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WHO IS AN ENTREPRENEUR?

An entrepreneur is a person who starts and operates his or her own business. Entrepreneurs offer solutions to problems/needs. They meet needs by supplying a product or service. When they succeed, their businesses do well but when they fail, they lose their investments.

CHARACTERISTICS OF A GOOD ENTREPRENEUR

1. Initiative
 - should have the creative ability to generate new ideas and implement them ahead of others
 - should have a quality imagination
 - should be innovative and courageous to face realities of life boldly and cheerfully.
2. Risk taker
 - should be ready to take risks instead of playing it safe.
 - should not be a person who waits until it is absolutely safe.
3. Desire to achieve
 - should be a person who wants to excel
 - should have desire for success
 - should try to accomplish something new
 - should have specific objectives to achieve
4. Information seeker
 - should be well informed in business matters
 - should always take initiative to get information
5. Independence
 - should be independent
 - should do things their own way
 - should be their own bosses
6. Problem solver
 - should have the ability to solve problems and make decisions
 - should come up with good solutions to prevailing problems
7. Time conscious
 - should use time wisely and avoid wastage of the same
 - should do things at the right time
 - Should have a sense of timing according to the economic climate
8. Self confidence
 - should be sure of himself
 - should strive to achieve challenging realistic goals
 - should have confidence in whatever he does
9. Good planner
 - should know how to organize work
 - should plan for the business future
 - should plan what takes place daily

10. Discipline
 - should be disciplined in the management of cash
 - should separate business expenses from personal expenses
 - should not mix friendship with business
11. Ability to communicate
 - should be able to communicate with customers
 - should handle all customers nicely
12. Honesty
 - should be honest to the customers
 - should be honest to authorities
 - should be honest to the business
13. Goal setting
 - Should set clear measurable objectives
 - should act on the objectives set accordingly
 - Should strive to achieve the objectives
14. Persistence
 - should be a person who is persistent in his actions
 - should not be a person who gives up when the going gets tough
15. Business skills
 - should be technically equipped with the necessary skills
 - should be a person who understands the business he is undertaking
16. Hardworking
 - should be hardworking
 - should be a person who is totally committed to his work
17. High quality work
 - should be a person who stresses on high standards of excellence
 - should be a person who competes with others by offering quality products/services
18. Persuasion
 - should be persuasive enough in order to convince customers to buy from him
 - should have the capability of dealing persuasively with the creditor
19. Efficient
 - should be a person who stresses on maximum efficiency in operation
 - should be efficient enough to gain confidence of the customers
20. Flexibility
 - should be a person who is not rigid in his decisions
21. Monitoring
 - should be a person who regularly assesses the performance of the business
22. Others
 - should know and understand legal aspects of the business
 - should be keeping records
 - should follow one line of business

CAUSES OF BUSINESS FAILURE AND COMMON MISTAKES COMMITTED BY NEW ENTREPRENEURS

Indicators of business failure

There are always some indicators to show that a business is failing. The following are common signs;

1. Shortage of working capital

The most common problems in relations to working capital are;

- Inadequate cash
- Shortage of stock
- Too many debtors

2. Declining sales

When the sales are very slow the profits will definitely reduce. Some stock might even get spoilt. This eventually leads to losses.

3. Accumulating losses

Losses begin to accumulate when the prices offered cannot cover the costs incurred.

Why businesses fail

Some of the reasons why businesses fail arise from the commencement stage while others crop up when the business is in progress. Some of the common problems are summarized below;

1. Poor choice of business

-this is when an entrepreneur decides to venture into a business which he can hardly understand. This eventually leads to failure. In order to succeed, one must make the right choice.

2. Poor business location

-this relates to availability of raw materials and customers. A business must be located in an area where these two are assured.

3. Underestimating capital requirements

This is the way to business failure. If one underestimates the capital required in business, definitely inadequacy of capital is experienced sooner or later.

4. Competition

-if the returns from the business are high, potential competitors will be encouraged to enter the market thus causing serious competition, which might eventually lead to business failure.

5. Investing too much on fixed capital

If too much money is invested in purchase of assets, there is usually the danger of shortage of working capital. Moreover, some of the assets purchased may be underutilized or not utilized at all. This causes business failure.

6. Poor management of the business

If the business is mismanaged and badly organized, it will obviously result in failure.

7. Lack of self discipline

In order to win goodwill of a customer, an entrepreneur must have self-discipline otherwise the customer will go to other persons.

8. Rigidity

An entrepreneur has to follow the changing trends of customers. That might be the only way to sustain the business.

9. Laziness

This is sure recipe for business failure. A businessman must be hardworking and devoted to his work.

10. Poor customer relations

A businessman who does not know how to treat his customers well cannot make it in business. In order to attract and keep customers, one must be good at keeping cordial customer relations.

11. Indecision

If the entrepreneur is indecisive and keeps on jumping from one thing to the other, definitely he is not the type of material who can succeed in business.

12. Lack of self confidence

If a businessman is unsure of himself, and is not certain whether the business will succeed or not, then automatically, it will fail.

13. Blind risk taking

If an entrepreneur takes risks blindly without looking into all aspects, most probably he will find the business failing.

14. Lack of creativity

In order to sustain yourself in business, you must have creative ability and innovativeness.

15. Poor control of expenditure

16. Too many debtors

17. Using business money for other purposes

18. Operating many businesses

19. Reckless withdrawal of cash by family members

IDENTIFYING AVAILABLE BUSINESS OPPORTUNITY

An idea does not become a business opportunity for you until it looks as if it will meet the following test.

