buying the product. The holder of the coupon gets the product at a discount. The reduced price under this scheme attracts the attention of the prospective customers towards new or improved products.

vi) **Fairs and exhibitions**

Fairs and exhibitions may be organised at local, regional, national or international levels to introduce new products, demonstrate the products and to explain the special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount. The Uganda International Trade Fair at the Uganda Manufacturers' Association (UMA) show ground at Lugogo, which is held every October for a week, is a well known example of fairs and exhibitions as a sales promotion tool.

vii) **Trading stamps**

In case of some specific products, trading stamps are distributed among the customers according to the value of their purchase. The customers are required to collect these stamps of sufficient value within a particular period in order to get some benefits. This tool induces customers to buy that product more frequently to collect the stamps of required value.

viii) **Scratch and win offer**

Some companies use a 'scratch and win' scheme to induce the customer to buy a particular product. Under this scheme a customer scratches a specific marked area on the package of the product and gets the benefit according to the message written there. In this way, customers may get some item free as mentioned on the marked area or may get a discount or maybe even visit a special destination courtesy of the manufacturers.

ix) **Money back offer**

Under this scheme, customers are given assurance that full value of the product will be returned to them if they are not satisfied with the product. This creates confidence among the customers with regard to the quality of the product. This technique is particularly useful while introducing new products in the market.

x) **Window display**

This is a means of promotion that most small business people can afford. The window display should be changed often - after one week or one month - in order to keep attracting customers.

xi) **Selling goods on credit**

This will attract customers who cannot pay promptly. In most cases, one might charge more for goods sold on credit so long as the prices are competitive. Credit should only be offered to those customers the business person knows well. Such credit is usually extended for a maximum period of thirty days (or less depending on the policy of your enterprise). It should be noted that small enterprises do not generally have the capacity to do business on credit. Remember you are losing money by having it tied to debtors instead of using it in your business.

xii) **Offering cash discounts**

This is offered to those customers who buy goods in large quantities and those who buy goods on credit and pay promptly.

xiii) **Giving donations**

Donations can be given by way of contributing money or goods to charitable organisations or to disabled children's homes. This should be done in a way that attracts publicity for the enterprise and its products.

xiv) **Organising competitions or games**

A furniture seller may offer a piece of furniture to the winners of a game so long as they are buying from him. People interested in winning a piece of furniture will be attracted to this particular shop.

xv) **Creating the right attitudes in your employees**

Training employees to be friendly to customers and to be knowledgeable about the product or services they are selling ultimately creates a favourable disposition among customers.

xvi) **Maintaining links with others**

Communicating with other people such as current and potential customers, wholesalers and retailers keeps the right people well informed about your business.

xvii) **After sales service**

Offering after sales services, such as delivery, maintenance and repairs is very much a part of sales promotion provided that it does not affect your profit margin.

Activity

1. State the importance of sales promotion from the point of view of manufacturers.
2. State the importance of sales promotion from the point of view of consumers.
3. List any six tools used in sales promotion.
4. State the objectives of sales promotion.
5. Explain the meaning of sales promotion. Why is sales promotion necessary?
6. Explain any two techniques of sales promotions with examples.
7. Explain – "Price-off offer" and "Free samples" as techniques of sales promotion.
8. Explain how sales promotion techniques help in promoting sales.
9. A toothpaste company is giving 250 grams toothpaste free with a pack of 500 gm toothpaste. Name this technique of sales promotion. What is the specific objective of this scheme? Explain two other schemes of sales promotion.
10. 'To introduce new products, to create new customers and retain the existing ones and to remain competitive' are the objectives of sales promotion. Explain how?
11. Define sales promotion. What are the objectives of sales promotion?

12. Explain the term sales promotion. Discuss any four techniques of sales promotion?
13. Make an enquiry from the neighbouring market retailers at what time they offer stock clearance sale and why.
14. Collect information through advertisements in newspapers and magazines regarding various sales promotion schemes.

4.4 Advertising

Advertising is the non personal communication of information usually paid for and usually persuasive in nature about products, services or ideas by identified sponsors through the various media (Bovee, 1992, p. 7)."

A wise man once said, "The person who saves money by not advertising is like the man who stops the clock to save time." In today's fast-paced, high-tech age, businesses must use some form of advertising to make prospects aware of their products and services.

Even a famous company like Coca-Cola continually spends money on advertising to support recognition of their products. In 1993, Coca-Cola spent more than $150 million to keep its name in the forefront of the public's eye. So the question isn't whether or not you can afford to advertise, you simply must if you want your business to succeed.

Some questions you should consider before buying advertisements are:

i) What media is the best to use?

ii) How important is creativity?

iii) Is there a way to buy space and time that will stretch my advertising budget?

When it comes to advertising, a lot of people really do not know what they want, where to get it or what to do with it after they have it. This section will help you learn to determine what type of advertising media is best for you. It also provides guidelines you can use to obtain the advertising exposure you need and will help you identify ways to make your advertising more cost effective. Advertising is an investment in your business' future. And, like any investment, it is important to find out as much as you can before you make a decision.

4.4.1 Types of Advertising Media

c) **Newspapers**

Every advertising medium has characteristics that give it natural advantages and limitations. As you look through your newspaper(s), you will notice some businesses that advertise regularly. Observe who they are and how they advertise their products and services. More than likely, their advertising investment is working.

In Uganda some homes receive newspapers by news stall. Reading the newspaper is a habit for many families. And, there is something for everybody: sports, comics, crosswords, news, classifieds, etc. You can reach certain types of people by placing your advertisement in different sections of the paper. People expect advertising in the newspaper. In fact, many people buy the paper just to read the advertisements.

Unlike advertising on TV and radio, advertising in the newspaper can be examined at your leisure. A newspaper ad can contain details, such as prices and telephone numbers or coupons.

There are many advantages to advertising in the newspaper. From the advertiser's point-of-view, newspaper advertising can be convenient because production changes can be made quickly, if necessary, and you can often insert a new advertisement on short notice. Another advantage is the large variety of ad sizes newspaper advertising offers. Even though you may not have a lot of money in your budget, you can still place a series of small advertisements, without making a sacrifice.

Advertising in the newspapers is not without its inherent disadvantages, such as:

i) Newspapers usually are read once and stay in the house for just a day.

ii) The print quality of newspapers is often not the best, especially for photographs. This usually limits advertisers to using simple artwork and line drawings for best results.

iii) The page size of a newspaper is fairly large and small advertisements can look tiny.

iv) Your advertisement must compete with other advertisements for the readers' attention.

v) You are not assured that every person who gets the newspaper will read your advertisement. They may not read the section you advertised in, or they may simply have skipped the page because they were not interested in the news on it.

Working with newspaper representatives

Every newspaper has its own sales staff, and you are normally given a personal newspaper "sales representative." A newspaper sales representative can be very helpful. He or she can keep you posted on special sections or promotions that may apply to your business, but always keep in mind it is the sales representative's job to sell you advertising.

Your sales representative might say that the newspaper can lay out any of your advertisements, pre-prepared or not. But these advertisements are assembly line products and are not often very creative or eye-catching. Consider using an artist or agency for your advertisements.

In addition, your sales representative can sometimes be instrumental in making sure your story or upcoming announcement "finds" the right reporter because the relationship between the advertising and editorial staff is chummier than most people think, despite claims of total independence.

Buying newspaper advertising space

Advertising is sold by column and inch, instead of just line rates. You can determine the size of the advert you want just by looking in the newspaper in which you want to advertise. If you cannot locate an advertisement of the size you want, just measure the columns across and the inches down.

Here are some other things to remember:

i) Newspaper circulation drops on Saturdays and increases on Sundays, which is also the day a newspaper is read most thoroughly.

ii) Position is important, so specify in what section you want your ad to appear. Sometimes there is a surcharge for exact position but do not be afraid to pay for it if you need it.

iii) Request an outside position for advertisements that have coupons. That makes them easier to cut out.

iv) Before you advertise, have in mind a definite plan for what it is you want to sell.

v) Create a short, descriptive copy for your ad. Include prices if applicable. Consider using a copywriter or ask your newspaper for free copy assistance.

vi) Face your products toward the inside of the ad. If the product you want to use faces right, change your copy layout to the left.

vii) Be sure to include your company name and logo, address and telephone number in the ad.

viii) Neat, uncluttered and orderly advertisements encourage readership. Don't try to crowd everything you can in the layout. If the newspaper helps you with the layout, be sure to request a proof of the final version so you can approve it or make changes before it is printed.

ix) Always make sure you are satisfied with what your advertising says and how it looks before it goes to print.

d) **Magazines**

Many of the same "print" principles which apply to newspaper advertising also apply to magazine advertising. The biggest differences are:

i) Magazines are usually weekly or monthly publications instead of daily.

ii) Advertising messages are more image-oriented and less price-oriented.

iii) The quality of the pictures and paper are superior to newsprint.

iv) Advertisements involve colour more often.

v) The general rule that you can run the same ad 3-5 times within a campaign period before its appeal lessens applies to magazine advertising as well, even with a monthly publication. So it makes sense to spend extra time and money to prepare a worthwhile ad that can be successfully repeated.

vi) Over long terms as these, however, be aware that the client (you) often tires of the ad before the audience does.

vii) Because advertisements in magazines are not immediate, they take more planning. Often, an ad for a monthly magazine must be prepared at least a month in advance of publication, so advertisements detailing prices and items must be carefully crafted to ensure accuracy.

viii) Since the quality of the magazines is superior, the advertising that you generate must be superior as well. Negatives are usually required instead of prints or "PMTs" (photo-mechanical transfers). Consider obtaining assistance from a graphic artist or an advertising agency.

There are two categories of magazines: trade magazines and consumer magazines. Trade magazines are publications that go to certain types of businesses, services and industries. Consumer magazines are generally the kind you find on the average news stand. Investigate which type would do your business the most good.

An agency can also purchase the magazine space for you, often at no charge, because the magazine pays the agency a commission directly. If you wish to purchase the advertising yourself, contact the magazine directly and ask for an "Ad Kit" or "Media Package."

They will send you a folder that includes demographic information, reach information, a current rate card and a sample of the publication.

Although most magazines are national in nature, many have regional advertising sections that allow your business to look like it purchased a national ad when it only went to a certain geographical area. This can be especially useful if your product or service is regional in nature as well and could not benefit from the magazine's complete readership. Each magazine does this differently, so contact the one(s) you are interested in and ask them about their geographic editions. Some sophisticated magazines even have demographic editions available, which might also be advantageous.

e) **Radio**

Since its inception, radio has become an integral part of Ugandan culture. In some way, it touches the lives of almost everyone, every day. Radio, as a medium, offers a form of entertainment that attracts listeners while they are working, travelling, relaxing or doing almost anything. A farmer, for example, may listen to the radio while he is having breakfast or ploughing his field.

People driving to work often listen to the radio. Radio offers information such as: news, weather reports, traffic conditions, advertising and music for your listening pleasure.

Advantages of radio advertising include:

i) The ability to easily change and update scripts are paramount to radio broadcasting, since news stories can and often do happen live.

ii) Radio is a personal advertising medium. Station personalities have a good rapport with their listeners. If a radio personality announces your commercial, it is almost an implied endorsement.

iii) Radio is also a way to support your printed advertising. You can say in your commercial, "See our ad in the Sunday Times," which makes your message twice as effective.

iv) Radio is a relatively an inexpensive way of reaching people. It has often been called the "theatre of the mind" because voices or sounds can be used to create moods or images that, if crested by visual effects, would be impossible to afford.

v) You can also negotiate rates for your commercials. Stations are often looking for prizes they can give away to listeners, so it is possible to get full commercial credit for the product or service you offer.

Radio advertising is not without its disadvantages too, such as:

i) You cannot review a radio commercial. Once it plays, it is gone. If you did not catch the entire message, you cannot go back and hear it again.

ii) Since there are a lot of radio stations, the total listening audience for any one station is just one piece of a much larger whole. That is why it is important to know what stations your customers and prospects probably listen to. Moreover, most of the time, you will need to buy time on several radio stations to reach the market you seek.

iii) People don't listen to the radio all the time but only during certain times of day. So, it is important to know when your customers or prospects are listening. For example, if you want to reach a large portion of your audience by advertising during the morning hours, you must specify that time period to the radio station when you buy the time.

iv) One of the most popular times to reach people is during "drive time" (from 6 a.m. to 10 a.m. and 3 p.m. to 7 p.m.). It is called that because most people are going to or from work during this period, and because most people listen to their radio when they drive. Unfortunately, radio stations know that this is a favourite time to advertise, so commercial costs are much higher during this time.

v) Radio as a broadcasting medium, can effectively sell an image or one or two ideas at the most. It is not, however, a detailed medium and is a poor place for prices and telephone numbers.

Like a newspaper, each radio station has its own advertising staff. Each wants you to believe that their station is the absolute best buy for your money, and many will go to great lengths to prove it. But if you have done your research, or you are using an advertising agency, you probably have a good idea of the station you want to buy time on and when. If you don't know which stations you want to use, ask each station for its own research, that is, the type of programming, musical format, geographic reach, number of listeners and station ratings.

By getting the station ratings and the number of people it reaches, you can figure out the cost-per-thousand people (CPM) by simply dividing the cost of a commercial by the thousands of people you are reaching.

The two cardinal rules for radio advertising are:

i) It is better to advertise when people are listening than when they are not.

ii) It is better to bunch your commercials together than to spread them apart.

A lot of radio sales representatives will try to talk you out of advertising during specific times. They will offer you a reduced rate) that splits your advertising time into $^1/_3$ drive, $^1/_3$ mid-day and $^1/_3$ night. This may sound like a good deal, but airing commercials during times when your audience is not listening is bad advertising. If, however, you are sponsoring a show, it makes sense to advertise once or twice a day on a regular basis, since those programs have regular listenership. Frequency is a vital element for effective radio advertising.

Since you cannot automatically recall the radio commercial and hear it again, you may hear the same commercial two, four, or maybe six times before the message sinks in. If you missed the address the first time, you consciously or subconsciously are hoping the commercial will be aired again so you can get the information you need. That is the way radio advertising works. And that is also the way you buy it.

Most of the time, radio advertising should be bought in chunks. High frequency over a short period of time is much more effective than low frequency over a longer period of time. It is important for your audience to hear your spot again to get more information out of it. For example, if you wanted a two-week advertising campaign and you could afford 42 radio commercials, the following buy would serve you well: On Tuesdays, Wednesdays and Thursdays, place three spots between 7-9 a.m. and four spots between 3-6 p.m. for two weeks. Notice that both day and hour periods are concentrated.

By advertising in concentrated areas in tight day groups, you give the impression of being larger than you really are. And, people hearing your concentrated campaign for two or three days will think you are on all the time. The radio sales representative may try to sell you three spots every day on the station for 14 days (a total of 42 spots). But your campaign won't be nearly as effective.

Tips to help you plan your commercials

i) Don't use phone numbers in your commercial. If you mention your phone number, refer to the Business directory in the local phone book.

ii) Radio works better when you combine it with other advertising media.

iii) Check out the price differences between 60-second and 30-second commercials. Normally, 30-second commercials are only $^{1}/_{3}$ less than 60's, which makes a 60-second commercial a better buy.

iv) Be creative with your radio advertising, too. If it sounds like all the rest of the commercials, it won't stand out. Your message won't be heard nearly as well. Advertising agencies are usually quite good at producing creative radio commercials.

v) If you decide to write your own radio scripts, remember these basic copy writing rules:
- Get your listener's attention immediately.
- Write in conversational style.
- Avoid using buzz words or jargon.
- Repeat your important points.
- Make your ending strong and positive with call-to-action for response.

f) **Television**

Television is often called "king" of the advertising media, since many people spend more hours watching TV per day than paying attention to any other medium. It combines the use of sight, colour, sound and motion, and it works. TV has proven its persuasive power in influencing human behaviour time and time again. But it is also the "king" of advertising costs.

Advantages of television advertising

i) Television reaches large audiences, often larger than some newspapers reach.

ii) Advertising on television can give a product or service instant validity and prominence.

iii) You can easily reach the audiences you have targeted by advertising on TV. Children can be reached during cartoon programming, farmers during the morning agricultural reports and housewives during the afternoon.

iv) TV offers the greatest possibility for creative advertising. With a camera, you can take your audience anywhere and show them almost anything.

v) Since there are fewer television stations than radio stations in a given area, each TV audience is divided into much larger segments, which enables you to reach a larger, yet, more diverse audience.

Disadvantages of television advertising

i) It is more expensive than the other mediums of advertising.

ii) Producing a commercial television advert is quite expensive.

iii) Remember, like radio, the message comes and goes. The viewer doesn't see your commercial again unless you buy more placements.

When you advertise on TV, your commercial is not only competing with other commercials, it is also competing with the other elements in the viewer's environment as well.

The viewer may choose to get a snack during the commercial break, go to the bathroom or have a conversation about what they just saw on the show they were viewing. Even if your commercial is being aired, viewers may never see it unless it is creative enough to capture their attention. That is why it is so important to consider the kind of commercial you are going to create and how you want your audience to be affected. Spending money on a good commercial in the beginning will pay dividends in the end.

Do not use TV unless your budget allows. Attempting to use TV advertising by using a poorly-produced commercial, buying inexpensive late night commercial time that few people watch or just placing your commercial a couple of times on the air will guarantee disappointing results. To obtain positive results from TV advertising, you must have enough money in your budget to:

i) pay for the cost of producing a good TV commercial (today costs range from Shs 1,000,000 to Shs 2,000,000, and above).

ii) pay for effective commercial time that will reach your viewer at least 5-7 times.

Properly done, television advertising is the most effective medium there is. But and you should not attempt it unless you have enough money in your budget to do it right. If you are still attracted to TV, it is a good idea to call in an advertising agency for production and media buying estimates. Then, figure out what sales results you can expect. With such data, you should be able to reach a logical advertising decision.

When buying television advertising time, there are many things you should know and consider. That is why, in most cases, using an advertising agency is recommended when advertising on TV. If these services are unavailable, find a TV representative that you can trust. Your agency or representative can help you select the programs you should advertise on in order to reach your market. Also, ask about "fringe" time, adjacencies and package plans.

When you are engineering your schedule, remember that repetition (or frequency) is a very important ingredient to use. Make sure your audience sees your commercial with the context of the programs you are buying. Ask for a commercial affidavit. Normally, the station will provide you with a list of the exact times your commercial was run.

For an effective and inexpensive way to get your message on the TV screen, consider using pre-prepared TV commercials that may be available to you through a manufacturer or distributor you deal with. You can add your name and logo to the end of the commercial for little or no cost. Look at cooperative advertising too. Many companies offer prepared advertising materials you can use and at the same time may pay for a portion of the advertising schedule.

g) **Cable advertising**

Cable advertising is a lower cost alternative to advertising on broadcast television. It has many of the same qualities as broadcast television and, in fact, since it offers more programming, it is even easier to reach a designated audience.

The trouble with cable is that it does not reach everyone in the market area, since the signal is wired rather than broadcast and, also, because not everyone subscribes to cable.

If cable does reach a large part of your market, have an advertising agency investigate its cost or call the cable company's advertising sales department. Chances are that the cable commercial time will be 10 to 20 percent of the costs of regular broadcast time.

h) **Business directory**

Telephone book advertising is another way to reach your market area. It allows you to place your business listing or ad in selected classifications within the book, with the theory being that when people need your product or service, they will look up the classification and contact you.

Much of the "sell" copy for a product or service, therefore, is not needed in your ad content, since the people who have looked up your classification are already in the market to buy. What you must be aware of when you write the ad is the other firms' advertisements within your classification. In other words, why should the reader select your firm over your competition? That is the crucial question and your ad should provide the answer.

Telephone business directory salespeople often employ the technique of selling as large an ad as possible to one company, then showing the other companies in the same classification what the one company is doing so that they can match it or beat it. This is not the best criteria for determining ad size, but is definitely good for the ad salesperson.

Your ad should be large enough to incorporate the vital information the reader needs to make a contact decision.

Remember your lessons in print advertising. Keep your ad clean, creative and eye-appealing. Even though the Directory company will "design your ad for free," some firms employ graphic artists and advertising agencies to create a Business directory ad that really stands out.

Do something unique or different. If no one else is using colour, use colour. Even shades of grey can make an ad look better and more appealing.

Advantages of business directory advertising

i) One advertisement works all year long.

ii) Gives your prospect a method of easily locating and contacting your business, even if they didn't initially know your name.

iii) Can help you describe the differences between you and your competition.

iv) If you require more than one classification, your business directory representative often has packages and programs that can save you some money.

Disadvantages of business directory advertising

i) You must commit to an entire year of advertising.

ii) You are immediately placed with a group of your competitors, making it easy for the prospect to comparison shop. Some classifications are so clustered with advertising; your advertisement is buried and ineffective.

iii) It is only effective when a prospect looks you up in the correct classification, assuring the prospect knows what classification to look for in the first place.