1. Is it a business opportunity? That is, does it have potential to be profitable?

- **Marketing**-Can the product(s) or service(s) be successful in the market place?

-**Production**-Can you produce the required volume and quality at a profitable margin?

-**Finance**-Can financial goals be satisfied?

2. Does it satisfy your personal constraints?

Always look at personal constraints after you have a good glimpse of the potential

Profit in a business opportunity

Ask yourself the following questions

1. Do I want to do it?
2. Do I want to work at it at fulltime or part time?
3. Does it have potential to satisfy my target income/profits?
4. Is it worth the effort?
5. Is it legal within my moral/ethical standards?
6. Is it within my status? Will it advance my status?
7. Do I want to work with the types of people involved?
8. Is the idea high in the list of my priorities?
9. Do I have the time?
10. Will it be fun?
11. Do I want to live with the lifestyle? Example- constant travel
12. Do I have the required knowledge/skills/experience... if not... Do I have the time/interest/ability to acquire them?
13. Do I have the necessary knowledge of market suppliers?

14. Do I have enough finances available/accessible?

Sources of business ideas

Good business ideas come from a number of sources:

1. **Vocational training and experience:** you can your skills and experience into a needed service. For example, if you are an experience driver, you could start a driving school.
2. **Newspapers and magazines:** your local daily newspapers are a rich source of ideas and business opportunities. Look at the business pages and classified advertisements.
3. **Public library:** Your public library is an important source, full of business related books, directories and trade publications.
4. **Yellow pages:** the yellow pages in the telephone directory list many products and services related to small enterprises.
5. **Small scale financing institutions:** institutions like Kenya Industrial Estates (KIE), Industrial and Commercial Development Cooperation (ICDC), Small Enterprises Finance Company (SEFCO), and the Industrial Development Bank (IDB), could be rich sources of ideas and venture capital.
6. **Friends and acquaintances: friends are always sources of ideas. Seek their advice especially if they if they are in business themselves.**
7. **Hobbies and Travel:** think of areas related to your hobby or leisure activities; you could develop a business opportunity from there. Whenever you travel, look for new business opportunities. You may be able to borrow ideas from your travel.
8. **Competitors:** identify your competitors and then closely examine their products or services. Determine if the product or service could be improved.
9. **Seminars and Workshops:** there are many of these available on both small scale enterprises and entrepreneurship and can be a rich source of ideas and opportunities.

10. **Trade and business associations:** stimulating ideas can be developed by belonging to trade associations.
11. **Change of government policy and regulations:** whenever a policy change occurs, opportunities arise to market a product or a service. For example, when the government liberalized the economy, people were able to import products to sell them locally.
12. **Trade shows, fairs and exhibition:** will expose you to innovative products and services that you could turn into business ideas.
13. **Your own ideas:** be active, may be you will invest a new product that will fill a major need.

IDEA GENERATION

1. Creativity
2. Brainstorming
3. Sources of ideas
 - Recognizing needs

- Trends: -Aging populations
 - Fitness
 - Knowledge explosion
 - Through Income families
 - Globalization
- A varied and travelled background
- Borrow someone's idea to your own location
- Interview people to determine needs and gaps in the market. Look for better ways to do things
 - An event is an opportunity
 - A problem is an opportunity looking for a solution
 - Waste
 - Analyze existing business and see they are weak
 - Convert your hobby or sport into a business venture
 - Try combination of ideas
 - Create different uses of common products
 - Think backwards
 - Buy an idea
 - Check on your foreign supplier
 - Review magazines, reports, newspapers etc
 - Create an opportunity
 - Consider import replacement
 - Review what has failed
 - Add value
 - Break bulk
 - New portions
 - Specialize for a target market

- After, market repair and salvage
- Become an expert agent for a local product
- Add service to an existing product or idea

Mrs. Njue's experience

Mrs. Njue wanted to go into business to expand her family's income. Her husband had a successful hardware supplies shop and he offered to be her financial partner, providing funds and sharing profits but leaving her free to run the business. Mrs. Njue enjoyed making baskets and wall hangings which many of her friends admired so at first she thought about opening a household furnishing shop where she could sell them. But after talking to a number of local shopkeepers, she found out that there would be a few customers in her area for such a business to be profitable.

Then Mrs. Njue thought about making clothes but she found out that there were many tailors in the area.

The man at the local funeral service business said that there was a big demand for flowers for funerals. Mrs. Njue had never grown flowers and she had a very small garden but she decided to get some information.

While still looking for a good idea for her business, Mrs. Njue tried to find a place for her son in a local nursery school. She knew that when she started her business, she would have no time to teach him at home and it is good to begin education early. However, all of her nearby nursery schools and most had waiting lists. Many of the women she met complained that there were not enough nursery schools in the area.

Mrs. Njue realized that there was a need for another nursery school and decided to start one herself. Today her nursery school is a profitable business and has a long waiting list.

Mrs. Njue had no experience in running a nursery school, but she could see that there was a gap which was a good business opportunity. She invited some of the nursery schools and to the people who ran them. She talked to friends and neighbors with small children to find out what they wanted from a nursery school. Then, with finance from her husband, she rented a building and hired a qualified teacher to help her. Although she did not have training herself, Mrs. Njue used her strengths and assets. She used her network with the young mothers to investigate the size and nature or the demand for a school. She used her husband's business to acquire financing and she used her own experience as a customer.

Mrs. Njue:

1. Found the gap- by listening to what people wanted from her business opportunity
2. Assessed the market- she talked to customers
3. Got information and skills- she invited other similar business and hired someone qualified to help her

4. Got finance- to provide the building and equipment for the business
5. Used her experience- as a mother herself she knew what was needed and provided a good service for her customers.

Now that you have read about Mrs. Njue, see if you can similar stories in your area. You can learn a lot from people who have already gone through the process of establishing a business.

1. What kind of idea did these businesses start with?
2. Where did these ideas come from?
3. How did they develop their idea into a successful business?

1.0 STAGES IN BUSINESS START-UP

The following are main stages of business start- up process:

- 1) Getting motivation to go to business- What stimulates people to go to business
- 2) Generation business ideas
- 3) Assessing the business ideas
- 4) Preparing a business plan
- 5) Planning the entry into the business

2.0 IDENTIFYING A BUSINESS OPPORTUNITY

Identifying a business opportunity involves generation of business ideas, assessing them and selecting the best business idea which can be turned into a business.

- 2.1 Business ideas** The success of a business sometimes depends on how good the business idea was. A business idea is based on a product or service which you have identified which can be sold to certain customers who need them and may be willing to buy them.

The following are some of the ways you can generate your business ideas:

2.1.1 Observation

- a. The current business scene like the setting up of supermarkets and mini shops
- b. New demands for certain goods or services
- c. Filling a gap left by the bigger businesses
- d. Providing a service the community need and are not getting at the moment e.g. Transport, Grain milling or Distribution to the interior
- e. Family changes and trends like the needs for Pre-school level and kindergarten
- f. Processing or selling what farmers produce in your area

2.1.2 Modifying

- a. You can also generate business ideas by taking existing products/services and improve them or marketing them differently from other people.
- b. Turning your hobbies and leisure time activities into business

2.1.3 Linkages

- a. A business idea based on supply of certain raw materials to other business e.g. Manufacturers

2.1.4 Natural Resources

- a. A business based on exploitation of natural resources in your areas like forest products or fish from a lake or river

2.1.5 Waste

- a. Turning waste materials into a business e.g. bone meals from bones or making necklaces from bone products or sale of manure to farmers

2.1.6 Natural talents

- a. Turning a talent into business e.g. dancing, artist work
- b. International business- A business idea based on selling products from your place to international Markets

2.2 Choosing a Good business Opportunity

A good business opportunity is one that has a possibility of being started and growing.

The following are the key thing which you should consider in selecting a good business opportunity:-

- a) A business which has a wide market scope with enough customers who have ability to buy. Demand must be high.
- b) A business which has a market- where you might be the only one or there are a few competitors

- c) A business with return on investment- a business which can generate good profit.
- d) Availability of all resources e.g. Raw materials, the resources should be available in plenty
- e) Skills needed e.g. specialized services like medical clinics
- f) Government policies, regulations, and laws must also be considered
- g) Environmental factors so that the business does not destroy the environment both physical and social

The following are the ways of assessing the business opportunity:-

1. Carrying out a **market survey**. This will make you to be able to assess the market potential particularly the demand for your products or services and other characteristics of the target customers like ability and willingness to buy.
2. Carrying out **feasibility study** to assess all the aspects of a business. But particularly whether it is **viable**
3. Carrying out a feasibility study

CARRYING OUT A FEASIBILITY STUDY

The following are the main issues you should be assessing:-

Technical assessment

1. Business location
2. Availability of all resources
3. Project technology or engineering
4. Existence of infrastructure like water, power and roads

Marketing assessment

1. Target market groups or segments
2. Competitive factors
3. Products, prices and distributive factors
4. Possibility of carrying out certain promotional activities
5. Market share and marketing trends