Business directory advertising is an important medium to consider in our fast-paced, information-hungry society. People really do let their "fingers do the walking" instead of driving around blindly. Make sure your Business directory ad is attractive and informative enough to be the one or two businesses the prospect actually does select to call. And then make sure you have the resources to deal with the inquiry. After all, there is nothing more annoying than being put "on -hold" by a busy receptionist or being served by an uninterested or acknowledgeable employee.

vi) **Outdoor advertising**

When people think of outdoor advertising, they usually think of the colourful billboards along our streets and highways. Included in the "outdoor" classification, however, are benches, posters, signs and transit advertising (the advertising on buses, subways, taxis and trains). They all share similar advertising rules and methods.

Outdoor advertising reaches its audience as an element of the environment. Unlike newspaper, radio or TV, it does not need to be invited into the home. And, it does not provide entertainment to sustain its audience.

Advantages of outdoor advertising

i) Since it is in the public domain, outdoor advertising assuredly reaches its audience. People cannot "switch it off" or "throw it out." People are exposed to it whether they like it or not. In this sense, outdoor advertising truly has a "captured audience."

ii) Its messages work on the advertising principle of "frequency." Since most messages stay in the same place for a period of a month or more, people who drive by or walk past see the same message a number of times.

iii) Particular locations can be acquired for certain purposes. A billboard located in front of your business can direct people to your showroom. Or you can reach rural areas efficiently by placing a billboard in each small town.

iv) Outdoor advertising is an excellent adjunct to other types of advertising you are doing. In fact, it is most effective when coupled with other media.

Disadvantages of outdoor advertising

i) Outdoor advertising is a glance medium. At best, it only draws 2-3 seconds of a reader's time.

ii) Messages must be brief to fit in that 2-3 second time frame. Ninety-five percent of the time, either the message or the audience is in motion.

iii) The nature of the way you buy outdoor advertising (usually a three-month commitment) is not conducive to very short, week-long campaign.

When you buy outdoor advertising, remember that location is everything. High traffic areas are ideal. A billboard in an undesirable area will do you little good. Keep your message concise (use only five to seven words) and make it creatively appealing to attract readership. Few words, large illustrations (or photos), bold colours and simple backgrounds will create the most effective outdoor advertising messages.

vii) **Direct mail**

What makes "direct" mail different than regular mail? Nothing. It is just a way the advertising world describes a promotional message that circumvents traditional media (newspaper, radio, TV) and appeals directly to an individual consumer. Usually through the mail, but other carriers also participate.

Direct mail may be used more than you think. Studies indicate that it is the third largest media expenditure behind television and newspaper.

Rules to remember

i) Define your audience. Figure out who you want to reach before developing your direct mail program. This allows you to specifically target your message to fit common needs. It is the best advertising medium for "tailoring" your appeal.

ii) Locate the right mailing list. You can either build a "house list" by doing the research yourself and compiling the information on a computer, or you can purchase an "outside list" from a list house or mailing organisation already pre-prepared and ready to go.

iii) There are many ways to purchase lists. You can buy them demographically (by age, profession, habits or business), or geographically (by location, state and zip code). Or you can buy a list with both qualities. More than likely, there is a mailing list company in your area that would be happy to consult with you on your needs. If not, there are a number of national mailing lists available.

iv) For assembly, addressing and mailing your project, you also have the choice of doing it yourself or locating a mailing service company to do it for you. As the numbers of your direct mail pieces increase, the more practical it is for you to enlist such an organisation for assistance. They also are very good at getting you the lowest postal rates.

v) Consider using a self-addressed reply card or envelope to strengthen returns. Use a Business Reply Postage Number on the envelope and you will pay only for the cards which are returned to you.

The blessing (or curse) of direct mail is that there are no set rules for form or content. The task of deciding what your mailing should have as content, its design and its message(s) is up to you. However, remember to attract the reader's attention with colour and creativity. Use clear, comfortable writing and make your appeal easy to respond to.

And, of course, coordinate the mailing with other advertising media if you are also using them in the same campaign. It can significantly increase the potential return.

viii) **Speciality advertising**

"Giveaways" the pencils, pens, buttons, calendars, car stickers and refrigerator magnets you see everyday are called "specialty advertising" in the trade.

Chances are, you have some specialty advertising items right at your desk. Businesses imprint their name on items and give them away (or sometimes sell them at very low cost) in order that:

i) You notice their name many times on the item to build "top-of-the-mind" awareness, so when you need a restaurant, for instance, you think of their name first.

ii) You appreciate the goodwill of the company giving you the item and eventually return the favour by giving them some business.

These are both long-term advertising investments that can take months or years to turn into actual sales. First, select the best item that will tell your story most effectively. While an accountant can give away an inexpensive calculator, the same item may not be ideal for a hairdresser. A comb or brush might be more appropriate in that case. Second, decide what you are going to say on the item. Will it be a company slogan or address directions? Since you have a relatively small area, you must be very concise and direct. Third, figure out your method of distribution. Are you going to send them to each customer through the mail? If so, how much will that cost? Will you have them in a big bowl that says "take one"? Distribution is just as important to consider as buying the item.

Just as there are many reputable speciality advertising professionals in your area, the industry is notorious with a lot of high-pressure telephone and mail solicitors who often give specialty advertising a bad name. Don't buy speciality advertising through the mail without checking the quality and prices with trusted local representatives first. And, buying speciality advertising over the telephone is not recommended at all.

Speciality advertising is a unique way to generate goodwill and put your name on items that people remember. But don't do it unless you have an item and distribution plan that will benefit your business.

ix) **Internet advertising**

The Internet as an advertising medium is a relatively new concept, but it is quickly being folded into the mainstream of the advertising industry. The phenomenal growth of the Internet as a shopping device is fuelling the explosion of online advertising. Businesses are eager to tap into a medium that offers the possibility of reaching millions of potential customers 24 hours a day, seven days a week. The promotional messages can be delivered with the click of a mouse at a customer's home or workplace. However, the effectiveness of this type of advertising in relation to its cost is as yet unproven.

Conclusion

There is no one best way to advertise your product or service. It is important to explore the various advertising media and select those which will most effectively convey your message to your customers in a cost-efficient manner. Always remember, advertising is an investment in the future of your business.

4.4.2 Importance of Advertising

In a successful business, advertising plays an essential and important role. Though advertising does not mean selling of products and services, it helps in increasing your sales. Advertising creates awareness in customers and potential customers. When the general public is aware of a service or product, it is more likely to buy it.

Advertising can be used to create brand awareness in the public and to make business more popular within the circle of potential buyers. Advertising increases a company's profit by escalating its revenue. The expenditure on advertisement, therefore, can boost earnings.

Preparing advertising messages for goods and services

Most advertising messages share common components within the message including:

i) **The appeal**

This refers to the underlying idea that captures the attention of a message receiver. Appeals can fall into such categories as emotional, fearful, humorous, and sexual.

ii) **Value proposition**

The advertising message often contains a reason for customers to be interested in the product which often means the advert will emphasise the benefits obtained from using the product.

iii) **Slogan**

To help position the product in a customer's mind and distinguish it from competitors' offerings, advertisements will contain a word or phrase that is repeated across several different messages and different media outlets.

4.5 Distribution Channels

A distribution channel is the method a company uses to get its products into the marketplace for consumer use. The traditional channel goes from supplier to manufacturer to distributor to wholesaler and to retailer before finally getting to the customer. Distribution channels can be indirect or direct.

4.5.1 Types of Distribution Channels

There are different ways in which an entrepreneur can distribute his/her products to the customers.

i) **Direct distribution**

This is where an entrepreneur sells his/her products directly to customers who use the goods or services. It is also known as short channel distribution. Direct distribution is important for some businesses because customers can explain what they like and it enables the entrepreneur to make products that satisfy their needs. However, it can be expensive and time consuming in terms of reaching and serving the customers.

ii) **Retail distribution**

This involves the entrepreneur selling products to retailers, that is, to other entrepreneurs who in turn sell to customers who are the final users of the product. This form of distribution is useful for businesses which import or make products in large quantities.

Retailers reach many customers and help to increase the business outreach and total sales which in turn helps increase the profits. This is common with commodities like sugar, soap, salt and foodstuffs. However, an entrepreneur may lose contact with the customers who use his/her products. In the process, the entrepreneur may not know what the customers like. In addition, the entrepreneur's product may not be effectively promoted since some retailers also sell the competitors' products. The entrepreneur may also lose some income by selling to the retailers at a lower price to allow them also sell at a profit.

iii) **Wholesale distribution**

This channel of distribution involves an entrepreneur selling the products in large quantities to wholesalers who in turn sell them in smaller quantities to retailers. The retailers then sell the goods to customers who are the final users of the product.

Wholesale distribution is useful for businesses that make or import products in very large quantities. Wholesalers help an entrepreneur to reach out to a large area and many customers, which increases the chances of raising sales and profits. Through wholesale distribution, just like retail distribution, an entrepreneur may lose contact with the customers and will not easily know exactly what they want. The products too may not be well promoted since wholesalers may also be selling many other products from competitors.

iv) **Marketing and selling agents**

These are agents who sell products on behalf of entrepreneurs and are paid a commission based on the value of the amounts sold.

Factors considered when selecting a distribution channel

The choice of channel includes choosing among and between distributors, agents, retailers, franchisees, direct marketing and a sales force. The factors that determine the choice of a distribution channel include the following:

i) **Nature of product**

Perishable products such as milk, vegetables and fruits and expensive items like gold products, cars and computers require short or direct distribution channels.

ii) **Reliability of the channel and its image**

A reliable channel is able to provide and avail goods and services to customers whenever need arises. This encourages customers to make repeat purchases.

iii) **Cost effectiveness**

The aim of a business is to minimise the operating costs and maximise profits. An entrepreneur should therefore choose a channel that is less costly or is likely to reduce his/her operating costs in order to maximise his/her profits. But at the same time, the channel should reduce the total price of the products in order to make them competitive in the market.

4.6 Customer Care

Excellent customer service is the process by which your organisation delivers its services or products in a way that allows the customer to access them in the most efficient, fair, cost effective, and humanly satisfying and pleasurable manner possible.

Here is the first point to remember: Customer service is a process, not a set of actions that might include greeting the customer, smiling, asking if you can help and so on.

Customer service is about how your organisation delivers its product or service. The part that sales people play in the customer service process is taking the customer through the process in order for him or her to receive the product they walked in the door to acquire.

i) The process is efficient

Product information is immediately available. It is complete and correct. The sales person can refer the buyer to the website, literature, ingredients or whatever other information is relevant.

The features and benefits are presented convincingly, but honestly. The terms of the purchase are clear. The payment process takes place in the least amount of time possible. If the product requires manufacturing or modification, accurate estimates are given about the time required. If the product is immediately available, there is virtually no lag time in taking possession of the product or experiencing the benefits of the service.

ii) The process is fair

The customer service process must be transparent. If an organisation can practice full disclosure in an obvious way in their product information and their contracts, they are on the way to creating customer loyalty. If the customer experiences your organisation as one where they were never surprised and never felt deceived, the organisation will create a competitive edge in a world where there is precious little confidence in the customer service process.

iii) The product or service is cost-efficient

The product or service is competitively priced. Competitive pricing is the only way to survive in the market place.

Products should not appear to be of better quality than they really are. Say you take home a really cool CD player for a present to one of your children. In a couple of weeks you discover the cool CD player is really cheap plastic and it has peeled. Coffee pots and blenders often look like durable appliances, and then expire in six months. Do not create expectations that will be a disappointment to your customers.

If, however, you guarantee that your product is highly unlikely to develop problems during the first year, you will gain significant customer loyalty and also have a consumer that will be positive toward buying an extended customer warranty beyond the first 12 months. Customer service must be delivered in the most humanly satisfying and pleasurable manner.

Any organisation can have good customer service even without genius employees. Whether your organisation is selling a half-million dollar piece of equipment, a public sector government service or a meal at a restaurant, great customer service is possible. All it requires is that you go through your process from beginning to end and create a repeatable formula that allows the sales/service person to guide the customer through the process.

4.6.1 Customer Service Survey

We all know customer satisfaction is essential to the survival of our businesses. The best way to find out whether your customers are satisfied is to ask them.

When you conduct a customer satisfaction survey, what you ask the customers is important. How, when, and how often you ask these questions are also important. However, the most important thing about conducting a customer satisfaction survey is what you do with the results.

How to establish whether your customers are satisfied

There are many ways to ask your customers whether or not they are satisfied with your company, your products, and the service they received.

You can ask them:

i) Face-to-face: Before they walk out of your store or office, ask them about their experience shopping or what they think of your product or service.

ii) Call them on the phone: If you have their phone number, and their permission, you can call them after their visit and ask how satisfied they are.

iii) Mail them a questionnaire: This technique has been used for a long time. The results are predictable.

iv) Email them a customer satisfaction survey.

v) Email them an invitation to take a customer satisfaction survey.

When to conduct a customer satisfaction survey

The best time to conduct a customer satisfaction survey is when the experience is fresh in their minds. If you delay, the customer's response may be less accurate. He may have forgotten some of the details or may confuse the experience with a later event or visit. Or worse still he may confuse you with another company.

What to ask in a customer satisfaction survey

There is a school of thought that you only need to ask a single question in a customer satisfaction survey. That question is, "will you buy from me again?" While it is tempting to reduce your customer satisfaction survey to this supposed "essence", you miss a lot of valuable information and you can be easily misled.

It is too easy for a customer to answer `yes' to the question about whether they will buy from you again whether they mean it or not. You want to ask other questions in a customer satisfaction survey to get closer to the expected behaviour and to collect information about what to change and what to keep doing.

By all means ask the basic customer satisfaction questions:

i) How satisfied are you with the purchase you made (of a product or service)?

ii) How satisfied are you with the service you received?

iii) How satisfied are you with our company overall?

And then ask the customer loyalty questions:

i) How likely are you to buy from us again?

ii) How likely are you to recommend our product/service to others?

iii) How likely are you to recommend our company to others?

Also ask what the customer liked and did not like about the product, your service and your company.

How often should you conduct a customer satisfaction survey?

The best answer is often enough to get the most information, but not so often as to upset the customer. In real terms, the frequency with which you conduct a customer satisfaction survey depends on the frequency with which you interact with your customers. If you renew your driver's licenses for three-year periods, it would be ridiculous for the company that does the renewal to ask you each year what you thought of your last renewal experience. Conversely, if you survey the commuters on a particular taxi route only once a year, you will miss important changes in their attitudes that may be driven by seasonal events.

What to do with answers from a customer satisfaction survey

Regardless of how you ask your customers for feedback, what you ask them in the customer satisfaction survey and when you survey them, the most important part of the customer satisfaction survey is what you do with their answers.

You need to compile the answers from different customers and look for trends. You should look for differences by region and/or product. And then, you need to act on the information got from the customers through the survey. Fix the things the customers complain about and investigate their suggestions. Ensure you improve your company and product in the areas that mean the most to your customers. There is no need to change the things that they like. Most importantly, give the customers feedback that their answers were appreciated and are being acted upon. That feedback can be individual responses to the customers if appropriate, or it can simply be fixing the things that they tell you need to be fixed.

An example of a customer satisfaction tool

i) A letter to the customer

Dear Customer,

As the manager of [COMPANY], I want to thank you for giving us the opportunity to serve you. Please help us serve you better by taking a couple of minutes to tell us about the service that you have received so far. We appreciate your business and want to make sure we meet your expectations. Attached, you will find a coupon good for ...... We hope that you will accept this as a token of our good will.

Sincerely,
[MANAGER_NAME]
Manager

The questionnaire for the customer
(Tick where appropriate)

1. In your most recent customer service experience, how did you contact the representative?
    - In Person
    - By Telephone
    - Internet
    - Through a Dealer/Retailer/Broker
    - Other

    - Strongly Agree
    - Agree
2. Sufficient information was available on the internet to solve my problem.
    - Neutral
    - Disagree
    - Strongly Disagree
3. About how long did you have to wait before speaking to a representative?
    - I was taken care of immediately
    - Within 3 minutes
    - 3-5 minutes
    - 5-10 minutes
    - More than 10 minutes

4. Did our representative ... (Select all that apply)
   Quickly identify the problem
   - Appear knowledgeable and competent
   - Help you understand the cause and the solution to the problem
   - Handle issues with courtesy and professionalism

5. About how long did it take to get this problem resolved?
   - Immediate resolution
   - Less than a day
   - Between 2 and 3 days
   - Between 3 and 5 days
   - More than a week
   - The problem is still not resolved

6. How many times did you have to contact customer service before the problem was corrected?
   - Once
   - Twice
   - Three times
   - More than three times

   - Very Satisfied
   - Somewhat Satisfied

7. Overall, how satisfied are you with the customer service experience?
   - Neutral
   - Somewhat Dissatisfied
   - Very Dissatisfied

4.6.2 Creative Sales Persons/Sales Force

Steps of creative selling process

As shown in the figure below, the creative selling process consists of eight steps, none of which is less important than any other if the process is to be effective. It should be emphasised to all employees that all steps are vital to the achievement of effective selling.

__________8 Sales follow-up

__________________7 Suggestion selling

_________________________ 6 Closing the sale

____________________________5 Handling objections

______________________________4 Presentation of merchandise

________________________________3 Initial contact

_________________________________ 2 Prospecting

____________________________________1 Pre-customer contact

1. **Pre-customer contact**

A smart builder would not attempt to build a house without a good foundation. Likewise, a businessperson should not place people on the sales floor or telephone until these people know the business, merchandise, services and customers. Before any contact is made with the customer, every salesperson should know the aforementioned items.

Have the company policies, procedures and rules in writing for all employees to see and to know.

- Operation of equipment: learn how to use equipment before a sale, not while the customer is waiting for change.
- Target market knowledge: the better salesperson knows something of the likes and dislikes of the firm's primary customers. The business operator should tell all sales personnel about the business' customers and their lifestyles. Tell the salespeople about customers' interests and ability to buy.
- Product knowledge: A salesperson gains confidence by knowing about the products and services that he or she is selling. If a person sells shoes, it helps to know the merchandise as well as how to fit them. If a person sells building materials, the job will be more effective if the salesperson can also help answer questions about home repairs. It helps the person who sells clothes to know something about fabrics and current fashions. Most sales personnel will not take the initiative to acquire product knowledge on their own. It is management's responsibility to encourage employees to gain product and service knowledge. Management should make such knowledge easily available to them.

2. Prospecting

Although not appropriate to every selling situation, prospecting should be used whenever possible. Essentially, prospecting involves not waiting for the customer to show up at a store or to phone about a service. It is concerned with taking the initiative by going to the customer with a product or service idea. Prospecting may be of two types: new or regular customer prospecting.

- New customer prospecting - A salesperson sees that a person is getting married. Action is taken on this knowledge by contacting the person and telling her about appropriate items (or services) that might be of assistance to a new bride. By using newspapers and personal contacts, a salesperson can take the initiative to contact and create new customers.
- Regular customer prospecting - A firm's best prospects are its current customers. A salesperson should make a practice of calling regular customers on a periodic basis to tell them about products or services. "Hullo Mrs. Mukasa, I just want to tell you about the new shipment of dresses that we received today. As I unpacked them, I saw several that made me think of you." Prospecting with regular customers works! All salespeople should be encouraged to prospect by phone and in-person whenever they see regular customers. A word of caution must be emphasised. Do not do this too often. Prospecting with the same regular customer on a frequent basis can make prospecting lose the special feeling that it can create in customers. In fact it could create resentment.

3. **Initial contact**

The most effective way to close a sale is to open it on a positive note. Unfortunately, many sales do not open this way. The typical initial store contact begins in this manner:

Clerk: "May I help you?"

Customer: "No thank you. I'm just looking."

This ritual leaves much to be desired. Why? It is an automatic statement that shows no creativity on the part of the salesperson. Also, because the customer has heard this statement many times, his or her response is usually given without thinking what was said. Every salesperson should be challenged to treat each customer as an individual by responding differently to each customer.

Initial contact also means responding to customers when they enter the sales areas even when they cannot be waited on immediately. Salespeople should be instructed to tell waiting customers that, "I'll be with you in a moment." Such actions will reduce the number of customers who leave without being served. When the employee is free to help the waiting customer, the initial comment should be, "Thank you, for waiting." A courteous, creative initial contact with the customer can go a long way to promote sales.

4. **Presentation of merchandise**

In presenting merchandise (or services) to the customer, the salesperson should use product knowledge to create the best advantage. How?