Financial assessment

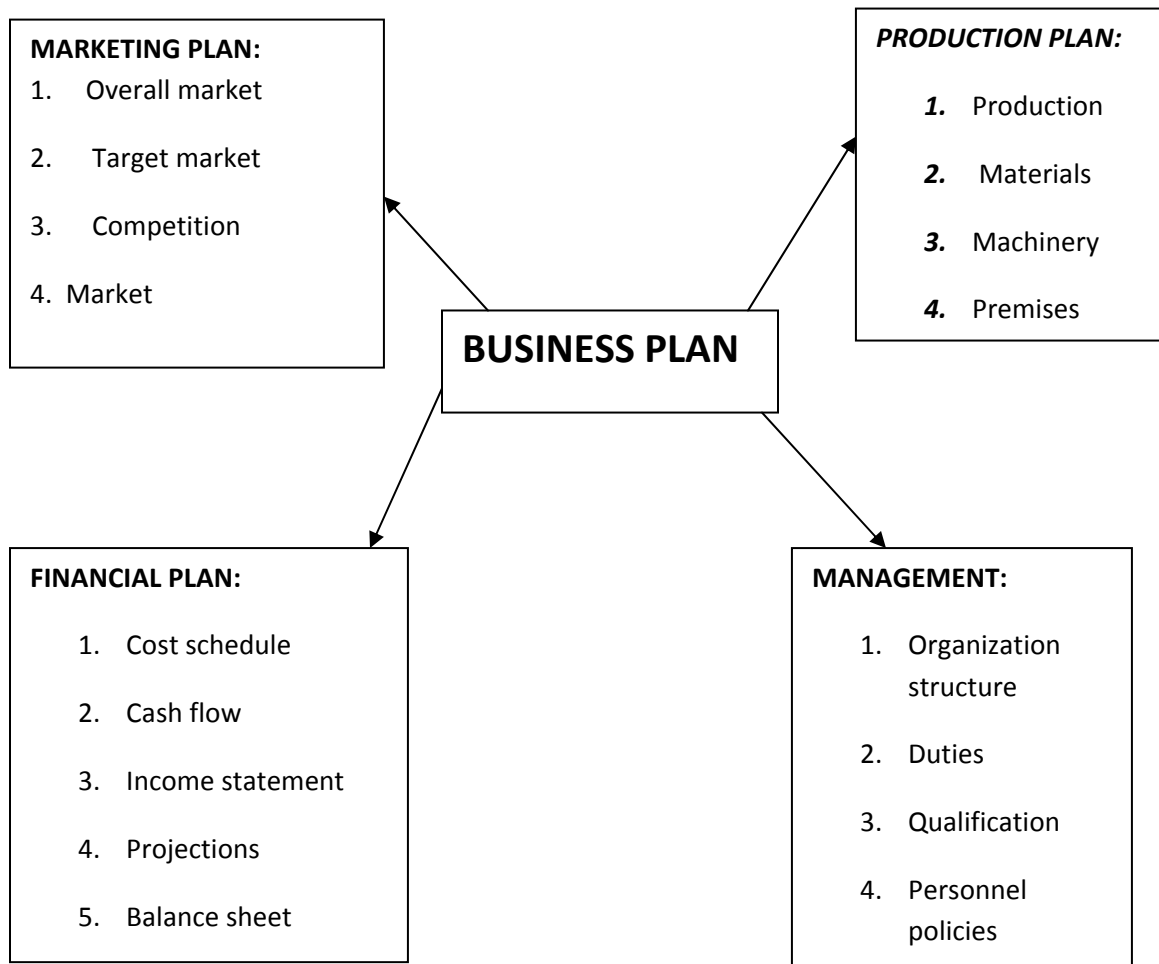
1. Costs of starting and running of the business
2. Availability of financial resources
3. Likely financial performance criteria
4. Return on investment
5. Cash flow patterns

Critical risk areas

1. Competition
2. Seasonal fluctuations
3. Customer reactions
4. Government policy

The most crucial factors in the feasibility is the establishment of the potential demand and the profitability of the business

BUSINESS PLANNING- AN INTRODUCTION



1.0 WHAT IS BUSINESS PLANNING

Business planning is the process of setting business goals and objectives forecasting resources and developing plans which will help you achieving the goals and objectives.

Therefore, business planning has the following elements:-

- a. Setting goals and objectives
- b. Forecasting various resources
 - ❖ Materials
 - ❖ Financial
 - ❖ Human
- c. Developing activities, allocation of resources and putting them on a time scale.

These are plans.

In business the owner/manager is mainly concerned with finances and materials

2.0 THE ROLE OF PLANNING

1. It helps the owner/ manager to set goals and objectives. Nothing can be done without a direction or being on what action is going to achieve
2. It helps the owner/ manager to think in advance about the resources he/ she will need in the business now and in the future
3. It helps the owner/ manager allocate resources properly according to the way they are needed
4. It helps the owner manager to set the standards and targets to be met both by or anybody he/ she is working with in the business.
5. It helps put work and activities on a “time- table”
6. It helps in giving clear guidelines on how everything will be done

3.0 TYPES OF PLANNING

Plans in business can be seen from two ways:-

1. In terms of time
2. Various types of business

TIME:

Plans are either seen as long term covering 2-5 years or short term covering between 1 week- to may be a year

The long- terms plans- are usually strategic short terms and are usually routine tactical plans

VARIUORS ASPECTS OF BUSIENSS

They can be seen terms of the following:-

1. Financial plans
2. Production plans
3. Management and organization plans
4. Marketing plans

Whichever way you look at the process of planning it is the same.

PROCESS OF PLANNING

The following is the major steps in the process of planning

- a) setting of business goals and objectives
- b) assessment o business environment
- c) assessment of business resources
- d) forecasting the resources
- e) assessment of alternative causes of action to achieve goals
- f) selecting the best alternative
- g) listing the activities to be done in accomplishing the goal and objectives
- h) developing activities in terms of time when everything has to be done

PLANNING MARKETING ACTIVITIES

The begging of planning in business must start with sales. Without selling all the other activities the business would be useless. Production is based on what will be sold. Even staffs are there because o profit which comes from selling:-

- a) The requirements (Needs and wants of the TARGET MARKET.)
- b) the products needed by customers
- c) Prices
- d) Distribution
- e) Promotional activities

6.0 PLANNING PRODUCTION

The other very important are that needs to be planned is production. It provides what will be sold to give revenue and profit.

The following are areas that need planning:-

- a) Units to be produced in certain periods according to the needs of the market
- b) The amounts of raw materials
- c) The production process or systems
- d) That quality assurance

7.0 PLANNING FINANCES

This is also called BUDGETING

The following are some of the main plans in the area of finance:-

- a) Cash flow budget
- b) Sales and costs budget
- c) Project of your business worth(balance sheet)

7.1 CASH FLOW BUDGET

7.2 SALES AND REVENUE

DETAILS	JANUARY	FEBRUARY	MARCH
Sales			
Less:			
Cost of goods sold			
Gross profit			
Less:			
Opening expenses			
NET PROFIT			

MARKETING IN AN ENTERPRISE

1.0 What is marketing?

It is a process which identifies plans and satisfies customers need or requirement profitability. It can also be seen as a series of activities which involve planning and deciding on the best products or services to be sold, ways of pricing, best methods of distributing and promoting your products or services.