- Talk benefits: Although it is good to talk about the lawnmower's 3 1/2 horsepower mower, customers may be more interested in hearing about how fast the lawnmower will cut the grass. Product knowledge is important but the salesperson must remember what makes the customer buy. Therefore, sell benefits.
- Customer involvement: Product knowledge can be used to get customer involvement. Show the customer several features of the digital watch and then have the customer put it on and work it. If the interest is there, it will be hard for the customer to take off the watch so that the salesperson can put it back into the case. The best way to present many products is to get involved. Want to sell dance lessons? Get the customer on the dance floor and let the fun of dancing do some of the selling. The same is true with clothes, perfume, sports equipment and almost anything else.
- Limit the choices: If during the sales presentation more than three items are in front of the customer, the chances of a sale are reduced while the possibility of shoplifting is increased. If, for example, the salesperson continues to carry dresses into the fitting room for the customer to try on without removing the ones tried on and rejected, the customer will likely not buy any because of the inability to decide from among so many choices.

Also, with so many items under study, the clerk may lose track of how many items are in the fitting room. It is possible that some may be put on under the customer's clothes while the clerk is not present, thereby resulting in an expensive experience for the store. Likewise, if a travel agency attempts to sell a customer a tour ride, the chances of making the sale will diminish if too many trip options are presented. Unless there is a definite reason for an exception, the rule of three (never show more than three choices at one time) should be followed whenever merchandise is presented. Limited choices have been found to promote sales.

- Use showmanship: In presenting merchandise to the customer, encourage all personnel to be creative. Be enthusiastic about the merchandise. Hold the necklace up for the customer to see it. Lay the different pieces of the necklace set before the customer in an attractive easy-to-see everything. Ask your salespeople to think like a customer. If I were a customer, what would I like to see?
- Message adaptation: A knowledgeable salesperson should know about the products being sold. Message adaptation involves deciding what information is needed to sell to a particular customer and how that information should be presented to that customer. The effective sales person will make an effort to adjust the presentation to the customer. If the customer knows about gardens and lawns for example, the person selling a lawn service should adapt the sales presentation to the level of the customer's expertise. Don't bore the customer with known facts. It could cost you a sale.

5. **Handling objections**

Remember, if a customer voices some objections, progress is probably being made on the sale. Most salespeople are afraid of objections. Stress to all employees that objections are a natural part of the selling process. They do not mean that the sale is lost. Do not feel offended when a customer does not buy from you. Below are some examples of bad responses to customers when they do not buy;

- I knew you had no money to buy this product. You can't afford it.
- Next time do nt waste my time if you know you will not buy.
- Try Owino market, this is not your class.

Below are some common types of customer objections that a salesperson faces regarding the product, store, service or price:

Product: "That dress looks out-of-date."

Store: "You never have the right merchandise."

Service: "If I believe what I hear, I can't get good service from you."

Price: "It is just too expensive."

These and other objections can be countered by the salesperson in several ways. Using the above product objection as an example, these methods include:

- Yes-but – ""Yes, it does look out-of-date, but it is the latest." This approach brings on a positive note by agreeing with the customer and then moves on to answer the objection.
- Counter-question – "Why do you feel it's out-of-date?" The counter-question puts the ball back in the customer's court. By asking why, the real reason for the objection may become known.
- Restate objection - ""You feel that the dress looks out-of-date." By restating the objection, the customer may respond by saying, "No, I mean it just doesn't look right on me," or something similar. This approach tends to reduce the magnitude of the objection in the eyes of the customer.
- Direct response – "The dress you have on was first shown at the market this season. It is the latest thing." Although offensive to some, this approach may be necessary if the customer is not going to buy unless their assumption can be corrected. Tact is important when using this approach.

These four approaches for handling objections are not meant to be all-inclusive. These and other approaches do point out, however, that the objections should and can be answered by the salesperson. Unless objections are overcome to the satisfaction of the customer, the sale may not be made.

6. **Closing the sale**

In various ways, the salesperson can assist the customer by helping him or her to make the buying decision. Closing techniques that can aid in this effort include:

- Offer a service: "Let us deliver it to you this afternoon." A 'Yes' implies purchase.
- Give a choice: "Do you want the five-piece or eight-piece cooking set?" Either choice implies purchase. Note that 'No' was not one of the choices.

- Offer an incentive: "If you buy now, you get 10 percent off the already low price." The implication is that if they delay, they will not get the 10 percent discount.
- Better not wait: "If you want this refrigerator, better get it now. It is the last one in stock." Note it pays to be honest. If the customer buys and then comes by the store the next day and sees that the store did have another one, this closing technique may have made the sale, but it could lose the customer.

7. **Suggestion selling**

   The customer has made a purchase. Now what? Encourage your sales personnel to make a definite suggestion for a possible additional sale. For many businesses, sales can be increased by 25 percent through positive suggestion selling. Please note that statements such as: "Will there be something else?" or "Can I get you something else?" do not constitute suggestion selling. They do not make a positive suggestion. When the customer buys a lamp, what about a light bulb to go in it? If a picture is purchased, inquire about the necessary hardware to hang it properly. If a suit is bought, suggest a blouse or shirt that goes well with the suit.

   Where appropriate, the creative salesperson will actually get the suggested item and show it to the customer. Or if a person brings in a watch to be repaired, why not also clean it while it is taken apart? This type of initiative usually results in more sales. It should be emphasised that most customers like to receive a valid suggestion. In some cases, suggestions may even permit the customer to avoid another shopping trip to pick up that needed item that they had not thought about. Good suggestion selling makes sales and builds confidence in the firm's business.

8. **Sales follow-up**

   Although not apparent to many salespeople, follow-up is a part of every sale. The closing statement, "Thank you for shopping at (name of store)," is a form of sales follow-up if it is done with enthusiasm. Unfortunately, just making the statement in an automatic manner is about as effective as that other worn out phrase, "May I help you?" If done correctly, however, it allows the customer to leave on a positive note, thereby increasing the chances of repeat business by the customer.

   Follow-up may also concern itself with checking on anything that was promised the customer after the sale. If delivery is supposed to take place on Friday, the salesperson will check to make sure that the promise will be met and, if not, will notify the customer of the problem. Good sales follow-up will prevent the type of situation that occurs so often when the customer calls to find out why their merchandise has not been delivered as promised. A business with a reputation for sales follow-up is going to obtain additional business because of its concern after the sale.

Sincere sales follow-up is good business. Imagine the impact that can be had on a customer when the carpet cleaning service telephones the customer 48 hours after cleaning her carpets to be sure that everything is satisfactory. Sales follow-up, builds good will and repeat business.

4.6.3 Attributes of a Creative Salesperson

In addition to having personnel who understand and apply the creative selling process, an organisation should try to have sales people who possess certain attributes that can make them more effective in their jobs.

v) **Good judgment**

Common sense, maturity, intelligence and other terms are used interchangeably with judgment. A salesperson knows that it does not pay to argue with a customer.

The salesperson also knows that the firm should never be criticised in front of customers. These situations reflect the use of good judgment on the part of the employee. Please note that the term maturity is sometimes used in place of judgment but that it is not necessarily a function of age.

vi) **Tact**

If an employee has a keen sense of what to say and do, many problems can be overcome before they are created. Many employees give little thought to the impact of their actions. A child playing with toys in the toy store is told in a blunt manner to "quit playing with the toys and go find your mother." While all this is going on, the mother is standing behind the salesperson. Was a confrontation with the child necessary? No. Could it have been handled differently? Yes. How do the child and mother feel about the store? They certainly will not have positive feelings. This salesperson did not know what to do and say in order to maintain good customer relations. Be tactful.

vii) **Attitude**

A good salesperson will have a positive attitude toward customers, merchandise, services and the business. An employee with a good attitude is willing to accept suggestions, to learn and to apply the steps in the creative selling process and is not afraid of work. A salesperson with a bad attitude can create unnecessary problems. A bad attitude is contagious. If any employee is otherwise competent, management should work with the employee to develop a positive attitude. Positive attitudes can result in sales.

viii) **Selected physical attributes**

To be a success, the salesperson must physically belong in the firm's particular environment. Personal appearance and personal hygiene are important in the selling environment. Equally important in terms of personal appearance is a clothing salesman whose clothes are up to date. A salesman wearing last year's clothing will have difficulty in selling the latest fashions to his customers. Personal appearance does count in the selling equation.

ix) **Personal hygiene**

Body odour, bad breath, dirty hair, soiled clothes, scuffed shoes, and dirty finger nails are all reasons why a sale may be lost. Be tactful when handling personal hygiene issues. An observant owner manager should keep a watchful eye out for hygiene problems among the staff and, when necessary, counsel the offending employee in private about improving his or her appearance. Your customers will usually react unfavourably to this and similar inappropriate selling situations.

5

Managing Personnel

Managing personnel is the process of planning, monitoring, controlling and administering of personnel to include their recruitment, motivation and retention in the production process.

5.1 The Recruitment Process

Hiring a new employee is as important to the entrepreneur as it is to the person hired. It can either be the beginning of a mutually rewarding relationship, or the beginning of a long series of mistakes.

Two of the major reasons for high employee turnover are the recruiting and selection procedures used. The way entrepreneurs advertise a position, handle applications, conduct interviews, and select and introduce a new worker to a job are all elements in the effort to reduce employee turnover.

Sources of recruiting employees

Effective recruiting requires that you know where and how to obtain qualified applicants. It is difficult to generalise about the best source for each business, but a description of the major sources follows.

i) **Present employees**. Promotion from within tends to keep employee morale high. Whenever possible, current employees should be given first consideration for any job openings. This practice signals your support of current employees.

ii) **Unsolicited applicants**. Small businesses receive many unsolicited applications from qualified and unqualified individuals. The former should be kept on file for future reference. Good business practice suggests that all applicants be treated courteously whether or not they are offered jobs.

iii) **Schools**. High schools, trade schools, vocational schools, colleges and universities are sources for certain types of employees, especially if prior work experience is not a major factor in the job specification. Schools also are excellent sources for part-time employees.

iv) **Private employment agencies**. These firms provide a service for employers and applicants by matching people to jobs in exchange for a fee. Some fees are paid by the applicants, and there is no cost to the employer. For highly qualified applicants in short supply, the employer sometimes pays the fee.

v) **Employee referrals.** References by current employees may provide excellent prospects for the business. Evidence suggests that current employees hesitate to recommend applicants with below average ability. Word of mouth is one of the most commonly used recruiting sources in the small business community.

vi) **Help wanted advertising**. Letting people know that the business is hiring is a key element in gaining access to the pool of potential employees. At its simplest, this type of advertising may take the form of a Help Wanted sign in the window. More sophisticated methods involve using local media, primarily print sources such as daily and weekly newspapers. The classified pages of newspapers are frequently consulted by active job seekers, including currently employed individuals who may be tempted by a more attractive position. Other advertising media include radio and television. These tend to have a wider appeal than the newspaper; however, the price of an advertisement is correspondingly higher.

vii) **Specialty media publications**, such as trade association magazines and newsletters, may also produce quality job applicants. There are efforts in some parts of the country to offer small business employers access to cable television community bulletin boards. Another high-tech opportunity is to list positions on computer network bulletin boards.

Prices for help wanted advertising vary and the small business owner approaches them with caution. A well-placed, high-quality advertisement will attract good people, whereas, an expensive advertisement in the wrong medium may get no results. Some experimentation is worthwhile to most small businesses. Another suggestion is to ask other small business people in the area about their success with help wanted advertising. Learn from others' successes and mistakes.

5.2 Procedures of Recruiting Employees for a Business

Whatever type of business you plan you will invariably need some workers for technical, clerical, sales and management duties. It is therefore important for the entrepreneur to employ the right personnel. Employing a wrong person for a particular job creates the risk of inefficient production with poor quality products which will in turn have a negative effect on the sales thereby endangering the survival and growth of the business.

i) **Selecting.** In selecting personnel/workers for your business the following elements should be considered:

- Check the applicant's track record. How a person behaves i.e. his behaviour and personality.
- Basic ability
- Experience

ii) **Interviewing.** When interviewing, seek to identify in candidates the personal qualities your business needs, and try not to be swayed by irrelevant subjective criteria. Consider only the skills, qualifications and experiences required for successful completion of the job. Do not employ someone simply because he/she is more like yourself than the other applicants. Relevant personal qualities might include:

- The ability to mix easily and get on with others (including customers, suppliers and/or other workers).
- Possession of a certain technical skill.
- Alertness and the ability to interpret complicated business issues.

- Ability to withstand stress, cope with irate customers, work independently, etc.

iii) **Incentive schemes/motivators.** Devise some form of output related remuneration package which contains a guaranteed minimum level of earnings. Possibilities include:

- Awarding higher time rates to anyone who exceeds a predetermined target output
- Out-put-related bonuses paid on top of a basic wage.
- Giving workers a certain proportion (e.g. half) of the money saved through completing a job early. For instance, an employee who completes in one hour a task that normally takes an hour and a half receives a bonus of a quarter of an hour's pay at his or her standard hourly rate.

Case Study

Abdul had been operating his service station for twenty years. He did everything himself: pumped fuel, repaired engines, kept books, fixed tires, drove the tow truck and swept floors. Abdul was a very friendly fellow. He was a hard worker and always treated his customers well. His business had grown over the years. In fact, business was so good Abdul felt he couldn't do everything himself any more.

He decided he had to hire a helper. It wasn't an easy decision for him to make. He had been used to working alone all these years. He knew about all the troubles other small businesses in the area had experienced in trying to get and keep good workers. But Abdul thought that if he went about the hiring process in the right way, he shouldn't have all the problems the other businesses had had. Here is how Abdul reasoned.

"I really have two problems. One is finding the right person, and the other is keeping that person once trained. It's easy to lose a good worker. Other entrepreneurs may try to take my helper away from me once he or she has been trained. To make sure I get the right person, I'll do these things:

i) Figure out what jobs I want my helper to do and what jobs I want to keep doing myself.

ii) Write down all the jobs the new employee will have to do. I'll describe the job in detail so the helper will know exactly what he or she is expected to do.

iii) Write down what type of person I want. I don't want everybody to think they can qualify for the job. My business is important. I want someone who knows the service station business and who will know how to serve customers so they are kept satisfied.

iv) After I've done these things I'll write a job advertisement and get the word out that I need a helper. I can put ads around the village and I'll put it in the paper over in the next town. The more people that apply, the better chance I have of finding the kind of person I need for the job." Below is Joe's job advertisement:

WANTED: Helper For Service Station

Good opportunity for neat, honest and reliable worker
Must have previous service station experience.
Apply in writing or call Abdul's Service, East Hill

1. I shall handle the people who apply like this:
    - I'll look at the letter I get. If the letter looks good, I'll ask the person to see me.
    - I'll interview those that come to the service station. I've been in this business a long time and I think I know a good service station worker when I see one. Just to be sure, I'll ask a lot of questions.
    - If I like the person, I'll ask the person to serve a few customers, grease a car, change oil, drive the tow truck, etc. A lot of people will tell you they can do a thing, but when they try they're no good. This will also give me a chance to see how much training the person will need. I don't mind training someone, but I can't afford to spend a year at it.
2. Then I will take the applicants I like best in terms of how well their qualifications and competence match the job description, and check up on them. They'll have to tell me where they've worked before, where they come from and who knows them well. I've seen business owners get fooled before. Those who looked really good at first sight were hired. But later they found out the employee was trouble. I'll check first to see if any of the people who know the applicant (especially the last boss) has anything bad to say. I'll visit past bosses in person, because a lot of business owners don't want to talk about personal matters on the phone or in a letter.

3. Then I'll pick the best person for the job. I wouldn't exclude a woman, a disabled person or anyone else from being considered for the job, as long as they can perform the essential tasks I need done well.

   I only need one employee, so I'll offer the job to the person I think will be able to do the job best. I'll offer a good hourly wage. If the applicant wants more, I may pay more. Some operators pay their helpers a bonus for every car they grease or oil. But that's no good because the employee just tries to force customers to have their cars done even if they don't need to. Some employees lose a lot of customers that way.

4. If I get a really good helper, I want to be sure to keep that person happy. I think that if I'm a good boss, the employee will stay. My idea of a good boss is someone who:
   - understands people
   - doesn't closely follow the workers around
   - gives the worker some responsibility
   - sits down and talks things over with workers now and then
   - is a good listener
   - is fair with the worker when a good job has been done

I am sure that if I do these things, I'll get a good helper that I will be able to keep.

Activity

1. What are the steps Abdul went through in hiring a worker? List them. Discuss them.
2. Do you agree with Abdul's idea of a good boss?
3. Why do you think the ability to manage people is an important skill for an entrepreneur to have?
4. What is meant by the term 'personnel management'?
5. Do you think Abdul should hire a qualified woman or a disabled person, let us say someone who is deaf to do the job?

5.2 Employee Considerations

i) Pay plans

To employees, wages are an important part of their jobs. They expect their pay to reflect the skills and energy they put into a business. If entrepreneurs want to attract and keep good workers, they must take into consideration the rate paid by other firms for a similar job.

i) **Employee relations**

Good pay and fringe benefits are not all it takes to make employees happy. Job satisfaction means much more to them. Entrepreneurs have a responsibility to provide the best kind of physical surroundings and to make sure that there is always two-way communication with the staff.

ii) **Working conditions**

The health, comfort and safety of employees, as well as decent working conditions, should be of genuine concern to entrepreneurs. A good environment can do much to encourage efficiency and good attitudes in addition to preventing accidents. In some cases, the work space might have to be altered to accommodate the needs of a worker with a disability. Often changes like putting hand rails on stairs or widening aisles for a wheelchair user benefits everyone. The premises should have good ventilation, sufficient heating and cooling, good lighting, proper sanitation and safety facilities. Having a first-aid kit and a doctor's telephone number are necessities in a health and safety program in any business.

5.2.1 Identifying Training Needs

Training needs can be assessed by analysing three major human resource areas: the organisation as a whole, the job characteristics and the needs of the individuals. This analysis will provide answers to the following questions:

- Where is training needed?
- What specifically must an employee learn in order to be more productive?
- Who needs to be trained?

Begin by assessing the current status of the company, that is, how it does what it does best and the abilities of your employees to do these tasks. This analysis will provide some benchmarks against which the effectiveness of a training program can be evaluated. Your firm should know where it wants to be in five years from its long-range strategic plan. What you need is a training program to take your firm from where it is to where you want it to be.

Second, consider whether the organisation is financially committed to supporting the training efforts. If not, any attempt to develop a solid training program will fail.

Next, determine exactly where training is needed. It is unwise to implement a company-wide training effort without concentrating resources where they are needed most. An internal audit will help point out areas that may benefit from training. Also, a skills inventory can help determine the skills possessed by the employees in general. This inventory will help the organisation determine what skills are available now and what skills are needed for future development.

In today's market-driven economy, you would be careless not to ask your customers what they like about your business and what areas they think should be improved. In summary, the analysis should focus on the total organisation and should tell you:

i) Where training is needed and

ii) Where it will work within the organisation.

Once you have determined where training is needed, concentrate on the content of the program. Analyse the characteristics of the job based on its description that is, the written narrative of what the employee actually does. Training based on job descriptions should go into detail about how the job is performed on a task-by-task basis. Actually doing the job will enable you to get a better feel for what is done.

Individual employees can be evaluated by comparing their current skill levels or performance to the organisation's performance standards or anticipated needs. If there are any discrepancies between the actual and anticipated skill levels this indicate a training need.

5.2.3 The Training Process

Below are the steps in the training process

i) Organisational objectives

ii) Needs assessment: Is there a gap?

iii) Training objectives

iv) Select the trainees

v) Select the training methods and mode. Choose a means of evaluating

vi) Administer training

vii) Evaluate the training

Your business should have a clearly defined strategy and set of objectives that direct and drive all the decisions made especially with regard to the training decisions. Businesses that plan their training process are more successful than those that do not. Most business owners want to succeed, but do not engage in training which would improve their chances of success. Why? The five reasons most often identified are:

i) Time: Small businesses managers find that time demands do not allow them to train employees.

ii) Getting started: Employees of small businesses need training but most times the owners hire them and expect them to learn on the job. The owners are unfamiliar with the whole training process or reluctant to pursue it.

iii) Broad expertise: Managers tend to have broad expertise rather than the specialised skills needed for training and development activities.

iv) Lack of trust and openness: Many managers prefer to keep information to themselves and in so doing, they keep information from subordinates and others who could be useful in the training and development process.

v) Scepticism as to the value of the training: Some small business owners believe the future cannot be predicted or controlled and their efforts, therefore, are best centred on current activities, that is, making money in the present time. Such owners think that training is a waste of time and money.

A well-conceived training program can help your firm succeed. A program structured with the company's strategy and objectives in mind has a high probability of improving productivity and other goals that are set in the training mission.

For any business, formulating a training strategy requires addressing a series of questions.

i) Who are your customers? Why do they buy from you?

ii) Who are your competitors? How do they serve the market? What competitive advantages do they enjoy? What parts of the market have they ignored?

iii) What strengths does the company have? What weaknesses?

iv) What social trends are emerging that will affect the firm?

The purpose of formulating a training strategy is to answer two relatively simple but vitally important questions: (1) what is our business? (2) What should our business be? Armed with the answers to these questions and a clear vision of its mission, strategy and objectives, a company can identify its training needs.