The following are the main activities of marketing:

- a) Analysis of the target market and deciding on whom you are going to sell to.

- b) Determining your customers needs.
 - c) Planning, developing and deciding on the products or services that will satisfy the needs of the customer
 - d) Planning and deciding on the prices which will be charged.
 - e) Planning and deciding on the best methods of informing, attracting and selling to the customers.
- THE SELLING JOB**
- f) Looking for marketing information to enable you to make marketing decision.

2.0 IMPORTANCE OF MARKETING

We do marketing in almost everything we do in our lives. That is why we can talk of selling our ideas or opinions to our friends or colleagues. We can also talk of our potential selling its policies to potential voters.

In business marketing is very important because it has the center of all business activities. The following are the main reason why is important.

- a) all business are based on the sale of a product or service
- b) Marketing helps in creating demands for goods and services. This in return, stimulate production
 - _ Trade association e.g. Kenya Association of manufacturers
 - _ Daily news papers e.g.

3.2 methods o getting information

When you want to get information you can use the following methods

- a) Observation: you can observe what people are buying or even pause as a customer in a potent6al competitors business.
- b) You can also get information directly from people by interviewing them. You can write to people or call them by telephone to look for information.
- c) You can also read from your business record within your business

4.0 IDENTIFYING AND SELECTING YOUR TARGET MARKET

4.1 What is a market?

Every business sells (or market) some product or service. Therefore, every business has a market. But what is that market

- a) The customer who needs what you are selling.
- b) The customer who is able to buy what you are selling.
- c) The customer who is willing to buy what you are selling.

Therefore, for a customer to become your market, he or she must be in need of your product, have the ability to buy and be willing to buy.

EXAMPLE

Suppose you are selling in your hotel pork sausages. You should understand there will be customers who need them but cannot afford may be because of pricing. Others like Muslims will not buy even if they have ability to buy because of their religious belief.

4.2 Types of markets

There are generally two types of markets.

- a) House hold customers: These are people like you and me, who normally buy items for direct use (consumption). Generally they buy small quantities.
- b) Industrial and business consumers: The industrial consumer buys from you what you sell as his raw material to go and make something else with it. For example they might buy your farm produce to go and process something else.

The business consumers are the distributors, wholesalers and retailers who buy your products to go and sell to household consumers.

Identifying target consumer groups

If you want to sell effectively and succeed you must identify your customer groups, learn about their behavior and characteristics they have in common. Having similar characteristics each group is called a segment or sub-market

The following is the process of identifying customer groups

- a) start by gathering information about the customers (the market)
- b) Note the characteristics of the customers.
- c) Look at what they have in common and also their differences.
- d) Analyze the characteristics by looking at things like age, sex, whether married or single, where they come from, their spending habits/income, and buying patterns.
- e) Then you can group together those who have common characteristics.
- f) Then, select the group or groups you want to sell to- YOUR TARGET MARKET. You should consider the following points:-
 - 1. The customer groups should be large enough to allow you to sell more and make profits.
 - 2. The groups must have clear differences so that each group is really different from the others.

MARKETING MIX

Product/services:

- a) What is your product/service?
- b) Your package- should it be very expensive or cheap? What is the market section or range?

- c) Is there an after sales service/guarantee
- d) Size/colors/models
- e) Competitors- who and what and where

Price:

- a) What price is needed to make a profit?
- b) What price will the market stand?
- c) Should the price be the same as competitors? (Cheaper or more expensive)
- d) High price, "less discounts"
- e) Credit terms? Buy one... get one free! / free gifts? – Incentives.

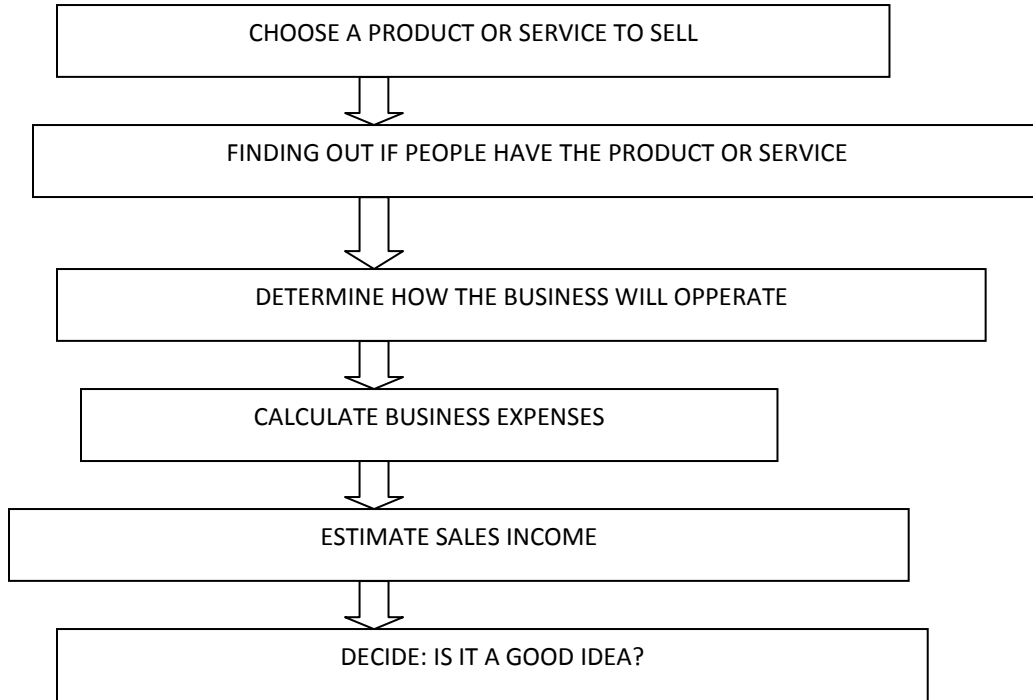
Place:

- a) How will product/service be made available?
- b) A- Direct (door to door, market stall, shop)
- c) B- Agents (wholesalers, retailers, own house/ mail order)

Promotion:

- a) What information do customers need?
- b) What...Advertising, selling, sales promotion, publicity, media release, networking, sponsorship?
- c) How often? Where?

FOR DOING A FEASIBILITY STUDY



SELECTING A GOOD BUSINESS OPPORTUNITY

1. A wide market scope having many customers
2. Possibility of having a market niche
3. Profitable- good return on investment
4. Availability of all resources (Human, Financial, Materials, Machinery and Natural Resources)
5. Skills needed- are available
6. Not against Government policies and regulation
7. The size- not too big or a start

Financial Management: Borrowed Funds

ABCs of Borrowing

Debt is any amount owed by an individual from another person. There are several reasons for incurring debt.

There are many different reasons for debt, but they are not always because of irresponsibility, as what most people would assume. The problem of debt arises whenever the borrower fails to meet his commitments due to uncontrollable or unwanted circumstances. Nevertheless, it can be frustrating and devastating for people and their loved ones. Excessive financial obligations are an overwhelming problem that can potentially ruin people's lives. That is because a person drowned in debt may lose his freedom, home, and even his family.

This Aid discusses the following fundamentals of borrowing:

- 1) Credit worthiness,
- 2) Types of loans,
- 3) Purpose of the loan
- 4) Amount of money needed,
- 5) Collateral,
- 6) Terms and conditions,
- 7) The loan application, and
- 8) Standards which the lender uses to evaluate the application.

Are you Credit Worthy?

The ability to obtain money when you need it is as necessary to the operation of your business as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate labor force. Before any lending agency will lend you money, they must feel satisfied with the answers to the five following questions:

- a. What sort of person are you? The character of the borrower comes first. Next is your ability to manage your business.
- b. What are you going to do with the money? The answer to this question will determine the type of loan, short or long-term.
- c. When and how do you plan to pay it back?
- d. Is the loan sufficient for the purpose? 5. What is the outlook for business in general and for your business particularly?

Type of loan

When you set out to borrow money for your firm, it is important to know the kind of money you need from a lending institution. There are three kinds of money:

- i. Short term,
- ii. Long term money, and
- iii. Equity capital.

The purpose for which the funds are to be used is an important factor in deciding the kind of money needed.

A very important distinction between the types of money is the source of repayment. Generally, short-term loans are repaid from the liquidation of current assets (sales) which they have financed. Long-term loans are usually repaid from earnings generated by the fixed assets.

Purpose of the loan

This is a key consideration for every entrepreneur before going for any loan. An entrepreneur must first identify a need for a loan. This ensures that borrowed funds are put into the right use beneficial to the business. A loan should be taken only for reasons beneficial to the business.

How Much Money?

The amount of money you need to borrow depends on the purpose for which you need funds. The amount of loan you need depends upon the type of business you're in or the asset you want to acquire.

What Kind of Collateral?

Sometimes, your signature is the only security the lender needs when making a loan. At other times, the lender requires additional assurance that the money will be repaid. The kind and amount of security depends on the lender and on the borrower's situation.

The types of security are: guarantors; chattel mortgages; land and buildings; and stocks and bonds.

Chattel Mortgage is a common security for small business loans. It involves pledging personal and business assets to the lender.

Terms and Conditions

Lending institutions are not just interested in loan repayments. They are also interested in borrowers with healthy profit-making businesses. Therefore, whether or not collateral is required for a loan, they set loan limitations and restrictions to protect themselves against unnecessary risk and at the same time against poor management practices by their borrowers.

The limitations which you will usually run into when you borrow money are:

- 1) Repayment terms.
- 2) Pledging or the use of security.
- 3) Periodic reporting.

Evaluating the Application

Once you have supplied the necessary information, the next step in the borrowing process is the evaluation of your application. The lender considers the same kinds of things when determining whether to grant or refuse the loan.

- i. Credit history- how you have repaid other loans.
- ii. The ability of the business proposed to service the loan and its future prospects.
- iii. The past earnings.
- iv. the borrower's management ability,
- v. the borrower's character,

In addition, a borrower should focus on the following:

- Avoid Diversion of funds- away from the purpose out of which the loan was advanced.
- Utmost discipline in the use of loan and business funds.
- Commitment to repaying the loan: plan to pay through allocation of funds and schedules..
- Keeping the lender informed: in case of difficulties and for the sake of monitoring. This also enhances future borrowing relationships.

CUSTOMER CARE

Customer care is how you treat your customers and how they in turn relate to you and your business. A business can only grow if there is a good customer relation. This is because all activities in a business are geared to create to satisfy the customers need/wants.