Successful entrepreneurs hire staff on the basis of their skills, motivation and experience. Staff should not be hired, or excluded, on the basis of their sex, ethnic origin or disability. In some countries, there may be national or local laws to require businesses to hire a certain percentage of workers from a specific minority group, persons with disabilities, or some other group.

5.2.4 Induction of workers

As a general rule, new employees should be shown around the business on their first day of work. The new employee should be introduced to the rest of the employees, given an overall view of the entire operation, and shown exactly how their jobs fit into the total operation of the business. Such small gestures take little effort, but will probably save both time and money in the long run. Remember, it is important to start the new employee off on the right foot. Proper orientation will help a great deal in getting a more productive, long-term employee. Four basic rules of orientation include:

i) Prepare the employee

ii) Present the work

iii) Try the employee out under supervision

iv) Follow-up

Factors considered when preparing induction of new employees

i) Know the job

ii) Have a current employee serve as a mentor

iii) Prepare a simple job breakdown

iv) Set a training timetable

v) Arrange the work area

vi) Evaluate new employee's work on a daily basis

vii) When hiring an employee with a disability, the entrepreneur should keep the following points in mind:
- Disabled employees want to be treated as much as possible like other employees. They do not wish to be singled out for special attention.
- Like other employees, they wish to be seen as individuals, each with individual specific on-the-job training needs.
- Businesses should provide any specific tools, adaptations or equipment so all employees can do their job effectively. There may be government or other programs to support businesses in securing needed equipment or job training funds or other incentives to encourage the hiring of disabled employees.

Advantages of training workers

It is important that employees be inducted into training to improve their job knowledge, skills and future performance. The need for proper training is emphasised by the following factors:

- Increased productivity. Adequate training increases skill which improves both the quality as well as the quantity of the product due to increase in the level of performance.
- Improvement in employee morale. Training improves needed skills which build up confidence and satisfaction of the employee.
- Reduced supervision. A trained employee supervises himself. He accepts responsibility and expects more freedom and autonomy and less supervision.

5.2.5 Motivation of Employees

Motivation is derived from the word motive which is a dynamic form of a desire, craving or need which must be satisfied. All motives are directed towards goals, needs, desires or change of behaviour which becomes goal oriented.

Ways of motivating employees

i) Favourable job content: for instance job security, good salary, fringe benefits like pensions, sick leave and holidays as well as participation in decision-making and management. Entrepreneurs should have a set policy regarding all fringe benefits and apply pay and benefits equally to employees based on their jobs.

ii) Promotion prospects: workers should be promoted objectively. Those who perform better should be promoted so that the rest may also be encouraged to perform as expected.

iii) Provision of adequate and timely recommendations where necessary. It is common for most firms to recommend their employees.

iv) Women may be partially or fully involved in decision-making in an organisation.

v) Performance appraisal: appraising workers according to their contributions to the business will go a long way in motivating them.

vi) Ensure pleasant working conditions for the workers.

vii) Provide on job training where necessary and further studies for the employees (professional growth).

viii) Fringe benefits. Of all fringe benefits, those for sick leave and holidays are the most widely appreciated by employees. Entrepreneurs should have a set policy regarding all fringe benefits and apply pay and benefits equally to employees based on their jobs.

Purpose of training employees

i) Creating a pool of readily available and adequate replacements for personnel who may leave or move up in the organisation.

ii) Enhancing the company's ability to adopt and use advances in technology because of a sufficiently knowledgeable staff.

iii) Building a more efficient, effective and highly motivated team, which enhances the company's competitive position and improves employee morale.

iv) Ensuring adequate human resources for expansion into new programs.

Research has shown specific benefits that a small business receives from training and developing its workers, including:

i) Increased productivity.

ii) Reduced employee turnover.

iii) Increased efficiency resulting in financial gains.

iv) Decreased need for supervision.

v) Employees frequently develop a greater sense of self-worth, dignity and well-being as they become more valuable to the firm and to society. Generally they will receive a greater share of the material gains that result from their increased productivity. These factors give them a sense of satisfaction through the achievement of personal and company goals.

vi) The quality of employees and their development through training and education are major factors in determining long-term profitability of a small business. Hiring and keeping good employees is the key to the first factor. (Hiring has already been discussed and retaining employees will be discussed later.) If you hire and keep good employees, it is good policy to invest in the development of their skills, so they can increase their productivity.

vii) Training is often considered for new employees only. This is a mistake because ongoing training for current employees helps them adjust to rapidly changing job requirements.

The Training Process

i) Selection of trainees

Once you have decided what training is necessary and where it is needed, the next decision is who should be trained? For a small business, this question is crucial. Training an employee is expensive, especially when he or she leaves your firm for a better job. Therefore, it is important to carefully select who will be trained.

Training programs should be designed to consider the ability of the employee to learn the material and to use it effectively, and to make the most efficient use of resources possible. It is also important that employees be motivated by the training experience. Employee failure in the program is not only damaging to the employee but a waste of money as well. Selecting the right trainees is important to the success of the program.

i) **Training goals**

The goals of the training program should relate directly to the needs determined by the assessment process outlined above. Course objectives should clearly state what behaviour or skill will be changed as a result of the training and should relate to the mission and strategic plan of the company. Goals should include milestones to help take the employee from where he or she is to where the firm wants him or her in the future. Setting goals will help to evaluate the training program and also to motivate employees. Allowing employees to participate in setting goals increases the probability of success.

ii) **Training methods (on-the-job and off- the-job techniques)**

There are two broad types of training available to small businesses: on-the-job and off-the-job techniques. Individual circumstances and the aspects of who, what and why of your training program determine which method to use.

On-the-job training is delivered to employees while they perform their regular jobs. In this way, they do not lose time while they are learning. After a plan is developed for what should be taught, employees should be informed of the details. A timetable should be established with periodic evaluations to inform employees about their progress. On-the-job techniques include orientations, job instruction training, apprenticeships, internships and assistantships, job rotation and coaching.

Off-the-job techniques include lectures, special study, films, television conferences or discussions, case studies, role playing, simulation, programmed instruction and laboratory training. Most of these techniques can be used by small businesses although, some may be too costly. Choose the techniques that meet your needs and fit your budget.

iii) **Selecting competent trainers**

Who actually conducts the training depends on the type of training needed and who will be receiving it. On-the-job training is conducted mostly by supervisors; off-the-job training, by either in-house personnel or outside instructors.

In-house training is the daily responsibility of supervisors and employees. Supervisors are ultimately responsible for the productivity and, therefore, the training of their subordinates. These supervisors should be taught the techniques of good training. They must be aware of the knowledge and skills necessary to make a productive employee. Trainers should be taught to establish goals and objectives for their training and to determine how these objectives can be used to influence the productivity of their departments. They also must be aware of how adults learn and how best to communicate with adults. Small businesses need to develop their supervisors' training capabilities by getting them to attend courses on training methods. The investment will pay off in increased productivity.

There are several ways to select training personnel for off-the-job training programs. Many small businesses use in-house personnel to develop formal training programs to be delivered to employees off line from their normal work activities, during company meetings or individually at prearranged training sessions.

There are many outside training sources, including consultants, technical and vocational schools, continuing education programs, chambers of commerce and economic development groups.

Selecting an outside source for training has advantages and disadvantages. The biggest advantage is that these organisations are well versed in training techniques, which is often not the case with in-house personnel. The disadvantage of using outside training specialists is their limited knowledge of the company's product or service and customer needs. These trainers have a more general knowledge of customer satisfaction and needs. In many cases, the outside trainer can develop this knowledge quickly by immersing himself or herself in the company prior to training the employees. Another disadvantage of using outside trainers is the relatively high cost compared to in-house training, although the higher cost may be offset by the increased effectiveness of the training.

Regardless of whoever is selected to conduct the training, either outside or in-house trainers, it is important that the company's goals and values be carefully explained.

iv) **Training administration**

Having planned the training program properly, you must now administer the training to the selected employees. It is important to follow through to make sure the goals are being met. Questions to consider before training begins include:

i) Location

ii) Facilities

iii) Accessibility

iv) Comfort

v) Equipment

vi) Timing

Careful attention to these operational details will contribute to the success of the training program.

An effective training program administrator should follow these steps:

- Define the organisational objectives.
- Determine the needs of the training program.
- Define training goals.
- Develop training methods.
- Decide whom to train.
- Decide who should do the training.
- Administer the training.
- Evaluate the training program.

Following these steps will help an administrator develop an effective training program to ensure that the firm keeps qualified employees who are productive, happy workers. This will contribute positively to the bottom line.

v) **Evaluation of training**

Training should be evaluated several times during the process. Determine these milestones when you develop the training. Employees should be evaluated by comparing their newly acquired skills with the skills defined by the goals of the training program. Any discrepancies should be noted and adjustments made to the training program to enable it to meet specified goals. Many training programs fall short of their expectations simply because the administrator failed to evaluate its progress until it was too late. Timely evaluation will prevent the training from straying from its goals.

5.3 Employee/Labour Turnover

Labour turnover refers to the movement of employees in and out of a business. However, the term is commonly used to refer only to ‘wastage’ or the number of employees leaving.

High labour turnover causes problems for business. It is costly, lowers productivity and morale and tends to get worse if not dealt with.

Labour turnover is also regarded as the ratio of the number of employees that leave a company through attrition, dismissal or resignation during a period to the number of employees on payroll during the same period.

5.3.1 Causes of Labour Turnover

A high level of labour turnover could be caused by many factors:

i) Inadequate wage levels leading to employees moving to competitors.

ii) Poor morale and low levels of motivation within the workforce.

iii) Recruiting and selecting the wrong employees in the first place, meaning they leave to seek more suitable employment.

iv) A buoyant local labour market offering more (and perhaps more attractive) opportunities to employees.

5.3.2 Costs of Labour Turnover

High rates of labour turnover are expensive in terms of:

i) additional recruitment costs.

ii) lost production costs.

iii) increased costs of training replacement employees.

iv) loss of know-how and customer goodwill.

v) potential loss of sales (if there is high turnover amongst the sales force).

vi) damage that may be done to morale and productivity (an intangible cost).

5.3.3 Measuring Labour Turnover

The simplest measure involves calculating the number of leavers in a period (usually a year) as a percentage of the number employed during the same period. This is known as the "separation rate" or "crude wastage rate" and is calculated as follows:

Number of leavers / average no employed x 100

For example, if a business has 150 leavers during the year and, on average, it employed 2,000 people during the year, the labour turnover figure would be 7.5%

An alternative calculation of labour turnover is known as the **"Stability Index"**. This illustrates the extent to which the experienced workforce is being retained and is calculated as follows:

Number of employees with one or more years' service now / Number employed one year ago x 100

Labour turnover will vary between different groups of employees and measurement is more useful if broken down by department or section or according to such factors as length of service, age or occupation.

5.3.4 Patterns of Labour Turnover

The highest rate of labour turnover tends to be among those who have recently joined a business.

Longer-serving employees are more likely to stay, mainly because they become used to the work and the business and have an established relationship with those around them.

5.3.4 Benefits of Labour Turnover

Labour turnover does not just create costs. Some level of labour turnover is important to bring new ideas, skills and enthusiasm to the labour force.

A "natural" level of labour turnover can be a way in which a business can slowly reduce its workforce without having to resort to redundancies (this is often referred to as "natural wastage".

5.3.5 Managing Labour Turnover

When confronted with employee turnover, management has several policy options that it can change or improve for example those that deal with recruitment, selection, induction, training, job design and wage payment. Policy choice, however, must be appropriate to the precise diagnosis of the problem.

Given that there is an increase in direct and indirect costs of labour turnover, therefore, management is frequently exhorted to identify the reasons why people leave organisations so that appropriate action is taken. For instance, provision of on-job training opportunities where labour turnover is attributed to low wage rates may not help the situation.

i) Employee engagement

The organisation's capacity to engage, retain, and optimise the value of its employees hinges on how well jobs are designed, how employees' time is used, and the commitment and support that is shown to employees by the management. This would motivate employees to stay in the organisation.

i) **Knowledge accessibility**

The extent of the firm's collaboration and its capacity for making knowledge and ideas widely available to employees would make them stay in the organisation.

ii) **Sharing of information**

This should be made at all levels of management. This accessibility of information would lead to strong performance from the employees and create a strong corporate culture. Therefore, information accessibility would make employees feel that they are appreciated for their effort and chances of leaving the organisation would be minimised.

iii) **Workforce optimisation**

The organisation's success in optimising the performance of the employees by establishing essential processes for getting work done, providing good working conditions, establishing accountability and making good hiring choices would retain employees in their organisation. The importance of gaining better understanding of the factors related to recruitment, motivation and retention of employees is further underscored by rising personnel costs and high rates of employee turnover.

iv) **Job involvement**

This describes an individual's participation with work and indicates the extent to which an individual identifies psychologically with his/her job. Involvement in terms of internalising values about the goodness or the importance of work encourages employees not to quit their jobs. This involvement is related to task characteristics. Workers who have a greater variety of tasks tend to stay in the job. Task characteristics have been found to be potential determinants of turnover among employees.

Empowerment of employees

This could help to enhance the continuity of employees in organisations. Empower your employees and delegate more decisions to their subordinates. Managers should act like coaches and help employees solve problems. This gives the employees increased responsibility. This in turn leads to subordinates who are more satisfied with their leaders. They will be motivated to perform up to the superior's expectations.

6

Financial Management

Financial Management is the management of the finances of a business / organisation in order to achieve financial objectives. Taking a commercial business as the most common organisational structure, the key objectives of financial management would be to:

- create wealth for the business;
- generate cash; and
- provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested.

There are three key elements to the process of financial management:

i) Financial planning

Management need to ensure that enough funding is available at the right time to meet the needs of the business. In the short term, funding may be needed to invest in equipment and stocks, pay employees and fund sales made on credit.

In the medium and long term, funding may be required for significant additions to the productive capacity of the business or to make acquisitions.

ii) Financial control

Financial control is a critically important activity to help the business ensure that the business is meeting its objectives. Financial control address questions such as:

- Are assets being used efficiently?
- Are the businesses assets secure?
- Does management act in the best interest of shareholders and in accordance with business rules?

iii) Financial decision-making

The key aspects of financial decision-making relate to investment, financing and dividends:

- Investments must be financed in some way, however, there are always financing alternatives that can be considered. For example, it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers
- A key financing decision is whether profits earned by the business should be retained rather than distributed to shareholders via dividends. If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.

6.1 Financial Needs of a Potential Business

Success in business can be brought about through proper identification of business financial needs. Financial business needs can arise due to total investment and working capital as seen earlier. Therefore, to start a business, you will need a total investment which includes capital investment and the net working capital. The investment is composed of the resources required to start the business. On the other hand, the working capital comprises funds needed to finance the day-to-day operations of the business over a period of time. Capital investment is divided into fixed investments and pre-production capital expenditures.

Capital is cash or goods used to generate income either by investing in a businessor a different income property.

Fixed capital includes:

i) Land
ii) Site preparation
iii) Building and civil works
iv) Machinery and equipment including (installation)
v) Fixtures and fittings
vi) Motor vehicles (if needed by the business)
vii) Office furniture and equipment
viii) Provision for contingency and inflation

Working Capital includes expenditures incurred at the various stages of business preparation and implementation which should be capitalised. They include the following:

i) Company formation and registration expenses
ii) Cost of feasibility study (business plan) and other investment expenses
iii) Management of project implementation
iv) Supervision of structure and civil works
v) Trial runs, start-up and commissioning
vi) Interest on loans

Capital investment requirements will normally be reflected in the capital expenditure statement.

6.1.1 Types of Capital

If an entrepreneur wants to start a business he/she must be aware that a certain amount of money is needed during the start-up process before the business begins to earn its own income. This money is called start-up capital. It is divided into two categories.

i) **Pre-operation payment or investment capital**

This means money that a person starting a business will have to pay before his business starts operating. The money needed for these payments is invested in the business as long as the business is operating.

Buying land, constructing a workshop, purchasing machinery, tools, equipment, office furniture and so on are all pre-operation payments, as are legal fees, connections for water, electricity and telephone, publicity and advertisement costs.

Business starters are generally aware that they need money for machines, tools or equipment for a shop. However, very often young people in particular, do not realise that a number of other payments have to be made before they can really start their business. For example, the cost of installation of machines and training workers can constitute quite a high percentage of the total cost of the machines. Fees for licenses and insurance are also part of investment capital/pre-operation payment.

ii) **Initial operation payment or working capital**

Initial operation payments will occur when a new business starts to operate, to cover immediate expenses until revenues from sales flow back into the business. This time span depends on the nature of the business. In general, in trading activities this period can be less than one month while in manufacturing activities the time span between the starting date of the production (processing time of the product, the time the finished goods remain in the factory, delivery to wholesalers or retailers or to the customer) and receipt of money in the bank account or cash box can be several months. This money is also invested permanently in the business and is working capital. When the business expands, the working capital needs to be increased.

The need for working capital is also underestimated. Business starters think they will be paid immediately. This is often the case in trading activities; however, the shop owner has to have a stock of goods because she/he cannot replace every article sold immediately. Sometimes customers who place bigger orders ask for credit and payments are not always made on time.

In manufacturing activities, working capital has to cover a long period that can last several months. If the working capital is underestimated, an entrepreneur may have a flourishing business, but may run out of money to pay salaries, order additional merchandise, and/or make bank repayments. It is recommended that a certain percentage is included in the investment capital for unforeseen items.

The distinction between these two categories of payment depends on the moment when the payments are made: either before the business starts to operate (investment capital) or after it has started (working capital). The start-up capital for a new business is the sum of the expenditures for the investment items and the working capital. The future entrepreneur can get this money from his/her own savings, from partners or by negotiating loans with banks. As a general rule, 30% of the start-up capital should be from the entrepreneur’s own resource.

Working capital is money used in the day–to-day running of the business. It is the net of current assets and current liabilities. Current assets include inventories of raw materials, semi-finished goods (work in process), finished goods, trade debtors, cash and bank balances. On the other hand, current liabilities include creditors and expenses outstanding.

The working capital is normally reflected in the funds flow statement as an increase or a decrease for a given period. The funds flow statement indicates whether there is an increase or decrease in working capital.

The uses of the working capital comprise payment to items of capital nature (long term) such as purchase of assets or repayment of a bank loan. The remaining balance is available for day-to-day transactions.

Sources of capital

There are several sources of finance from which prospective entrepreneurs can obtain capital necessary to initiate their plans. These are:

i) **Equity financing or personal funds (saved or inherited)**

The main source of equity financing for most entrepreneurs is their personal savings. Some experts say that up to one-half of the money needed to start a small business should come from the owner. This may mean the future owner must work and save for several years before having enough money to start a small business.

Another popular source of equity financing is money from family and friends. However, when using money from family and friends, there are a few points to consider. For example, will they want to get involved with operating the business? What happens if the business does not succeed? Will it ruin your relationship? Before taking money from family and friends, think it through carefully.

Equity financing can also be obtained by selling part of the business to others. This can be done in several different ways. You could get one or more partners. With the partners putting in part of their own money, it is usually easier to raise the total amount needed. However, partners must be able to get along and make decisions that each accepts. Sometimes this is not easy. Since many people starting their own business want to make their own decisions, this alternative may not be realistic.

ii) **Borrowing from lending institutions**

When equity sources are not enough, the entrepreneur has the option of borrowing from other sources. Lenders will usually lend money for starting businesses to people they know and trust. Lenders are careful not to lend money if the risks are too great. Lenders want to be sure they will not lose their money on businesses that fail. Most lenders, therefore, will want to review the business plan carefully. This plan should describe how the business will be operated, how much money will be needed and how it will be used, and when the business will be profitable. Most people think of banks when borrowing money. Although it is true that banks lend money to help businesses get started, it is not always easy to borrow from them. Bankers lend money when the risk of losing the money is very low. Frequently, they will only lend to customers they have known for a long time.

If you are a member of a co-operative society, you may be able to borrow money for business use. Some loans can be obtained with just your signature. Co-operative society interest rates are usually lower than bank rates.

Commercial finance companies may lend you money to start your business. However, it is important to note that these finance companies usually charge high interest rates because they take greater risks.

Some people borrow money against their life insurance policies. This is an easy way to obtain some of the money needed to start a business. Life insurance policy loans are based on the cash already paid in. Life insurance companies usually offer these loans at lower interest rates. However, it should be remembered that the amount borrowed is deducted from the coverage available to the beneficiaries until the loan is repaid.

If you need to buy land or a building for a new business, you may be able to borrow the money from a savings and loan institution which specialises in real estate financing. The loans they offer are called mortgages. Their interest rates are similar to those of banks.

A financial plan needs to be prepared with care, especially where an entrepreneur expects to borrow some money from lending institutions. Normally the banker (lending institution) will demand a financial plan before advancing any money.

On getting the financial plan, bankers normally pay special attention to the projections – that is, the projected sales, projected production (in case of manufacturing business), projected income, and projected working capital, projected balance sheet and the break-even analysis. All these components have to be compatible and must reflect the real situation existing in the business environment.

The investor (banker) will analyse the projections in light of financial ratios such as the current ratio to see if the business is viable. A financial plan needs to be convincing. It is not a matter of 'dumping' figures together, but making your business appear reasonable, presentable and realistic.

The financial plan is an important part of the plan for it is here that the viability of the enterprise is explained to the entrepreneur and to potential investors or financiers. It also provides the tools for monitoring the performance of the business.

i) Source of funds such as own funds, grants (subsidies), trade credit facilities, short term loans and long term loans from banks.

ii) Profitability of the business i.e. gross profit, net profit and breakeven point.

iii) Cash flow statement (that is, the projected cash inflow and cash outflow of the business).

iv) Balance sheet showing the financial position of the business (assets and liabilities).

a) **Total Project Cost Estimate Form**

Item	**Cost**	**Total**
FIXED CAPITAL		
Acquisition of land		
Construction of building		
Building/workshop renovation		
Purchase of machinery and equipment		
Purchase of tools		
Total fixed capital		
START-UP EXPENSES		
WORKING CAPITAL EQUIPMENTS		

Item	**Monthly Cost (periodical cost)**	**Turn-around period (to produce, sell and collect sales)**	**Total**
Raw materials			
Direct labour			
Indirect/ overhead			
Adm. Expenses			
Marketing expenses			
Credit sales			
Total			
Less: **Cash Sales for one month**			
ESTIMATED WORKING CAPITAL REQUIRED			
Total Estimated Business costs/funds required			

b) **Financing of Business**

Item	**Cost**	**Total**
FIXED CAPITAL		
Own funds		
From family, friends and relatives		
Capital subsidies/grants (if any)		
Trade credit facilities		
Short term loans		
Long term loans from banks/credit institutions		
Total		

c) **Profitability of the Business**

S.N	**Details**	**1st Period**	**2nd Period**	**3rd Period**
1.	Sales revenue			
2.	Other operations income			
3.	**Total Income**			
4.	*Less: Estimated Production Expenses*			
5.	**Gross Profit**			
6.	Administrative overheads			
7.	Profit before tax			
8.	Less: tax to be paid			
9.	Net profit			
10.	Percentage of net profit on sales = (9/1) x 100 on invest			
11.	Breakeven Point Calculation. Percentage of Breakeven Point = Fixed Expenses x 100 Expected Contribution = Income from Sales ***less variable/direct expenses***			

d) **Cash Flow Statement**

Details	**1st Period**	**2nd Period**	**3rd Period**
Inflows			
Balances brought forward from previous year/period			
Profit (before tax and depreciation)			
Other income (if any)			
Depreciation			
Own funds			

Details	**1st Period**	**2nd Period**	**3rd Period**
From family, friends and relatives			
Capital subsidies/grants (if any)			
Trade credit facilities			
Short term loans			
Long term loans from banks/credit institutions			
Total			
Outflows			
Preliminary/pre-operating expenses			
Fixed costs/investments (fixed capital required)			
Working capital			
Credit/Loan principal repayments			
Interest			
Tax payments			
Total			
Balances carried forward (Inflows less Outflows)			

For illustration purposes, let us say Joyce wants to start a business on animal feed production. Having considered other factors, such as technical competence, and market analysis, she wants to produce animal feed on her own. She would like to own a building, a milling machine, a mixer and a few assets. To start with, she wants to produce broiler mash and layers mash.

Considering the above requirements her financial plan may look like the following (all figures are estimates in Uganda shillings):

Capital expenditure statement:

Land and buildings	Shs 700,000
Machinery and equipment	Shs 2,000,000
Furniture and fixtures	Shs 200,000
Total capital expenditure	Shs 2,900,000

Note:

The machinery, equipment, furniture and fixtures have an expected life span of ten (10) years.

Joyce's projected production statement for one quarter

	BROILER MASH			
	JANUARY	**FEBRUARY**	**MARCH**	**TOTAL**
50 kg bags	240	160	80	480
Raw materials per bag	Shs 2,900	Shs 2,900	Shs 2,900	Shs 2,900
Raw material requirement	Shs 696,000	Shs 464,000	Shs 232,000	Shs 1,392,000
Direct labour/ wages	Shs 24,000	Shs 24,000	Shs 24,000	Shs 72,000
TOTAL PRODUCTION COST	Shs **720,000**	Shs **488,000**	Shs **256,000**	Shs **1,464,000**
	LAYER MASH			
	JANUARY	**FEBRUARY**	**MARCH**	**TOTAL**
50 kg Bags	240	160	80	480
Raw materials per bag	Shs 3,100	Shs 3,100	Shs 3,100	Shs 3,100
Raw material requirement	Shs 744,000	Shs 496,000	Shs 248,000	Shs 1,488,000
Direct labour/ wages	Shs 24,000	Shs 24,000	Shs 24,000	Shs 72,000
TOTAL PRODUCTION COST	Shs **768,000**	Shs **520,000**	Shs **272,000**	Shs **1,560,000**

Note: Production based on maximum 60 bags per week with a minimum of 20 bags per week for each product (depending on demand).

Joyce's projected sales statement

Three months sales forecast (broiler mash)

BROILER MASH				
	JANUARY	**FEBRUARY**	**MARCH**	**TOTAL**
Expected Sales (bags)	200	150	100	450
Selling Price	Shs 4,500	Shs 4,500	Shs 4,500	Shs 4,500
Projected Sales	Shs 900,000	Shs 675,000	Shs 450,000	Shs 2,025,000

Three months sales forecast (layers mash)

	LAYER MASH			
	JANUARY	**FEBRUARY**	**MARCH**	**TOTAL**
Expected Sales (bags)	200	150	100	450
Selling Price	Shs 4,800	Shs 4,800	Shs 4,800	Shs 4,800
Projected Sales	Shs 960,000	Shs 720,000	Shs 480,000	Shs 2,160,000

Note:

i) Sales (basing on demand) are estimated at the maximum of 10 bags per day with a minimum of 5 bags per day for each product.

ii) Assume 5 working days.

Joyce's projected cash flow statement for one quarter

	JANUARY (Shs)	**FEBRUARY (Shs)**	**MARCH (Shs)**
Opening balance	-	984,000	1,040,000

Cash sales	1,860,000	1,395,000	930,000
Loan (Notes)	1,450,000	-	-
Own capital	1,450,000	-	-
Total receipts	4,760,000	2,379,000	1,970,000
Trade payments			
Cash purchases	720,000	480,000	240,000
Payment to creditors	-	720,000	480,000
Direct wages	48,000	48,000	48,000
Admin expenses	63,000	61,000	61,000
Electricity	30,000	30,000	30,000
Selling expenses	15,000	-	-
Non trading payments	-	-	-
Taxation	-	-	226,987
Purchase of assets	2,900,000	-	-
Total expenditures	3,776,000	1,339,000	1,085,987
Closing balance	984,000	1,040,000	884,013

Note:

1. Joyce can finance 50% of the project.
2. All sales are cash.
3. Credit purchases are 50% total material requirement payable after one month.
4. Taxes are payable at the end of every quarter (as per tax laws).
5. Advertisement needed when the products are introduced in the market for the first time.

Joyce's projected income statement for a quarter

	(Shs)
Sales revenues	4,185,000
Cost of goods sold (Note 1)	(2,835,000)
Gross profit	**1,350,000**

Less	
Selling expenses:	
Advertising	15,000
Administrative expenses	
Salaries Professional service	60,000 90,000
Insurance	9,000
Depreciation (Note 2)	220,000
Telephone	24,000
Office supplies	2,000
(Outstanding)Interest on loan	83,375
Electricity	90,000
Total expenses	593,375
Net profit before taxes	756,625
Provision for taxes	226,987
Net profit after tax	**529,638**

Note 1: Cost of goods sold

Cost of production	3,024,000
Less closing stock	189,000
	2,835,000

Note 2: Depreciation

Milling machine	1,200,000	x 10% =	120,000
Mixer	800,000	x 10% =	80,000

Furniture and fixtures	200,000	x 10% =	20,000
			220,000

Note 3: 5.75% Interest on loan is payable at the end of the year.

Joyce's projected balance sheet as at 31.3.2011 or one quarter

FIXED ASSETS	**COST**	**ACC. DEP.**	**NET BOOK VALUE**
Milling machine	1,200,000	120,000	1,080,000
Mixer	800,000	80,000	720,000
Furniture and fixtures	200,000	20,000	180,000
Land and building	-	-	700,000
Total Fixed Assets			**2,680,000**

Current assets

Cash	884,013	
Debtors	-	
Stocks	189,000	
Total Current Assets		**1,073,013**

Less Current Liabilities				
Credits	240,000			
Interest on Loan	83,375			
Total Current liabilities		**323,375**		
Working Capital				749,638
Capital employed				**3,429,638**

Financed by				
Capital Add net profit		1,450,000 529,638		
Add owners equity		1,979.638		
Subtract loan		−1,450,000		
				3,429,638

Joyce's funds flow statements for one quarter

Sources:		
Net profits before tax	756,625	
Depreciation	220,000	
Funds from operations		976,625
Other Sources:		
Owners contribution Loan	1,450,000 1,450,000	
		2,900,000
Total cash inflows		3,876,625
Applications:		
Acquisition of fixed assets	2,900,000	
Taxation provision	226,987	
Total applications		3,126,987
Increase in working capital		749,638
Movement in working capital		
Increase in stock	189,000	

Increase in bank/cash	884,013	
Increase in creditors		1073013 323,375
		749,638

Joyce's breakeven analysis

Variable Costs		
– Cost of materials	2,700,000	
– Electricity	90,000	
		2,790,000
Fixed Costs		
– Advertising	15,000	
– Wages	144,00	
– Salaries	60,000	
– Profession services	90,000	
– Insurance	9,000	
– Depreciation	220,000	
– Telephone	24,000	
– Office supplies	2,000	
		564,000
Total BEP Sales = 1,692,000		
Product wise analysis		
Broiler mash	Materials	1,305,000
	Electricity $^1/_2$	45,000
	VC	1,350,000
Fixed costs $^1/_2$		282,000
Bep sales =846,000		

Units =188 bags		
Layers mash:	Materials	1,395,000
	Electricity	45,000
	VC	1,440,000
Fixed cost $^1/_2$ =	282,000	
Bep sales =	846,000	
Units =	176 bags	

6.2 Importance of Financial Record Keeping in Small Business

i) Book-keeping helps the business in calculating the profits or losses made during a given period.

ii) Book-keeping helps provide information on credit transactions. The business is able to keep track and follow up all its debtors and also keep proper records of all creditors for accurate payments.

iii) It acts as a tool for control. Book-keeping allows a business to keep accurate data concerning all its resources, and also proper information on its expenses and incomes for proper decision-making.

iv) The book-keeping records guide on tax assessment. The tax authorities are able to calculate the exact amount of tax to be paid by an entrepreneur. This helps to minimise over or under taxation.

v) The records kept help in the planning process. A business enterprise can formulate its plans basing on the present and past accounting records.

vi) Book-keeping records are used by the owner in deciding whether to apply for a bank loan or not. Banks usually look at the records of a business to determine whether to provide a loan to the business or not.

vii) The records also help in determining the financial position of a business. From the records a business is able to prepare the profit and loss accounts and balance sheet which show its results of operation and financial position (its total assets, liabilities and equity).

viii) Book-keeping helps the public or new investors who may want to invest in the business to get information on the business and therefore take an appropriate decision whether to buy shares in the business or not.

ix) Book-keeping helps a business to keep track of its transactions and know what transpired in the business operations.

6.3 Controls to Manage the Flow of Funds in a Business

i) Reduce or increase an inventory to match sales requirements.

ii) Negotiate with suppliers for an extension of payment dates (trade credit).

iii) Shop for favourable interest rates and availability of funds to borrow.

iv) Control receivables to collect money as soon as possible thus lowering the chance of bad debts.

v) Analyse expenses to reduce cost and eliminate waste.

vi) Raise prices to increase gross profits or lower them to increase volume of sales.

vii) Develop good purchasing practices to take advantage of special prices and discounts.

viii) Take less salary out of the business.

ix) Learn to use forecasts to develop useful cash budgets so that cash will be available to meet all future obligations.

x) Do not use cash from the business for personal use.

6.4 Tools for Interpreting Financial Statements

6.4.1 Profitability Ratios

1. Gross profit percentage	
2. Net profit percentage	
3. Net profit to owners equity	

Owners can get 38% as return on their contribution to the business

4. Sales per employee and profit per employee cannot be determined from this data as the number of employees is not available.

Activity ratios

i) Sales to fixed assets (fixed asset turnover): 4,185,000:2,680,000 = 1.5:1 (approx.) one shilling of fixed assets generates 1.5 shillings in sales.

ii) Cost of goods sold to stock (stock turnover): We normally use average stock. In this case there is only one figure for stock because the business is just starting.

iii) Debtors to sales (debtor turnover): We do not have debtors in this case. We have assumed cash sales only which is a typical small scale enterprise situation.

Liquidity ratios

i) Current assets to current liabilities (also known as working capital ratio, current ratio): 10,730,013 ÷ 323,375 = 3.3:1.

This is enough. The average is 2:1 (should not be below this). The ratio indicates that there is excess working capital which can be re-invested.

ii) Quick asset to quick liabilities (acid test ratio):

884,013 ÷ 323,375 (exclude stocks) = 2.7:1

iii) Equity to debt ratio: 1,979,638 ÷ 1,773,375 = 1.1:1

= 1:1 (approx.)

Leverage ratios

i) The business is financed by outsiders to the extent of 42%.

ii) Interest cover.

Case Study of Taji Dairy Farm

Taji Farm is at Kipera, Mlali Rural District in Tanzania. The farm is now owned and operated by Jamila Taji daughter of the late Hassan Taji. It was started in the late 1960s by her grandfather and was later operated for many years by her father, Hassan. Jamila took over the farm which had eight cows. She has added to the herd on a regular basis since that time, and even though the farm owns two large buildings and dairy cows, it is considered a small business by dairy farm standards.

The farm consists of 178 acres in Kipera. Jamila has a permit from the local authorities to plough the land and prepare it for planting corn and alfalfa, the crops that feed the present herd of Friesian and Jersey dairy cows and the five replacement heifers. She uses the dairy herds manure and other wastes as fertiliser. Production averages about 1,650 litres of milk per cow per year. The product is sold to a local milk bottling agent who takes it to his principal consumer in Dar es Salaam. The milk is sold at market rates.

At the end of the year, Jamila examines her financial position to put together the formal financial statements. Her records show the fixed assets of land, buildings, farm machinery, milk tanks, milk equipment and the cows are valued at Shs 11,288,080. Additionally, there is Shs 135,550 in cash, Shs 345,560 in accounts receivable owed to the farm by the milk buyer, an inventory of hay and corn silage of Shs 145,060, and supplies and prepaid insurance of Shs 55,560 that make up the **current assets.**

The current liabilities for the farm are: Shs 250,000 on a short-term loan that was used to buy a second hand farm trailer and Shs 92,220 owed to labourers on the farm. The **fixed or long term liabilities** total Shs 5,050,000 with Shs 3,770,000 of that amount as a mortgage on the farm and Shs 1,280,000 as a mortgage on the livestock.

Sales income from milk and other sales for the previous year totalled Shs 2,788,980 and the **direct costs** of milk production (treat as cost of goods sold) were Shs 12,330,000. Other expenses were Shs 1,319,310. Net Profit was Shs 156,670 not including any salary or draws from capital.

Activity

1. Use the above data to develop a balance sheet statement for Jamila.
2. Using the balance sheet you prepared, develop the following information: current ratio, working capital, and the ownership ratio.
3. From the sales income, subtract the direct costs to get the gross margin then take away the other expenses to calculate the net profit. Also, determine the gross margin percentage.
4. Why is the current ratio important?

6.5 Business Taxes

Some terms in taxation

Tax: A tax is a compulsory charge or levy imposed by the government or any other competent authority on persons (individuals, corporations or other legal entities) or on businesses in order to finance government activities. Taxes are a general obligation and are not paid in exchange for a specific benefit. There is no direct relationship between the tax paid and the benefits in terms of public services received by the persons who have paid tax.

Taxation: Taxation is the process through which governments obtain money from eligible persons by application of the law. Taxes are usually collected by government agencies although other agencies may be contracted to do so on behalf of the government. In Uganda, this role is performed by Uganda Revenue Authority (URA) for the central government revenue and local administrations for local government revenue.

Tax base: This refers to any item or economic activity that is subject to tax. The tax base may include:

i) Income earned from economic activities like manufacturing and trade.

ii) Income earned from employment, such as wages, salaries, fees and commissions.

iii) Property or assets like houses, land or other investments.

iv) Consumption of goods which are a subject of taxation.

6.5.1 Types of Taxes

There are two broad categories of taxes - Direct and Indirect taxes.

i) Direct Taxes

These are the taxes imposed on the income and property of individuals and business entities. The burden of tax is directly borne by the individual or business entity. The common types of direct taxes include:-

a) Income tax which is tax on profits or income earned by an individual or business entity. It takes two forms: personal income tax and corporation tax. **Personal income tax** is the tax imposed on the income of individuals. This tax is normally based on the ability to pay tax principle, as its tax rates progressively increase as the income increases. **Corporation tax** is imposed on corporations or companies and is more often a proportional (flat tax rate) tax based on the net income of the company. The tax base for income tax includes profits from business, rents and royalties from letting assets and income from investments like shares, debentures and other securities and income from employment.

b) Wealth tax is a tax on accumulated wealth, capital or savings of an individual or business entity. It may be imposed on land, buildings, shares or other investments.

c) Capital gains tax is a tax on profits received from the sale of fixed capital assets.

d) Death duty is a duty imposed on the estate of a deceased person. This is normally done before the property in the estate is shared out to the different beneficiaries.

e) Inheritance duty is a tax paid by a beneficiary from the estate of the deceased. The tax base is normally the market value of the property acquired by such a beneficiary.

f) Gift tax is a tax on the transfer of property by one individual to another. It covers assets given by a living person to another living person.

ii) Indirect Taxes

These are taxes that are imposed on goods and services, paid by an individual or business entity and shifted to the final consumer. The taxpayer does not directly feel the burden of the tax. These taxes are voluntary in the sense that you can only pay them if you opt to buy the goods or consume services on which they are imposed. The common type of indirect taxes include:

a) **Customs duty**, which is a duty imposed on goods that cross national border points either as imports into the country; or exports leaving the country. Tax on imports is referred to as import duty while tax on exports is export duty.

b) **Excise duty** is a tax imposed on the production or importation of specific goods with a view to influence their consumption and/or supply in the local market.

c) **Sales tax** is a tax imposed as a percentage on goods or services sold.

d) **Value Added Tax (VAT)** is a tax on consumption of goods and services. It is imposed on value added at every stage in the chain of production or distribution of goods and services.

6.5.2 Reasons for Paying Taxes

i) Taxes enable the government to provide social services to the public. For example, security, roads, education, Health etc.

ii) Taxes can be used to reduce income inequalities in society especially where the rich are taxed while the poor are subsidised.

iii) Taxes on imports can be used to protect domestic industries from competition of cheap commodities from other countries.

iv) Taxes can be used to restrict the consumption of certain commodities to substantial amounts, for example, taxes on alcoholic drinks and cigarettes.

v) Taxes provide a method through which government charges those who use its facilities like roads, toilets, police and other social services.

vi) Taxation can be used to check on inflation by reducing the money available to people for consumption.

vii) Taxation can be used to recover the community wealth which individuals have obtained not as a result of their efforts but as a result of efforts of other persons or the community; death duty is charged for this purpose.

viii) Taxation can be used to redistribute income and wealth.

ix) Taxation is used to reduce dumping in a country.

6.5.3 The Uganda Revenue Authority (URA)

The Uganda Revenue Authority (URA) and Local Government Administration are two tax authorities in Uganda. The URA is responsible for the central government revenue and the local government administration is responsible for collection of local government revenue. The URA was formed by the government on 5th September 1991 to modernise the process of tax administration and reduce the revenue leakage and corruption in the tax administration.

Roles of URA: to assess and collect taxes, account to Ministry of Finance for all revenue collected, facilitate trade and investment and advise government on matters of policy related to tax and revenue administration.

Taxes Collected by URA

a) **International Trade Taxes:** These are collected on goods entering or leaving the country. In Uganda this role is performed by the Customs and Excise Department. The taxes collected include import duty, export duty, Value Added Tax (VAT), withholding Tax, excise duty and environmental levy.

b) **Domestic Taxes:** These are collected by URA under the Domestic Taxes Department. They include: income tax, VAT and excise duty.