Your survival in business will depend on the “coming back” of your customers to buy more from you. To ensure that the customer’s re- visit your business premise regularly, it is important to consider the following points:-

- ❖ The products, which you offer should be as per customers description e.g. design, quality, quantity, shapes, colors, sizes etc
- ❖ All your employees should have a positive attitude to satisfy customers. Customers should be made to have trust your business enterprise has the has the relevant enterprise to o the job- a professional job

- ❖ Your business policies should be understood and the following e.g. buying, delivery, storing etc. Customers should be made to feel that they are treated equally.
- ❖ You should offer to customers supporting facilities such as credits, hire purchase etc.
- ❖ You should be able to explain to customers all questions so that they can create trust in your products
- ❖ This makes a business to be highly appreciated and trusted by the customers
- ❖ You should have pleasant personality. This can be derived from honesty, sincerity, good dressing, integrity, determination and courage, good discipline, respectfulness, etc
- ❖ You should always create a good reputation

GOOD CUSTOMER RELATIONS (CARE)

Dos (tips)

- ❖ Always greet your customers and ask them “May I help you customer”.
- ❖ Learn to be a good listener, listen with understanding.
- ❖ Be courteous to all customers- serve them with a smile.
- ❖ If you do not understand, ask the customer to repeat, sell what the customer wants and always keep your prices at the level of other competitors.
- ❖ Pay close attention to your customers
- ❖ Let your customers be free to try the products they want to buy
- ❖ Welcome customer objections in the selling process and reply carefully
- ❖ Talk less and show more.
- ❖ Be presentable always
- ❖ Sell quality (utility) not products
- ❖ Always try to be patient as some customers are slow in making decisions
- ❖ While serving your customers, remember to welcome and greet new customers coming in.
- ❖ Always be polite and friendly
- ❖ Offer help and free services to your customers
- ❖ Thank your customers for coming to your business even if they do not buy.

The don'ts

- Do not argue with your customers.
- Do not confuse your customers with many products.
- Never force a customer to buy what he/she does not need.
- Do not give up when customers' refuse your prices. Instead show them the benefits of the product/services.
- Do not drink, smoke or eat while serving your customers.

COSTING AND PRICING

WHAT IS COSTING?

This is the process of calculating the total cost of making and selling a product or service. Costs are all the money your business spends to make and sell the products/service e.g. salaries, wages, water, electricity, rent raw material etc.

Why do costing?

- To help in measuring losses or profits.
- Profits and losses are calculated by deducting costs from sales.
- To provide information to help in deducting what to buy and at what price to sell

TYPES OF COSTS

- Direct costs
- Indirect costs

ELEMENTS OF COSTING

- Raw materials: materials used in manufacturing or processing a product or providing a service.
- Labor: work done by people to produce products or services.
- Expenses: costs incurred by business and are indirectly related to a particular product or service e.g. transport, license and electricity

TYPES OF COSTS

Direct cost: these are costs which are easily identified or associated with a particular product .i.e. cost of buying leather to make a pair of shoes

Indirect costs: these are costs which cannot be directly associated with any particular product. I.e. rent, salaries, interest on loan, transport etc.

PRICING

Pricing is any method or system you follow in setting up a price of a particular product or service. When you set a price, then it should be fair and affordable by the customers and at the same time guarantee you some profit. So price is the worth of your product or service and expressed in monetary terms.

PRICING FACTORS TO CONSIDER

- **The competition**-direct: prices charged by competitors. Some competitors are able to obtain their items cheaply and are able to charge reasonable prices. The only remedy is to reduce your're your costs and charge the same. If you have no competition, charge reasonably but don't exploit customers.
- **Your costs**- i.e. direct and indirect costs. Your prices should attest to these costs plus your profit. The trap is most people consider only the direct costs and forget the indirect costs like telephone, salaries, rent etc.

- **Substitute products**- the prices of those goods that can take the place of your goods and serve the same purpose. They may not be the same quality but will affect the price of your goods and serve the same purpose. They may not be the same quality but will affect the price of your goods
- **Customer price sensitivity/elastic of demand**- this depends on whether the product/service is necessary; i.e. customers can't do without it.
- **Your capacity and your strategy e.g. skim. Penetrate**- this depends on whether you are introducing a new product or selling to clear stocks or increasing the price to cover your profit margin.
- **Your quality/value position**- a quality item can easily sell itself. As long as the customer realizes the value of their money, they can pay for the product.
- **Distribution channels**- allow their mark-ups- the price depends on your position in the distribution channel e.g. manufacturer, wholesaler or retailer. The manufacturer has to change prices and leave a profit margin for the wholesaler and retailer
- **Economic conditions**- e.g. the level of inflation, the availability of goods.
- **When raising prices always change something else**- ensure that the package, size, delivery time and distribution method justify your raised prices. It is easy to convince the customer when you are able to point to new features in your product or warrant a price increase.
- **Government control**- if the price is controlled, you should control your costs.
- **Sales turnover**- if your items are moving faster, you can do with a moderate price and make enough.

GROUP FORMATION AND DYNAMICS

A group is made up of a number of people or things gathered, placed or working together or naturally associated.