Taxes collected by Local Authorities

All local government administration authorities are responsible for collecting local government revenue. They include the districts, town councils, city councils and municipalities. These local authorities collect revenue such as: property tax in cities and towns, sign post fees and trading licenses, among others.

Basic Tax Computations

Individual income tax: This tax is imposed on the chargeable income of an individual. Chargeable income is derived from gross income.

Gross income: There are three sources of income under the Income Tax Act:- (i) Business income, (ii) Employment income and (iii) Property income

The sum of the income from all the three sources above is referred to as gross income. This excludes income that is exempt from tax.

Chargeable income: This is gross income less expenses and losses incurred in earning the income.

Illustration I

Acul Ocolo earned income from different sources for the year 2006:

Business income – Shs 1,000,000

Employment income – Shs 2,400,000

Property income – Shs 500,000

In addition, he incurred expenses and losses amounting to Shs 1,200,000.

A total of Shs150,000 out of the income is tax exempt.

Required: Determine Acul Ocolo's gross income and chargeable income

Solution: Gross income = Income from all sources less tax exempt income

Income from all sources

Business income Shs 1,000,000

Employment income Shs 2,400,000

Property income Shs 500,000

Total income Shs 3,900,000

Less: Tax exempt income (Shs 150,000)

Gross Income Shs 3,750,000

Chargeable income = Gross income less expenditures and incomes incurred to earn the income.

Gross income Shs 3,750,000

Less expenditure and losses (Shs 1,200,000)

Chargeable income Shs 2,550,000

6.5.4 The Tax Rate

Income is taxed in relation to a defined year of income. The tax rate for individuals is therefore based on a year. However, in the case of Pay As You Earn (PAYE), the rates are administratively reduced to monthly rates. The individual tax rates are as follows:

Chargeable (annual) income tax rate

i) Not exceeding Shs 1,560,000 - Nil.

ii) Exceeding Shs 1,560,000 but not exceeding Shs 2,820,000 - 10% of the amount by which chargeable income exceeds Shs 1,560,000.

iii) Exceeding Shs 2,820,000 but not exceeding Shs 4,920,000 - Shs 126,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000.

iv) Exceeding Shs 4,920,000 - Shs 546,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000.

Illustration 2

Following Illustration 1, where chargeable income was Shs 2,550,000 tax payable for Acul Ocolo is calculated as follows:

Tax Liability

Chargeable income 2,550,000

Less tax threshold (1,560,000) = 990,000.

Tax thereon 990,000 x 10% = 99,000.

Employment income

Most people paying individual income tax earn the income from employment and the tax is recovered at source through the PAYE system. Employment is deemed to exist where there is a legal master-servant relationship. Employment income includes among others:

i) Any wages, salary, leave pay, gratuity and bonus.

ii) Allowances such as travelling, entertainment, cost of living, housing and medical allowance.

iii) Value of any benefit, advantage or facility granted to the employee. This includes items like cars and houses.

iv) Compensation for termination of a contract of employment.

Pay As You Earn (PAYE)

The Income Tax Act obliges employers while making payment of employment income in any month to withhold tax at the prescribed withholding PAYE tax rates and remit the tax withheld by the 15th day of the following month to the URA. The PAYE monthly tax rates are as follows:

Chargeable (monthly) income tax rate

Tax Liability

(i) Not exceeding Shs 130,000 Nil

(ii) Exceeding Shs 130,000 but not exceeding Shs235,000. 10% of the amount by which chargeable income exceeds Shs 130,000

(iii) Exceeding Shs 235,000 but not exceeding Shs 410,000, Shs 10,500 plus 20% of the amount by which chargeable income exceeds Shs 235,000.

(iv) Exceeding Shs 410,000, Shs 45,500 plus 30% of the amount by which chargeable income exceeds Shs 410,000.

Illustration 3

Acul Ocolo is employed as a security guard in Saracen (U) Ltd. He earns a monthly salary of Shs 125,000.

Required: Is Saracen (U) Ltd obliged to deduct PAYE tax from Acul Ocolo?

Illustration 4

Suppose Acul-Ocolo earns Shs 240,000 a month, how much tax would he be expected to pay? Shs 240,000 is above the threshold and therefore the PAYE is calculated as follows:

Step 1: Shs 240,000 - 235,000 = Shs 5,000

Step 2: 20 % of Shs 5,000 = 20% x 5,000 = Shs 1,000

Step 3: Shs 1,000 + 10,500

PAYE: Shs 11,500

Rental Tax

The Income Tax Act imposes a tax known as rental tax on every individual who has rental income for the year of income. This tax is only applicable to rental income derived from immovable property (land and buildings) situated in Uganda. The Act provides that 20% of the rental income is to be deducted as representing expenditure and loss incurred to earn the rental income.

The tax rate for rental tax is 20% of the chargeable rental income in excess of the threshold, which is Shs 1,560,000.

Illustration 5

Acul Ocolo earned Shs 2,500,000 as rental income from her house located in Kampala.

Required: Compute her rental tax.

Solution: The rental tax is computed as follows:

Rental income is Shs 2,500,000

Less provision for expenditure and loss: 20% x Shs 2,500,000 = (500,000)

Chargeable rental income is Shs 2,000,000

Less the threshold Shs 1,560,000 is Shs 440,000

Rental tax due is Shs 440,000 x 20% = Shs 88,000.

Value Added Tax (VAT)

Value Added Tax was introduced in Uganda on 1st July 1996 and is administered by VAT Act Cap. 349. VAT is tax on consumption of goods and services. It is charged and or collected on value added at each stage in the chain of distribution or production. It is ultimately borne by the consumer. Currently the VAT rate is 18%.

Illustration 6

Chain of distribution

Stages	Activity	Purchase price	Selling price	VAT (18%)
I	Importer at customs	Shs 10,000	Shs 10,000	Shs 1,800
II	Importer (Local distribution)	Shs 10,000	Shs 12,000	Shs 360
III	Wholesaler	Shs 12,000	Shs 15,000	Shs 340
IV	Retailer	Shs 15,000	Shs 20,000	Shs 900
V	Final consumer	Shs 20,000		Shs 3,600

From the above illustration it is indicated that the final consumer pays VAT of Shs 3,600 (Shs 20,000 x 18%).

The total price he pays would be Shs 23,600 inclusive of VAT. However, this VAT would have been collected and paid in parts by the different persons in the chain of distribution as follows:

VAT

Stage 1 Importer at customs – Shs 1,800

Stage 2 Importer (local distribution) – Shs 360

Stage 3 Wholesaler – Shs 540

Stage 4 Retailer – Shs 900

Total = Shs 3,600

6.5.5 Tax Compliance

This is the degree to which the taxpaying community meets the tax obligations as set out in the appropriate legal and regulatory provisions. Compliant tax payers make timely, proper and accurate declarations to the tax authority and voluntarily settle all the due tax liability.

Taxpayers who are not compliant evade or avoid taxes. Tax evasion entails taxpayers' deliberate misrepresentation or concealment of the true state of their affairs to the tax authority in order to reduce their tax liability. It may take the following forms: under-declaring income or overstating expenses, engaging in smuggling, falsification of declarations and other dishonest practices. Tax evasion is illegal and constitutes a criminal offence.

Tax avoidance involves taking advantages of the loopholes in the law to reduce or defer one's tax liability. Though tax avoidance is legal, it is an undesirable act that usually leads to noncompliance. Tax evasion and tax avoidance actions result in loss of tax revenue and are therefore undesirable to the tax authorities.

Levels of tax compliance

The level of tax compliance depends on the taxpayers' attitude and knowledge and there are principally four levels:

i) Taxpayers who are fully compliant and are willing to fulfil their obligations voluntarily.

ii) Taxpayers who reluctantly comply. These are taxpayers who know that noncompliance would be expensive and accordingly comply.

iii) Tax payers who show slight resistance to compliance: this more often arises from lack of knowledge. When such taxpayers are advised and some pressure is exerted on them, they will comply.

iv) Tax payers who are noncompliant and exhibit outright resistance to meeting their tax obligation. This category includes some taxpayers who take pride in failing the tax authority.

Factors influencing tax compliance

The factors that influence tax compliance include the following:

i) The extent to which a tax system is equitable. An inequitable tax system discourages tax compliance.

ii) The extent to which tax laws and the tax regulatory framework is simple/easy to understand. Complicated tax laws and long administrative processes make compliance costs high.

iii) Whether the laws and rules are applied consistently and fairly. Inconsistent application of the rules leads to noncompliance and more often this is caused by influence peddling and corruption.

iv) The quality of tax administration is also a very important factor. This will be reflected through professionalism, integrity and customer care exhibited by the tax collectors. This is also responsible for the degree/level of trust and confidence of the taxpayer in the tax authority.

v) The popularity of government and quality of governance including honesty and accountability for public revenue are important factors in determining tax compliance. If a government is unpopular or corrupt, this will discourage tax compliance.

vi) The quality of business management by the taxpayers through record keeping, business organisation and business ethics will also affect the degree of compliance. Unethical business managers are bound to be noncompliant.

vii) Availability of funds; firms with financial problems tend to have low tax compliance.

7

Business Competition

Competition is the battle between businesses to win consumer acceptance and loyalty. It is an art, a science and a practice. It is all about value: creating it, capturing it and retaining it. A fundamental rule in crafting a competitive strategy is to view competition from the other player's viewpoints. To be successful today, your company must become competitor-oriented. You must pursue the right competitive strategy – avoid strengths of your competitors and look for weak points in their positions and then launch marketing attacks against those weak points.

7.1 Types of Competition in Business

Competition has always been part of business. Even the largest companies in the world suffer as a result of competition. With competition it is possible that every time one enterprise comes up with a new product, the competitors copy the idea and reproduce almost exactly the same thing. If other competing enterprises flood the market with their cheaper products they might take away a big chunk of the market share of the enterprise which originally produced the product.

It may not seem fair, but that is business. If there was no competition, enterprises would not have to work very hard to please the customers. It is great to be able to choose between two or more stores instead of having to buy an item from the same store every time you want it. From a business person's point of view, however, competition is a pain. The business world belongs to the quick thinkers. There are many things one can do to win the competition. These include: pricing, packaging, quality, added convenience and attitude towards the customers.

i) **Pricing**

One of the most common tactics in competition is pricing. It should be remembered that most people want a good deal. If a similar service could be offered for a cheaper price, one stands a better chance of winning the customers' loyalty.

ii) **Presentation and appearance**

This includes the way one decorates his/her business premises, the way the sales person dresses, neatness and colour of the products, wrappers or containers and neatness in packaging. Packaging here means the way of presenting what one sells to the customers. There are many useless products on the market that sell like hot cakes because of the way they are packed. It is therefore important that you pay great attention to the way you package your goods.

iii) **Quality**

The quality of one's work is probably the most significant competitive advantage that one could have over other people in one's line of business. The quality of the product determines the precision of the work done. The better the quality, the more the product would be suitable for the use which it is intended. On the other hand, good quality products live longer than the poor quality ones. Good quality products attract more customers. By improving the quality of products, it is possible for the enterprise concerned to attract a larger share of the market.

iv) **Added convenience**

Added convenience includes staying open late or during lunch when other businesses are closed. For example, some commercial banks close at 7 pm and even work for long hours on weekends. One could also think about offering the customer something for nothing. This sounds crazy but people love free things.

v) **Attitude towards the customers**

One should always treat customers with respect. People generally choose to go where they are treated with dignity. Never argue with a customer. One should adopt the attitude that the customer is always right no matter how wrong he/she is.

Deliberate efforts to purposely apply some or all the above mentioned ways of competition as the need arises, would eventually attract more customers to buy your product/service.

In this way you will be able to overcome competition and make profits.

7.1.1 Factors to Consider in Analysing Competition

The following are some of the things that should be considered:

i) **Size of competition**

Describe the assets and sales volume of the major competitors. Will you be competing against businesses whose size is similar to yours or will you be competing against giant operations? If assets and sales volume cannot be determined, try to find out other indications of size such as number of employees, or number of branches.

ii) **Profitability of competitors**

Try to determine how profitable the business is among those enterprises already in the field. Which enterprises are making money? Losing money? How much?

When you begin your research, it is crucial that you make an accurate determination of your competitors. Once you have identified your competitors you need to further classify them as "primary", "secondary" or "potential". The reasons behind this classification are that you need to limit the number of businesses that you research.

Secondly, your market strategy may be different for each group. Other ways to find out the size and profitability totals is to read the publications that cover the business scene; contact the company directly and ask them questions; or contact the business' suppliers or other individuals who are in a position to know or estimate the information.

Once you have identified your major competitors and determined as best as you can their size and profitability, it is then necessary to analyse their individual methods of operation.

iii) **Operating methods**

For each of the major competitors, try to determine the relevant operating methods. For example, what price does each business sell its competing product and/or service for? Other items beside price that you should consider include:

(i) Quality of product and/or service;

(ii) Hours of operation, skills of their personnel;

(iii) Servicing, warranties, and packaging;

(iv) Methods of selling, distribution channels;

(v) Location, advertising and promotion;

(vi) Reputation of the company; and

(vii) Inventory levels.

7.1.2 Factors Affecting Competition

Competition is fairly easy to identify when it involves two similar businesses in nearby locations. But many other forms of competition exist. You need to become aware that competition is affected by mobility, product overlap, form substitution, attention getting, and priority building.

i) Mobility and accessibility overlap

Distance is one of the most important factors in competition. Being the only vegetable kiosk in town is a guarantee of success. Locations within walking distance of large population centres are also in demand.

People are used to walking or riding some distance to their jobs. They can do their shopping near home, near work, or somewhere in between. This freedom to travel opens up a much wider geographical area for competition. Of course, there are many more potential customers within that area if your location is right. Now the local neighbourhood store may actually be competing with other stores several miles away. In addition, improvements in transporting goods over long distances have further decreased the advantages of nearness to the customer.

ii) Product overlap

Another form of competition that has become prevalent is product overlap. This refers to the selling of products by different kinds of establishments that are similar or identical to each other. Big discount stores, sometimes even combined with grocery stores, provide one-stop shopping for all of a customer's needs.

Grocery shops sell stationery items. Saw mills may sell hardware items. Furniture shops sell appliances. In fact, most popular products can be purchased at a number of different kinds of shops. Only the higher priced, highly specialised items have to be purchased from specific shops. Product demand makes competition more complicated because it is harder to measure demand and competition for a particular product.

iii) Substitution

Another type of competition exists between the various forms of entertainment, food, clothing, housing and transportation. Fast-food businesses compete against each other, but they are also competing for a share of the public who eat out. Movie theatres compete for a share of the public that likes to go out. Bus companies compete for the travelling public.

iv) Public awareness

Because there are so many products on the market, so many new developments, and so many new businesses on the scene today, getting the customer's attention has become increasingly more important. Potential customers have to be made aware of, and reminded of, the usefulness and desirability of a particular product or service or they may never get around to buying it. They also need to be made aware of who sells the product and where the business is located.

v) Product priority

Another area of competition covers every product available. People have a limited supply of money to spend, and everyone competes for a share of that spending money, not only the business community but the government, charities, and even friends and relatives. To get customers to allocate part of their income to your business, you have to take advantage of their wants and needs. You must find some way to instil in the consumer a high priority for your product or service. The consumer has to make decisions about priorities, what he or she needs, wants, can afford, and prefers. When there is not enough money for everything, as is usually the case, there is competition for product priority.

Understanding these different forms of competition helps to clarify the importance of maintaining a competitive position even if there is no direct competitor on the scene. It also gives some insight into different methods of establishing competitive advantage. For instance, advertising is the obvious solution for getting public awareness and establishing product priority.

7.2 Monitoring and Maintaining a Competitive Position

7.2.1 Sustainable Competitive Advantage

Sustainable competitive advantage allows the maintenance and improvement of the enterprise's competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time.

Every aspect of business operations contributes in one way or another to your competitive position. The stronger and more efficient operations are, the better your chances are of surviving competition in all its forms. Several areas, however, are especially important to competing successfully.

i) Advertising

As discussed earlier, advertising is extremely important in competing effectively. It is the key to attracting the public's attention and building priority for your product. In order to sell a product or service, you have to reach potential customers. Advertising is the first step in competing after you build the basic condition of the business.

ii) Image

Once the customer is attracted by some type of advertising, he or she is influenced by the business image. Advertising can take advantage of a good image, but apart from advertising, image can be critical in competing effectively. The customer is influenced by the image reflected in the business surroundings, personnel, product displays and the like.

An important part of image is the treatment customers get when they deal with your business. Good customer relation techniques can be taught to sales personnel. Dress requirements for personnel can help project the desired image. Location is another important part of image that can make a difference in customers' reactions and buying patterns.

i) Customer convenience and services

Another factor in competing effectively is customer convenience and services. Location is related to convenience, and good customer relations are a part of good service. But also included are attractions such as service delivery, repair service, acceptance of returns and exchanges and extension of personal credit. All these factors help sell a product or service and create loyal customers. These features are very important tools for competing effectively.

ii) Competitive pricing

Businesses that operate efficiently can usually afford to price competitively because their costs are lower. Nevertheless, one mistake that small businesses often make is to try to undercut the competition before they get their costs down. That kind of pricing can lead to losses or very low profit and result in a decrease in a business' competitive position. Reducing prices is not the only way to compete, nor necessarily the best way.

iii) Sales prices

The theory behind seasonal or special sales is that new customers will be attracted to the shops by the sale; they will buy other products at regular prices while they are in the shop, and the quantity sold at the sale price will make up for the lower unit profit. These principles can be effective if the sale is handled properly. However, the sale can attract the wrong customers, people that only go to sales, rather than your loyal customers who will come back. They may be the types who buy only sale items and nothing else. And if sale prices are too low, you may gain nothing from the sale.

iv) Everyday low prices

Some shops have a standard policy of competitive pricing at all times without advertising specific sales. While they may lose some business when other stores feature "lead items" at cost, in general they maintain a steady customer. Sometimes items can be specially purchased by a retailer or distributor at very low cost. The savings are passed on to customers as a "special sale" value. Clearance sales may also be used to unload seasonal or out-of-date items or other odds and ends at cost or less.

7.2.2 Evaluating Business Competition

Do not be surprised that if you happen to stumble on a money-making idea, other people who are looking for opportunities will want to follow in your footsteps. That is the beginning of competition for you and it happens to small enterprises as well as to medium and large enterprises.

In forecasting and monitoring changes and competition in your business, make sure that the following areas are carefully monitored and that clear up-to-date records are available.

i) Sales decline or increase of sales (may be due to many reasons including competition).

ii) Flow of customers: the number of customers flowing into the enterprise in a day (this is always affected by competition).

iii) Production order may be reducing due to competition.

iv) Cash flow (movement of cash in and out of the enterprise) may be influenced by competition.

v) Personnel: employees in non-competitive firms often leave to join other firms which look more competitive, for higher payment and other employment benefits.

vi) Technology: enterprises which possess modern machinery and knowledge are more competitive than those with old technology.

Clear records of the above items will enable an entrepreneur to devise means or tactics for dealing with his/her competitors.

Methods used to evaluate changes and competition in business

There are two methods used by entrepreneurs to evaluate changes in competition. First, an entrepreneur is required to take an overview of how well his/her envisaged business venture is going to match with his/her potential customers' needs. This will force the entrepreneur to identify and profile his/her business' strengths and weaknesses in relation to his/her envisaged market.

The features or attributes which are important to customers include colour, taste, smell, quality, ease of use, presentation and appearance, delivery, opening times, payment terms and price. When the entrepreneur has graded each attribute he/she should join up the respective ratings with a pencil line to obtain two clear profiles, one of the customer's reference and another of the strength and weaknesses of the business.

This profiling method can be put in a table as follows:

List of features/ attributes that potential customers will be looking for in the business product or service.	Score how important each attribute is to customers	Score business product or service on each attribute.
1. Colour	1 2 3 4 5	1 2 3 4 5
2. Taste	1 2 3 4 5	1 2 3 4 5
3. Smell	1 2 3 4 5	1 2 3 4 5
4. Quality	1 2 3 4 5	1 2 3 4 5

Secondly, an entrepreneur must try and be as objective and consistent as possible. Avoid the temptation to pretend your business idea is something other than what it is.

An entrepreneur can of course compile a more detailed analysis by extending and modifying the profile to suit his/her particular business. Furthermore, it is a good idea to compile a number of profiles, one for each of your major market segments. This will enable the entrepreneur clearly identity:

i) which market segment he/she satisfies best.

ii) which market segment he/she satisfies better than his/her competitors.

By using the same format as the previous table, the entrepreneur should analyse the threats (their strengths) and opportunities (their weaknesses) that the competitors present.

This procedure has the advantages of being fairly simple to compile and shows the results in a clear graphic form. Each profile is totalled to provide a single set of figures to make overall comparisons between competitors, his/her business and each competitor, and his/her business and the strength of the overall competition.

Features	The business	Competitor 1	Competitor 2	Competitor 3, etc	Average score of competition
1.Colour 2.Price 3.Easy use	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5	1 2 3 4 5 1 2 3 4 5 1 2 3 4 5
Total					

Another profiling method which has an advantage over the first is that which takes into account the relative importance of each feature to the market. It is slightly more complicated to construct but provides more accurate results. An entrepreneur can use both methods and compare the results.

Procedure for second method

i) Give each feature a weighting from 1 to 5 to signify its importance to the market segment.

ii) Award points, on a scale of 1 to 5, to each business, including your own, on how strong they are in each area.

iii) Multiply the importance weighting by the points awarded for each business to obtain its score.

iv) Total each business' score and analyse the results.

Features	**Importance**	**Your Business**		**Competitor 1**		**Competitor 2, etc**	
		Points	Score	Point	Score	Points	Score
Total							

If an entrepreneur can identify a market segment where he/she is strong in both areas, he/she is likely to take a larger market share away from the competition than would otherwise be the case. This will improve the entrepreneur's position concerning finance, personnel, technology and profitability.

7.2.3 Effects of Competition: Business and Customers

The negative effects of competition on the business

i) Customers: In any market, you have a limited number of customers that businesses are competing for so the more businesses there are the less your market share.

ii) Resources: The more competition you have, the more expensive resources like skilled employees, raw materials and other necessary resources will become. You will be competing to acquire those limited resources making it more and more expensive.

The positive effects of competition on business

i) Better customer satisfaction: With competition, the producers or suppliers will always ensure that the products/services they produce give the customer maximum satisfaction in order to induce him/her to buy the product/service again.

ii) More efficient production: Competition makes producers more proactive in discovering more efficient production methods such as using fewer raw materials, using less time and producing better quality products.

iii) Better employee remuneration: Competition forces employers to pay their highly skilled employees better salaries especially when those employees are likely to be taken away by the competitors.

iv) More product variation: Competition makes producers vary their products or services in order to make them different from the competitors'. This increases customer satisfaction.

Term Three

8

Capital Markets

In order to do business, entrepreneurs need to raise the necessary finances. There are various sources available but all of them have advantages and disadvantages. For example, loans from banks need security and interest. Personal savings might be little to meet the investment requirements. Because of these challenges in raising business funds, the government is encouraging the development of capital markets as another way of generating long term business funds or capital. This topic covers avenues of raising long term finance and investment opportunities through capital markets in Uganda.

Capital markets are markets that trade in long term financial products known as securities (e.g. shares, bonds). They are a facility for raising long term capital, which is done through the selling of debt (bonds, commercial paper) and equity instruments (shares). Capital markets provide avenues for those who require additional capital and others who wish to invest their money.

These financial products can also be referred to as securities and are generally traded on a securities or stock exchange.

8.1 Key Players in Capital Markets

Different people, groups of people or companies play different roles on the stock exchange. The roles of each are very vital in the smooth running of the market. Some of these players include the following:

Capital Markets Authority - The capital markets industry In Uganda is regulated by the Capital Markets Authority (CMA). CMA was established in 1996 following the enactment of the Capital Markets Authority Act Cap 84. It is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda, with the overall objectives of investor protection and market efficiency.

Capital Markets Authority is mandated to:

i) Regulate and promote the development of capital markets in Uganda.
ii) Approve stock exchanges and the Securities Central Depository .
iii) License broker/dealers, investment advisors, fund managers, collective investment scheme managers and trustees.
iv) Approve all offers of securities to the public.
v) Approve collective investment schemes.

The Uganda Securities Exchange - This is the market place in Uganda where Securities are traded. The Uganda Securities Exchange (USE) was licensed to operate as an approved stock exchange in June 1997 by the CMA. The USE began formal trading operations in January 1998 following the listing of the first instrument, the East African Development Bank (EADB) Bond. The basic function of USE is to provide a facility for raising funds for investment in long-term assets and is regulated by CMA. Individuals who wish to buy or sell securities do so on the USE through licensed broker/dealers. The USE is managed under an electronised system called the Securities Central Depository (SCD). The SCD is a system in which securities are held in electronic form, in a central location/ depository. It is like a bank for securities. With an SCD, proof of ownership of shares/ securities is a statement of one's SCD account, which will indicate number of shares held and in which companies. Uganda's SCD is operated by the USE.

CMA'S main objective is **Investor Protection**

Key market players in Capital Markets

Broker/Dealers - These are licensed financial professionals authorised to buy and sell securities on behalf of their clients. Brokers execute trade deals on behalf of their clients. They receive a commission for matching buyers and sellers while dealers buy shares and later sell them for a profit. In addition, broker/dealers provide professional advice to their clients on selection and management of investment. Dealers on the other hand buy and sell securities on their own behalf and later sell them to their clients.

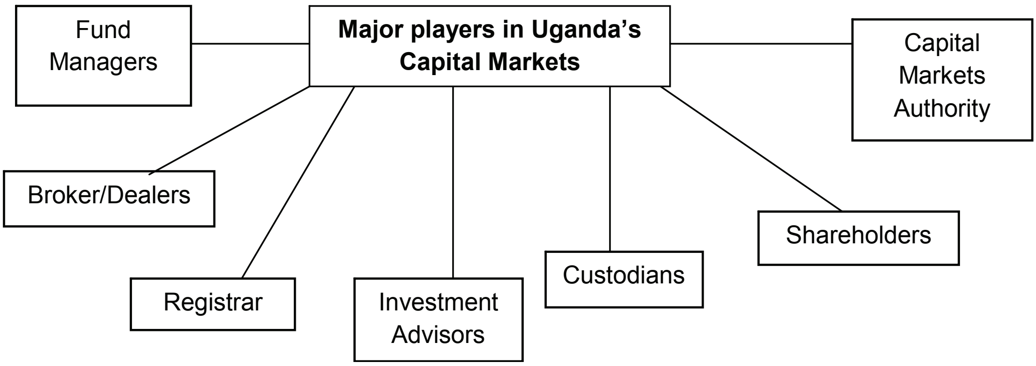
Investment advisors - These are licensed person(s), who engage in the business of advising their clients about securities on issues of whether it is advisable to invest, purchase or sell securities. Advisers also carry out analysis or reports concerning securities. They can also manage a range of investments under a contract or on agreement with investors.

Fund managers are companies who under a contract of management with a client undertake the management of a portfolio of investments.

Custodians perform the actual role of holding or safekeeping the assets or securities (including cash) on behalf of the owners (investors).

The Registrar - This is in charge of keeping records in respect of stocks and shares of a floated company (a floated company is one which goes public by issuing its shares to the general public).

Shareholders - These are individuals or companies that purchase shares in a company or business and hence own a part of that company.



8.2 Products /Instruments in Uganda's Capital Markets

i) **Debt Instruments**

This is a financial product sometimes called a security that allows for a borrowing and lending arrangement illustrating evidence of a debt and the promise of timely payment over a specified agreed period of time.

A bond is a long term debt instrument that is used to borrow a stated amount of money for a fixed period of time, and gives a stated rate of interest. In Uganda, there currently are two types of bonds; government and corporate bonds. **Government bonds** are also known as treasury bonds and are issued by the government, to borrow a stated amount of money from the public, for a fixed period of time at a stated rate of interest. **Corporate bonds** are issued by private or public companies that wish to borrow a stated amount of money from the public, for a fixed period of time at a stated rate of interest. Companies that wish to issue bonds need to first seek approval from CMA.

ii) **Equity Instruments**

An equity instrument is a financial product sometimes called a security that allows investors to acquire ownership in a company. Equity sometimes is referred to as shares. Shares is a unit of ownership in a company. When an entrepreneur purchases shares, s/he becomes a part owner in the company in which s/he has purchased shares. The shares currently traded in Uganda's capital market are known as ordinary shares. As the name suggests these are the ordinary shares of the company with no special rights or restrictions. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders at the Annual General Meeting. Ordinary shareholders are entitled to receive dividends if any are available after dividends on preferred shares are paid. They benefit from capital gains if the share price of the company goes up and they sell their shares. However, they are last in line after bondholders and preferred shareholders for receiving business proceeds. Ordinary shares are also known as "common stock".

Other types of shares include redeemable shares and preferred shares. Redeemable shares are issued with an agreement that the company will buy them back at the option of the company or the shareholder after a certain period, or on a fixed date. A company cannot have redeemable shares only. However these are not traded on the USE.

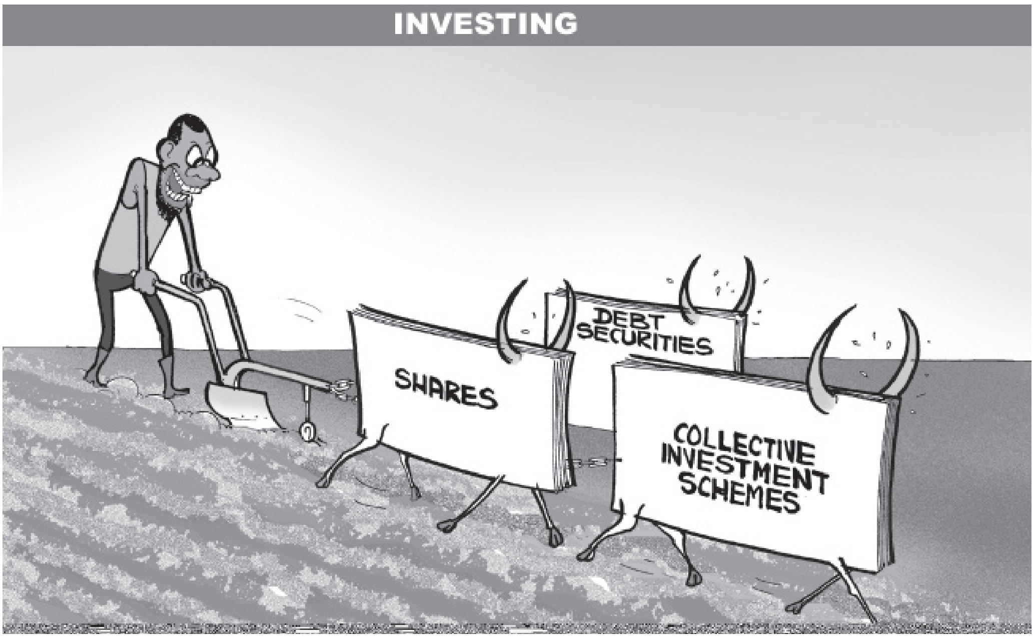
Preferred shares are shares that have entitlements over and above the ordinary shares namely preferred shareholders get paid a fixed dividend whether a company makes profits or not unlike the ordinary shareholder whose dividends fluctuate depending on the profits made. In addition, preferred shareholders get paid before the ordinary shareholders in case the company is liquidated. However preferred shareholders do not have voting rights like the ordinary shareholders.

iii) **Collective Investment Schemes**

This is a type of investment scheme that involves collecting money from different investors and then combining all the money and investing in various products. A collective investment scheme may also be called a mutual fund. There are two types of collective investment schemes in Uganda. These are: Unit trusts schemes, which are types of schemes where investors buy units, which represent the various holdings of the scheme. One's investment is represented by the units they hold in the scheme. Investment companies with variable capital (ICVC), where one's investments are represented by the shares they hold. The scheme takes the form of an ordinary company. However, unlike other companies, it is allowed to buy back shares when an investor wishes to pull out.

8.3 Investment Opportunities through Capital Markets

Many individuals and businesses have to save and invest funds in order to secure their future and have a sustainable business. The capital markets industry offers various avenues for saving and investments covered below;



i) **Investing in shares**

A share (or stock) is a unit of ownership in a company. When you buy a share, you become a part owner or a shareholder of the company. Shares can be bought either during the offer period or from existing shareholders. New issues of shares take the form of Initial Public Offerings (IPOs), where shares are sold to the public in a primary market. The purchase of shares from existing shareholders takes place in a secondary market on the stock exchange.The IPO refers to the first time a company offers its shares to the public. To buy these shares, a Share Application

Form (SAF) is obtained from participating broker/dealers and authorised selling agents (usually banks), and is completed by the prospective investor. This is accompanied by payment for the shares you intend to buy. A receipt is then issued to you indicating the amount and number of shares purchased.

The SAF is then sent to the broker taking the lead on the IPO and is registered for processing. Once payment is made, a receipt is issued to the purchaser. After share allocation is made to all the people who have applied to make sure that everyone has a share of the shares being offered.

If the offer is over-subscribed (applications exceeding the number of shares available), the shares available are divided among applicants according to a given allotment criteria and the investor then receives a refund for the shares paid for, but not received.

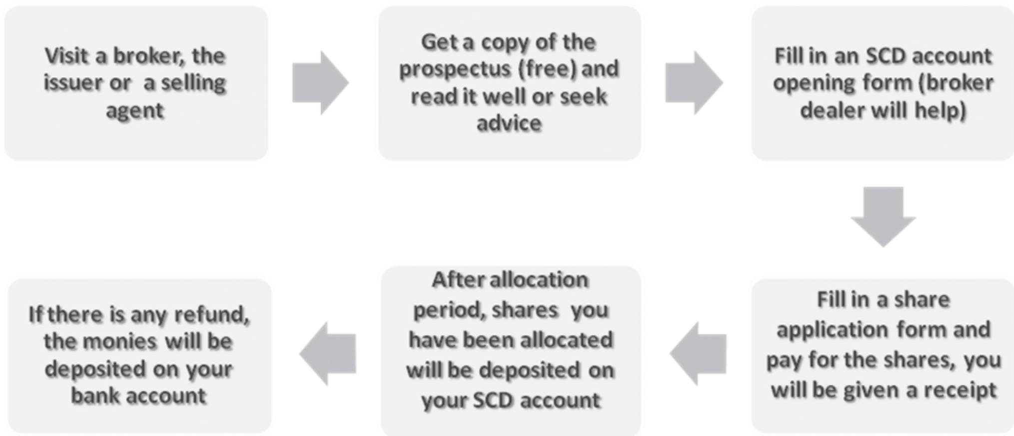
For shares paid and received, the shares are deposited on the investor's Securities Central Depository account. However, there are investors that still prefer use of share certificates. In that case, a share certificate is then sent to all the successful applicants. As an investor, you receive your share certificate from the participating broker/dealers or authorised selling agents.

A share certificate is a document that is evidence of ownership in a company. It is a valuable document and must be kept safely.)

After the shares have been allocated, the company that offered its shares to the public is listed on the USE and hence its shares start trading. This is what is referred to as the secondary market. In the secondary market, shares can only be bought and sold through a licensed broker/dealer and the share price is determined by demand and supply. Secondary market trading takes place at the USE every working day from 10.00am to 12:00p.m.

Before purchasing shares, the investor is advised to read the prospectus which is available in participating banks or broker/dealers. A prospectus is a legal document that gives general and material information on the company's history and operations. The main contents include the purpose of issue and use of the share sales proceeds, description of the company's business, a business plan. It is therefore important for anyone wishing to buy shares of any company to read and understand the contents of its prospectus before deciding to buy its shares. In case of doubt, the buyer should seek professional advice from investment advisors or brokers or dealers.

Investing in Shares – **PROCESS**
Initial Public Offering



Investing in Shares – **PROCESS**
Secondary Market – Uganda Securities Exchange

Deciding to sell shares

The investor finds out how much shares are selling in the market through a broker/dealer, the exchange or the business pages in the local newspapers or radio and television reports. The investor then contacts the broker/dealer and places an order to sell shares at a price stipulated in the market place. After the sale order has been executed through the exchange, the broker sends the investor a sale contract note, which shows the net sale proceeds payable to him or her. The broker/dealer shall then advise the investor on when to collect his or her cheque but this should be within 24 hours after the exchange stipulated settlement day.

Advantages of investing in shares

i) **Dividends**: When a company that issued shares makes a profit, the board of directors may give a percentage of the profit to its shareholders. This is known as a dividend. In other cases, the directors can propose to retain the profits in the company in order to increase its capital or interest. These are known as retained earnings. Shares therefore offer the possibility of an increasing income to the investor.
ii) **Capital gains:** When shares are sold at a price that is higher than the price at which they were purchased, this represents a profit. This profit is called a capital gain.
iii) **Voting rights:** Shares give a shareholder the right to attend and vote on important company decisions at the company's Annual General Meetings.
iv) **Collateral:** Shares may be accepted as collateral.
v) **Transferability:** Shares can be passed on from one person to another and can also be inherited.

Disadvantages of investing in shares

i) Share prices can go down or up depending on a number of factors such as the performance of the company, the economy, demand and supply factors.
ii) If the company's profits fall, the dividend may fall and if the company makes a loss it may not be able to pay any dividend at all.
iii) If the share prices fall, their value lessens.
iv) If the company collapses or becomes insolvent, the shares become worthless.
v) If the company goes into liquidation, shareholders are the last to be paid after all other creditors and debtors.

Legal documents to be executed during the buying and selling of shares

An example of a clients information form

CLIENTS INFORMATION FORM

INDIVIDUAL

Form NO..................................

Surname: .... Other Names: ....

Business name (where applicable) ....Reg No. ....

(Attach copy certificate of Reg.)

Nationality........................ID No. ....Passport ....

Maiden name (if applicable) ....

Marital status .... Occupation.............

Date of birth................................TIN No. ....

Physical address building ....floor................

Road/Street ....

P. O. Box ....Town ....Tel............Fax..........

Contact person

Surname: .... Other Names: ....

Relationship......................................

Address: P. O. Box ....Town .... Tel.........Fax.......

Sign ....

Date...

For Official Use Only

Officer in charge or Representative ....

Designated Supervisor.....................Account No. ....

PURHASE CONTRACT NOTE

USE trading slip No. Trade date: Settlement date: Instructing party:		Purchase contract No. Your order No. Your Ref. No. Customers No.
PURCHASE BY ORDER AND ON ACCOUNT OF		
SUBJECT TO RULES, REGULATIONS AND CUSTOMS OF USE		
Security		
No. of Shares	Price	Consideration
Deductions Registration Contract stamp Commission @ 1.7% CMA Comm. @ 0.14% Use Comm. @ 0.14% Compensation @ 0.02% Total deduction @ 2%		Net Amount payable Inwards

An example of a purchase contract note

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Stock Broker **Customer**

An example of a certificate

Name of Company………………………………………………………
……………………………………………………………………………

Name ....

Address ....

Is a registered holder of

	NUMBER OF ORDINARY SHARES					
Million						
xxx	xxxxx	one	two	five	zero	Zero

Ordinary shares of twenty Uganda shillings each fully paid in the above named company subject to the memorandum and articles of association thereof.

Date	Transfer No.	No. of shares

SEAL

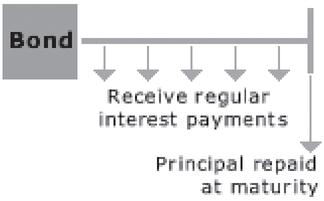
For and on behalf of …………………………………………………
(Name of Company)

____
Chairman

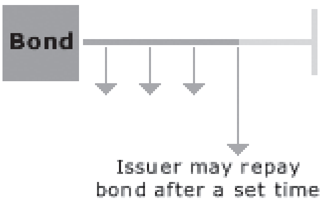
ii) **Investing in Bonds**

A bond is essentially a loan an investor makes to the issuer of a bond. The investor generally receives regular interest payments on the loan until the bond matures or is called, at which point the issuer repays you the principal. Certain bonds have special provisions. Bond funds pool money from many investors to buy individual bonds that meet the fund's investment objective.

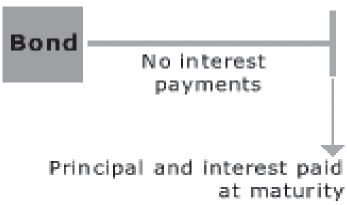
Most bonds pay regular interest until the bond matures.



Callable bonds allow the issuer to repay the bond before maturity.



Zero-coupon bonds offer a deep discount and pay accumulated interest at maturity.



Who issues bonds?

Government entities and corporations issue bonds to raise money for their endeavours. There are four major types of bonds representing the four major issuers.

Government (Treasury)	Governments issue treasury bonds to pay for government activities like paying off the national debt or fighting inflation. Yield is lowest among bonds, but considered low in risk if held until maturity. Bonds are exempt from state and local taxes.

Municipal	States, cities, counties, and towns issue bonds to pay for public projects (roads, etc.) and finance other activities. The majority of such bonds are exempt from state and local taxes.
Corporate	Corporations issue bonds to expand, modernise, cover expenses, and finance other activities. The yield and risk are generally higher than government and municipals. Rating agencies help you assess the credit risk. Corporate bonds are fully taxable.
Mortgage-backed	Banks and other lending institutions pool mortgages and offer them as a security to investors. This raises money so the institutions can offer more mortgages. Mortgage-backed bonds have a yield that typically exceeds high-grade corporate bonds with comparable maturity, and have a low credit risk. The major risk of these bonds is if lenders repay their mortgages early (for example, if interest rates drop), which can result in lower interest payments to the investor. Mortgage-backed bonds are fully taxable.