A fairly typical definition of a group could be, a given number of people who;

- Interact with one another
- are psychologically aware of one another
- Feel themselves to be a group

Primary groups

- involves regular contact between members of the group, including direct face-to-face
- fairly small (maybe up to 20 members)
- involves co-operation
- sharing some common goals
- knowing who all the members of the group are
- having a rough idea of what other people's roles are in the group

Types of Groups

Formal Groups

A good example of a formal group is a large farm management committee which has a Chairperson, a specific purpose, rules to follow if performing the mission, standards to follow and some kind of incentive e.g. sitting allowance / bonus.

Informal groups

Many informal groups arise from the groups e.g. due to close friendship, common interests, function or co-ordination. The group acts as a whole and comes to a consensus on decisions affecting the system:

- The group leader serves as the external link for the group but does not allocate specific work items.
- Rather, the group as a whole discusses work and tasks allocated according to ability and experience.
- This approach is successful for groups where all members are experienced and competent.

Factors enhancing group performance

- Conducive working environments
- Environmental factors that are favorable to the group

Benefits of working together as a group

- Individual savings at the groups account
- Small level loaning facilities for members
- Group loaning on viable business opportunities
- Running high investments projects using combined resources
- Organized groups attract donors for support of group projects
- Private sector companies are keen to train and support organized groups
- Group savings ensure a lump sum payment to the members
- Micro finance institutions are keen to lend to organized groups
- Collective marketing increases product volumes thus increasing chances of attracting more buyers
- Proper saving schemes enable members to reduce mismanagement of funds both for groups and for members

Common problems facing groups

- Talented and committed members are hard to find at times
- Generally poor group leadership skills
- Lack of defined group goals / follow up of same goals
- Lazy members
- Lack of regular attendance
- Lack of business focus / orientation
- Lack of business skills
- Personal differences between group members
- Group politics and external politics
- Insecurity in the regions
- Dictatorships by leaders
- Delayed elections for leaders
- Lack of market for the produce

- Lack of proper record keeping and misuse of finances
- Lack of group members trust
- Lack of group by-laws and constitution to govern operations

Solving group problems

- Call all members' meeting to discuss the problem(s)
- Discuss the problem(s) and solutions collectively
- Seek third party intervention if everyone is affected / majority are affected
- Always explain to the group what the problem(s) is all about
- Find out the cause of the problem(s)
- Always ensure that problems are settled peacefully by controlling anger
- Borrow experience from other groups that had similar problem(s)
- Call for fresh elections where necessary
- Involve the community and/or provincial administration leaders in case of very serious problem(s)
- Give the accused chance to defend himself/herself during the meeting
- Use the bylaw and constitutions in settling disputes and making decisions
- Encourage honesty by members
- Address the issues and not personalities
- Consider statutory laws while settling group disputes

PREPARATION AND KEEPING OF BUSINESS RECORDS

ACCOUNTING BOOKS

There are various accounting books as follows;

Order book

This is a simple standard book to use in ordering stock, raw materials, equipment etc. from suppliers. The original copy for accounting and payment purpose and the third copy is the book copy.

Receipt book

When a customer makes payment, the payment must be acknowledged with a receipt. A standard receipt book with two or three copies is available in the shops. The original is given to the customer, the second copy for accounting purposes and the third is the book copy.

Petty cash book

A petty cash voucher is a document for purchase of daily small value items used in an office like biros, stationery, etc. the total amount of petty cash is usually Kshs. 5000-10,000 depending on the size of the business. Expenditure must be approved by the owner or manager of the business. Receipts where necessary, must be attached to the petty cash voucher.

Daily sales book

This is a book where all daily sales are recorded. The book has columns for date, receipt number, details of sale and the amount

Cash book- receipt

This book records all the daily cash or cheques receipts from sales and other sources. It has columns for details of who has paid, amount paid, cash or cheques, amount banked, and extension columns for accounts to be credited I.e. sales from different departments.

Cash book- payments

This book records all payment by the business through cheques and cash. All payments are recorded showing details of the payee, the cheque number, date of cheque.

Below is a simple example of a cash book:-

Date	Particulars	In (debt)	Out (credit)	Bal.
1/3/01	Opening balance			4,000.00
2/3/01	Purchase of farm produce		2,000.00	2,000.00
3/3/01	Sales	6,000.00		8,000.00
4/3/01	Sales	8,000.00		16,000.00
5/3/01	Purchase of farm produce		6,000.00	10,000.00
5/3/01	Farm labourers		2,000.00	8,000.00
5/3/01	Payment of electricity Bill		3,000.00	5,000.00
	Closing Balance			5,000.00

Recording Credit Transactions

Credit transactions are mainly of two types: -

- (a) Credit sales
- (b) Credit purchases

Credit Sales Book

This book contains all transactions involving the customers to whom you sell on credit - they are your **debtors**. You can decide to have a page for every debtor, especially when you have debtors who take goods on credit regularly. Below is a format of a credit sales book.

Sales book

Date	Particulars	Invoice No.	Amount	Comment

Credit Purchases Book

The transactions you record in this book involve the purchases you make on credit. It contains a record of your **creditors**. Below is a format of a credit purchase book.

Date	Particulars	Invoice No.	Amount	Comment

- Credit transactions are not entered in the cash-book since no cash has been received or paid out.
- *It is only when your debtors pay or when you pay your creditors that the transaction is entered in the cash book but not before.*

Designing a record keeping system

- General Business File
- *Sales File*
- *Credit Sales Invoices*
- *Credit Purchases File*

The reasons for keeping records

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

Who needs records?

Yourself, Prospective Buyers, NGOs, Government and Banks

Reasons why people do not keep records

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