How bonds work

Bonds have three major components. The first is the face value (also called par value). This is the value of the bond as given on the certificate or instrument. This is the value the bond holder will receive at maturity unless the issuer defaults. If bonds are retired before maturity, bond holders may receive a slight premium over face value. Investors pay par when they buy the bond at its original face value. The price investors pay may be more or less than the face value.

Bonds also have a coupon rate. This is the annual rate of interest payable on the bond. For the owner of a bond, the higher the coupon rate, the higher the interest payments the owner receives. The rate is set at the time the bond is issued and generally does not change. Most bonds make interest payments semi annually, although some bonds are offered with monthly and quarterly payments.

The third major component is the **maturity**. This is the date upon which the issuer pays back the face value of the bond. The bond terminates at maturity.

Example

A typical bond - A company issues a Shs 300,000 10-year bond with a 6% coupon rate. Each year, the owner receives Shs 18,000 (6% of Shs 300,000), paid in two semi-annual instalments of Shs 9,000.

The Process of Investing in Bonds

i) Download CDS account opening form from Bank of Uganda (BOU) website.
ii) Fill it in and submit to financial markets department of BOU.
iii) Once you get the SCD account, you can invest.
iv) To invest more than Shs 10,000,000, you can participate in auction – fill in the auction form and submit to primary dealer before auction date.
v) To invest less than Shs10,000,000 (minimum Shs 100,000), go straight to your local bank (Stanbic, Barclays, Stan Chart, Crane, DFCU, Baroda, etc).
vi) There is a secondary market for bonds (OTC – bid (buy) and ask (sell) at the same primary dealers.

Advantages of investing in bonds

i) Bonds are predictable. You know how much interest you can expect to receive, how often you will receive it, and when your principal (the bond's face value) will be repaid (maturity date).
ii) Bonds are steadier then stocks (which can fluctuate wildly short-term). Nervous investors usually sleep better by buying bonds instead of equity investments. Bonds are often less volatile than their equity counterparts.
iii) People on a fixed income and/or in retirement will receive a predictable amount of regular income from bonds. Most bonds pay interest to bondholders on a regular basis, with the exception of zero coupon bonds.
iv) The interest rates paid by bonds typically exceed those paid by banks on savings accounts, especially short-term bonds.

Disadvantages of investing in bonds

i) Companies and municipalities can and do go bankrupt, and if they do, your bonds will lose value and possibly even become worthless.

ii) Long-term bonds will have your money tied up in low yielding bonds should interest rates go up.

iii) Unlike stocks, bonds don't offer the possibility of high long-term returns. Younger investors and those with several years to go until retirement would be better served by limiting their bond purchases and opting for equity buys instead.

iv) Although bonds are less volatile than stocks, they are not immune from price fluctuation. Bonds from riskier companies can be very volatile. It is also possible for a company to default on bonds issued, resulting in a total loss of principal for the bond holder.

iii) **Investing in Collective Investment Schemes**

There are many ways for a business to save and invest. One of them is through collective investment schemes (CISs). CISs are private financial arrangements that provide a means for mobilisation of savings to enable small investors to participate in capital markets. CISs pool resources of many small savers, generating a large fund. The resources are then invested in various assets like shares, bonds, property and treasury bills with the sole purpose of generating high returns while minimising risk through diversification of investments.

A CIS manager, a person licensed by the CMA to undertake on behalf of the client the management of CISs, invests all the money received from the different small savers and invests it in different assets. When he makes profits, he/she distributes these returns amongst all the investors. So everyone gets a share of the profits but the profits received are in accordance with the number of units one has. Ordinary people are the main participants in these schemes although they may also attract institutional investors such as pension funds or insurance companies as well as other business entities.

CISs are governed by the CIS Act 2003, which sets out the duties and obligations of the various parties that are involved in the formation of a scheme. One of the parties is a custodian whose duty is to safeguard the funds of the investors while the CIS manager only makes investments decisions.

A scheme has the capacity to accommodate many investors through the purchase of units that have diversified underlying investments. However, there are types of schemes that are tailored to suit different investor needs.

Types of Collective Investment Schemes

There are two types of collective investment schemes in Uganda;

i) **Unit Trust Scheme.** This type of scheme is where one's investment is represented by the units they hold in the scheme. The unit trust scheme is established by a trust deed between a fund manager (which must be a body corporate) and a trustee (bank or insurance company). The trust deed spells out the duties and obligations of the fund manager and trustee. In a unit trust, investments are made on behalf of the unit holders by the unit trust manager but the assets of the scheme are held by the trustee or custodian. The manager purchases the investor's unit at the ruling price and the investor's money is deposited onto his/her bank account within two days.

The trustee is important for the following reasons:

- Overseeing the fund
- Safeguarding the assets of the scheme
- Ensuring that the fund manager manages the fund according to the trust deed

ii) **Investment Company with Variable Capital (ICVC).** This is a type of scheme where one's investment is represented by the shares they hold. The scheme takes the form of an ordinary company, however, the key factor that distinguishes it from an ordinary company is that the company is allowed to buy back the shares when an investor wishes to pull out.

The main difference between the two is the form they take, one is organised as a trust and the other is a company but both forms of CISs involve the pooling of investors' contributions, which are invested on their behalf.

But as an investor, you should note that in both types, investors are not involved in the day to day decisions concerning how their money is invested. The investors pay a given percentage of their returns to the fund manager as a fee for managing their investments. The scheme therefore makes money by managing other people's money. Investment income and capital gains generated by the scheme are passed on to the investors and are shared in proportion to the investors' holding in the CIS.

Collective investment schemes – purchase process

i) Go to Unit Trust Manager - African Alliance (Workers House Floor 1).
ii) Fill in an account opening form.
iii) Select the type of unit trust account; short term or long term.
iv) Deposit money on account given.
v) Send copy of deposit slip to African Alliance.
vi) You become a unit trust account holder.

Collective investment schemes - redeeming/selling process

i) Send form to African Alliance Uganda indicating redemption of units.
ii) Money will be on your account within four days of receipt of redemption form.

Advantages of investing in collective investment schemes

i) Diversification of risk – Investors can secure a much wider diversification of risk, because these funds usually invest in different investments. Studies show that the greater the diversification of a portfolio, the lower the risk in relation to the return. Those who invest in CISs are therefore seeking to lower risk in relation to their returns.

ii) Access to securities investments - By investing a small sum (either in a lump sum or on a regular saving basis), an investor through the CIS can achieve a personal portfolio spread over several securities. Investors can access high-priced markets because of the pooled resources which create a larger fund.

iii) Lower transactions costs – By investing in a CIS, investors incur lower costs than if they were to buy and sell shares/bonds directly. This is because transaction costs are generally related to the size of the transaction, and investors benefit from the fund manager's ability to deal in larger quantities of shares at lower average dealing costs. Fund managers can also reallocate portfolios more efficiently than individual investors.

iv) **Professional management** – Due to the complexity of analysing information regarding individual securities, most individuals do not have the professional skills to manage their own investments. CISs provide full time professional management in a direct and simple form and this is especially important where market information is not widely available.

v) **Investor protection** – CISs have succeeded in developed markets due to an effective legal and regulatory framework. People need to have confidence that their money is protected from fraud, theft and other abuses. The CIS Act and regulations made under it provide the desired regulatory framework that will protect investors in Uganda.

vi) **Liquidity made easy** - It gives an opportunity to easily liquidate investments by selling your units back to the manager.

Disadvantages of collective investment schemes

i) **Loss of control -** When you invest in collective investment schemes, you are not directly involved in deciding how your money is invested. As long as the unit trust fund managers invest your money in accordance to the prospectus and deed of the scheme, there is little that you, the unit holder, can do if you happen to disagree with their investment decisions. It must, however, be remembered that unit trust fund managers are professionals with a reservoir of investment knowledge. They are more likely to make the right investment decision than rash small investors.

ii) **Fees and charges -** The services provided by the fund managers are not free. There are fees and charges payable by the unit holders to the collective investment schemes. Granted these fees are almost negligible compared to the professional expertise received by the investors, it is something the unit holders have to bear. **Opportunity cost -** Opportunity cost means that by putting your money in collective investment schemes, you lost the opportunity to use it elsewhere. Of course, there is no guarantee that putting the money elsewhere will yield better returns. In the same way, putting the money in collective investment schemes prevents you from investing it elsewhere, such as, directly in the stock market. There are two ways to look at it. If the scheme performs better than other investment instruments, then you did the right thing.

On the other hand, if the scheme performed disappointingly, then you might have argued that you could have done better investing it elsewhere. One thing that investors should remember is that CISs carry much lesser risk than direct investments. A single direct investment may produce significantly better results than the investment in CISs; on the other hand, it may also perform significantly worse.

8.4 Raising Long Term Finance through Capital Markets

Many businesses struggle with financing especially long term financing. Questions arise as to how to expand a business. Considering financing options is many times a dilemma; Questions often arise:

i) Should you apply for a bank loan? But the repayment period is quite short.

ii) How about that micro finance institution just next door? The interest rates are quite high too.

iii) So how about capital markets?

Advantages of raising long term finance through capital markets

i) **Raising funds:** Through the sale of shares on the capital markets, businesses are enabled to raise funds. Unlike in commercial bank, interest may be very high, security required and may take long to arrange while in capital markets, the raising of funds is much cheaper, easier and faster.

ii) **Provision of market to sell and buy shares:** Capital markets provide members of the public and any other interested individual or company a chance to buy shares. This provides them an alternative method of investing their savings. The market will also provide the holders of shares an avenue where they can sell their share in case they would like to opt out of the company or just to get their money back.

iii) **In flow of international capital:** Foreign investors who may wish to invest in the country will find it easier to do so through the capital market where they will easily buy shares. This leads to inflow of international capital which is very vital in the growth of a country's economy.

iv) **Better standards of living:** Increased investment by companies due to the existence of a well organised capital market will lead to more employment opportunities being created, more incomes generated and this may result in more disposable incomes that people may use for consumption and even more savings. As a result, people's standards of living are expected to improve. Savings will increase investment and economic growth. This can develop into a cycle for economic growth.

Avenues of raising long term financing through capital markets

There are two avenues through which a business can raise finance in the capital markets; equity financing and debt financing.

i) Equity Financing

With this type of financing, the business raises finance by issuing shares to the general public. Those who buy the shares of the company then become part owners of the company and hence are called shareholders. However, a company must first apply and seek approval from the CMA before it offers shares to the public.

Application requirements

In approving applications to offer shares to the public, CMA reviews all prospectuses to ensure full disclosure of information regarding the proposed offer. Information contained in the prospectus includes legal status of the company, its products and annual accounts. A prospectus is a legal document containing information about the company that wishes to offer shares to the public)

Broad guidelines on offering securities to the public

i) All resolutions by the shareholders converting the company from private to public are duly made and filled with the registrar of companies.

ii) All board resolutions authorising the sale of securities to the public and/ or the increase in authorised capital are duly made and filed.

iii) A prospectus has been complied in accordance with the provisions of the Companies Act (Cap 85) (where applicable), the Capital Markets Authority Statute 1996 and all the rules and regulations under the statute.

iv) The prospectus and the timing of the issue have been approved by CMA.

v) The prospectus has been filed and registered with the Registrar of Companies (where applicable) before the commencement of any publicity campaigns.

Main contents of a prospectus

i) A caution note on the first page to the effect that; Permission has been granted by CMA to the issuer (*the company offering the shares to the public*) to offer shares to the public. (*The permission should not be considered as an indication of the merits of the issuer or issue*).

ii) The purpose for offering shares and the use of the funds received from the sale of shares.

iii) Statement on legal affairs of issuer.

iv) Rights of shareholders as regards dividends, interest, rights to subscribe to new shares, voting rights and so on.

v) Company structure; the issuer shall give details of the directors and senior management, such as their qualifications, business experience, principal occupation and other directorships. Information also must be given on the number and class of shares held by directors and any intentions by the directors to sell any shares within a period of one year. Details of any contracts or agreements between the directors and the issuer must also be revealed.

vi) Financial statements; the issuer must supply audited financial statements showing the financial performance of the company and its subsidiaries during the last 3 or 5 years (as the case may be). However, in both cases, the audited accounts should be prepared for a period not older than six months before the date of the prospectus. Where the audited accounts are older than six months, the issuer has to supply unaudited accounts reviewed by an accountant and signed by its directors for a period not older than 90 days before the date of the prospectus.

vii) Accountants report covering all the financial statements.

viii) Loan/ debt profile.

ix) Information on bankers.

x) Company policy on dividends and future developments; the issuer shall clearly state the dividend policy and the business strategy to be followed and any future developments. This could include management decisions on main business activities, product development, and new lines of operation, markets or customers, summary of research and development costs, raw materials, resources and manpower training policies.

xi) Professional advisor details.

xii) Risk factors; the issuer must state in clear terms any risks related to its business ventures such as construction risks, licensing risks and taxation risks.

The applicant must also comply with detailed disclosure requirements of the USE listing rules as follows:

When the offer of shares has been approved, the company goes through an initial public offer and later is officially listed on the USE where the company shares are traded in the secondary market. The issuing company goes through two kinds of markets to have its shares bought namely the primary market (IPO) and secondary market (stock exchange).

The primary market refers to the purchase of shares in an IPO and those wishing to acquire securities apply to that company or institution. The secondary market is a facility where securities in this case shares are initially acquired from the primary market are traded. At the secondary market, shares can only be bought through a licensed broker/dealer who buys and sells securities on behalf of investors for a commission or a brokerage fee.

Advantages of equity financing for a business

i) If your company closes, shareholders' equity contributions will not be paid back until all the company's creditors have been paid.

ii) Your business assets do not have to be pledged as collateral in order to obtain equity investments/ sell shares to the public.

iii) The business/company does not have to make debt and interest payments to the shareholders.
iv) The company is better governed given the international standards accounting and governance standards followed by listed companies. (*Listed companies are companies that have officially been accepted to offer shares to the public and therefore are trading their shares on the market*).

Disadvantages of equity financing

i) The company owners may have to relinquish ownership of all proceeds and may have to share their business profits with other equity investors/ shareholders.
ii) Owners will have to be accountable to all shareholders and therefore will be required to publish their annual accounts, organise annual general meetings for all shareholders and communicate all major assurances in the company to the all shareholders.

8.5 Debt Financing

A business can also raise finance by borrowing from the public and institutions, through capital markets. The examples of debt instruments include:

i) Corporate bonds, which is an arrangement that enables a company to borrow money from the pubic for a long period of time.
ii) Government bonds/municipal bonds which is an arrangement that enables both government and local councils to borrow funds from the public for a long period of time).
iii) Commercial paper (an arrangement that enables a company to borrow money for a short period of time).

Guidelines for Issuing Corporate Bonds

Capital Markets Corporate Bond Guidelines lay out the requirements of CMA for issue of bonds; *(if the issuer wishes to have the bond listed on the USE, the issuer should meet the requirements of the USE).*

	Requirements
Offer document	The issuer should submit to CMA a prospectus or information memorandum which complies with all the requirements for issue of securities under the Capital Markets (Prospectus Requirements) Regulations, and on approval, publish a prospectus or information memorandum.
Minimum paid up share capital and reserves	Shs 1 billion (it shall be maintained by the issuer until the commercial paper has been paid up).
Profitability	The issuer should have made profits in the last 2 immediate years of the last 3 years.
Total indebtedness including new issue	The issuer should not exceed a minimum of 400% of the company's net worth (*Net worth includes the company's assets less liabilities and capital that includes financing like equities and proceeds*).
Weighted average of funds from operations to total debt	40% for the three accounting periods preceding the issue.
Minimum size of issue	The issuer can borrow a minimum of Shs 500 million.
Minimum size of lots	The offer should be bought in amounts of Shs100,000 e.g. when investors are buying the bond, they buy starting from Shs 100,000 and upwards.

	Requirements
Accountants' report (Covering the last 3 financial years)	Disclose the following: - Earnings before interest and taxes (EBIT) interest cover - Funds from operations to total debt (%) - Free cash flow to total debt (%) - Total free cash flow to short term obligations - Net profit margin - Post tax return (before financing) on capital employed - Long term debt to capital employed ratio - Total debt to equity ratio
Cash flow projection	Provide cash flow projections for the next 12 months.
Continuous disclosure	- Issuer should disclose to CMA any information that affects its credit worth. - Half yearly unaudited and annual audited financial statements during the period of the bond to be submitted to CMA and published in a local daily newspaper with national circulation.
Guaranteed bonds	Guarantor should submit to CMA: - a no objection from Bank of Uganda where the guarantor is a financial institution. - A no objection from the Uganda Insurance Commission where the guarantor is an insurance company. - Financial capability statement certified by the issuer's auditors. - Financial capability report from a credible credit rating agency where the guarantor is a foreign company.

	Requirements
Public announcement	Issuer to make a public announcement in electronic and print media with nationwide circulation at least one week before the issue opens.
Appointment of advisors	Issuer should appoint: - Advisers for the issue - Placing agents - Receiving bank - Payment and settlement agents - Approved registrar - Trustee
Fees	0.1% of the issue is paid to CMA as prescribed in the CMA Regulations 1996.

Notes

i) The financial requirements above should be maintained throughout until the commercial paper/corporate bond is paid up.

ii) Cases for guarantee:

- In case a prospective issuer of corporate bonds cannot meet CMA's requirements regarding paid up capital and reserves, the issuer should obtain a financial guarantee from a bank or other institution recognised by CMA.
- Where the issuer of commercial paper is not a company listed on the stock exchange, the issue must be guaranteed.

Advantages of Debt Financing

i) The company does not have to give up any ownership of the company.

ii) The lender has no control over how to run the company whose bond s/he has purchased. All that the lender requires of the company is that the loan and interest should be paid back.

iii) The company is not required to pay the lender dividends when it makes a profit, as is the case with shareholders.

Disadvantages of Debt Financing

i) The company is required to pay back the principal and interest regardless of its financial position.

ii) The company must have sufficient cash flow to repay the loan and interest.

Note: Debt may impair your ability to raise money in the future. Debt carries risk, the higher the loan, the higher the expected interest rate.

8.6 Other Sources of Long Term Finance for Businesses in Uganda

Raising finances/capital is one of the major questions that an entrepreneur needs to deal with. The capital may be for starting up a business or even financing expansion. Few emerging companies are able to finance their expansion plans from cash flow alone. Therefore, entrepreneurs need to consider raising finance from external sources. Once they have decided to raise capital, they need to consider what source and type of finance will suit their needs. Aside from capital markets, other sources of finance include;

i) Joint venture: Find an individual or organisation to both invest in and work with a company in its business project.

ii) Banks for working capital: Short-term finance or the working capital necessary to fund the day-to-day running of the business. This can take the form of an agreed overdraft, where the interest will be calculated on your daily outstanding balance and charged on a monthly or quarterly basis.

iii) Banks for medium-term loans: A loan paid back over an agreed term (typically three to ten years), where principal and interest are paid off monthly. This type of loan is used mainly to invest in equipment, expansion, and development.

iv) Banks for long-term loans: This type of loan is normally used to purchase assets such as a business, land, buildings, plant, or machinery that can be shown to directly or indirectly add to profit over a number of years.

v) Leasing: Provides finance for the acquisition of specific assets, such as cars, equipment, and machinery. Leasing involves a deposit and repayments over, typically, three to ten years. The financier purchases the equipment you require and then leases it to you in return for regular payments for the duration of the lease period.

vi) **Personal loans**: If it is impossible to obtain a loan in your business' name, you could consider obtaining a personal loan. However, check that the conditions do not jeopardise control of the business and that you are very confident of being able to repay or you may lose assets put up as collateral.

vii) **Family and friends**: You can borrow money from friends and family, however to avoid any misunderstandings and/ or resolve any dispute if things go wrong, it is imperative to make a written agreement, including the loan time period and interest payments.

The advantage of raising finance is that it helps to avoid the dilution of business control or share capital.

Disadvantages

i) Joint ventures can often result in the loss of control over aspects such as policy and development.

ii) Banks have the power to place a business into administration or bankruptcy if it defaults on debt interest or repayments.

iii) Borrowing from family or friends can lead to disputes or interference in the management of the venture.

iv) When seeking financing, consider what source and type of finance suits your needs. Then match the method of funding and the term of the loan to the reason for the finance. Don't forget that your financing decisions may have an impact on business cash flow and other obligations such as taxation.

Activity 1

1. List the companies you know that trade on the stock exchange by selling their shares in Uganda.
2. Identify the advantages of raising finance through the stock exchange.
3. Why are there few people in Uganda who participate in the stock exchange by buying shares?

Activity 2

Assume your company which has been doing business in your school community would like to raise more funds through the sale of shares. Prepare a prospectus for the submission to CMA.

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