

Dates	Jan 11th	Jan 12th	Jan 13 th	Jan 14th	Jan 15th	Jan 16th	Jan 17th	Jan 18th
Days	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
8-10.30		YEDFB Updates & Strategic Direction; Program Launch Umuro Wario: CEO, YEDFB (A+B)	Entrepreneurial Motivation and Development of Business Skills Mwangi Kahenu	Group based investment Mwangi Kahenu	Essential Skills in Facilitation D. Maina - EDMLSO	Product Development and commercialization Peter Nduati	Effective monitoring & evaluation MEO – YEDFB	EDA's Leave MMU at Pleasure
Tea Break								
11-1.00		Leadership Mwangi Kahenu , DD-DYT-MOYAS	An EDA at work: Responsibilities of an EDA: YEDFB Perspective: LIM – YEDFB	Issues in Lending 1: Self appraisal, application and Management of Borrowed Funds Credit Officer- YEDFB	Business opportunity selection Ebony consulting	Financial planning II: Working capital management Peter Nduati	Work planning and Reporting Skills Ture Boru – OAM – YEDF	
Lunch								
2-4.30	Arrival and Registration of Officers. MMU (Host)	Skills In Market Research & Linkages Ebony Consulting	Business Capital estimation and costing Ebony Consulting	Business plan development Peter Nduati	Financial Planning I: Cash Flow planning Peter Nduati	Issues in lending II: client appraisal, loan monitoring and recovery strategies CO - YEDFB	Evaluation, Administrative Matters, Way Forward, and Launch of EDA Program (A+B) CEO/OAM/LIM	
		Tea Break						
5-6.30		Leisure and Games	Leadership II Mwangi Kahenu	Evaluating a business proposal Ebony consulting	Project management Patrick Kasyula R&DO - YEDF	Presentation by DYD Damaris Kamau, Flora Nyaga, Paul Okoth	Rest and Restore	

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BUDGETING & CASH FLOW PLANNING (PROJECTIONS)



Projected Cash Flow Definitions For Completion Of Cash Flow Projections-12 Months

INCOME

- Cash Sales (1)** -Income from cash sales
- Credit Collections (2)** -cash collected from debtors
- Other Cash Receipts (3)** -**Capital Injections, Borrowed Capital, etc. (Please specify). Capital Injections -amounts injected into the business from own resources. Borrowed Capital-Amounts injected into the business from loans applied for.**
- Total Cash Receipts (A)** -The sum of 1, 2 and 3

Purchases -Goods for resale purchased and paid for.

EXPENSES

-Fixed and variable expenses **excluding interest charges, loan repayments and leasing** should be listed in detail and tabulated for each month. Please also show any likely capital expenses plus drawings e.g. Bank charges; Bookkeeper; Audit fees; Delivery Costs like Petrol, Repairs, etc; Electricity and Water; Insurance; Maintenance-Building and Equipment; Rent; Salaries and Wages; Owners/ /Directors Salaries; Trade Licence; Telephone and Postage; Stationery and Printing; Travel and Entertainment; Sundries; Wrapping Material, Packing; Tax; Medical Insurance, Pensions; etc.

- Interest charges:** -Interest as calculated on facilities applied for at current rates of interest.
- Loan Repayments:** -The monthly capital repayments on loans applied for
- Lease Payments** -The monthly lease charges on leasing facilities applied for or in existence.
- Surplus/Deficit** - Cash available after all monthly payments have been deducted from Total Cash Receipts.
- Opening Balance:** - Previous end of month balance brought forward
- Closing Balance:** -Opening balance (balance at beginning of month) plus surplus or less shortfall.

BUDGETING CASH FLOW PLANNING (PROJECTIONS)



Gustave looked across the meeting room to where several of his suppliers and financial backers were sitting. He stared at the back of his hands. How could he, of all people, be sitting in this bankruptcy court? This was the hearing for his Company? He had managed to survive through those first tough three years and things were looking so good - orders were way up - solid repeat business, good faithful customer base - he was forecasting a good profit; how could this have happened?' What Gustave did not realise and what many business owners do not realise until it is too late, is that a business can go bankrupt even though it is growing and profitable. It's simply a case of running out of cash. Money goes out earlier and faster than it comes in. this is referred to as a lack of LIQUIDITY! In other words there was no more flow of money through the business because it was all tied up. His creditors were liquidating Gustave's company. Because no one realises what is happening, it is often too late for Gustave, or the bank, or anyone else, to do anything about it.

The problem is Cash Flow. Here we learn how to budget for it, how to control it and how to avoid the predicament Gustave got into!

It is an important task and you can't afford to leave it to others. You may need some help from your accountant, but first understand the principles outlined here. Only YOU know all the assumptions that go into running your business. You're the one who will be meeting with your bank manager to explain how you will manage your cash flow and deciding when you will cut off a customer or asking a supplier for extended credit; etc. Cash Flow management is your most important tool so it is vital to learn how to use it!

Being without a Cash Flow Budget is like sailing in a little boat across the sea on a dark stormy night without a chart, radio, or a radar, hoping you are going to miss all the super tankers passing in the night. Having a Cash Flow forecast is like having all the modern navigation instruments that turn the night into a daylight sail. That doesn't mean there won't be dangers, turns, ships, and obstructions. But it does mean that you can see them coming and can take evasive action. Cash Flow Management will help you and your business get to your planned goals!

Money In

Preparation of the Cash Flow Budget begins with a one year [Income Statement](#) Budget. The Income Statement Budget is only a snapshot of what you expect your operation to look like after a given time. It's done on the 'accrual' accounting basis, which records revenue immediately when goods or services are provided, and expenses when they occur. This 'accrual' basis, however, does not reflect when the cash is actually received, nor does it take into consideration when the expenses for the labour and material that went into those sales, were actually paid out. Only a Cash Flow Budget will allow you to see the crucial effects of timing differences in actual receipts and disbursements of cash. Keep note of this!

Step one is to take your Income Statement and convert the sales forecasts into cash receipts month by month. First, prepare an 'age analyses of your debtors, i.e. showing the actual payment terms being taken by your debtors. You will readily see from this analysis that sales in one month do not necessarily mean that you will receive all of the cash in that same month. Some may be cash sales, while the rest credit, extending 30, 60 or even 90 days. For example: If 20% of your debtors are received in 90 days, then 20% of your May sales for example won't be received until August. Allow for seasonal differences such as 'January Sales:

Now consider any cash receipts other than from sales. These could include such items as:

- Deposits or progress payments on contracts.
- Payments on insurance or other claims.
- New loans negotiated with the bank.
- Cash injection by a new shareholder or equity partner.

Money Out

You'll find that there are different forms of cash outflows to consider; for example: regular, monthly, or unusual circumstances such as overheads that vary with sales volume, variable cost of goods (regular and intermittent), or quarterly term loan payments. Obviously, these payments may differ depending on the type of business that you are involved in, but the principles of cash flow budgeting are still the same. You will have discovered that your costs are divided into [Variable costs](#) and Fixed costs.

Overhead expenses are generally 'fixed', and consequently don't vary much with the level of sales volume. Usually paid on a monthly basis, overhead expenses include such items as: rent, telephone, salaries, employee deductions (pensions), heating and electricity, Insurance premiums and car repayments. Don't forget though, that some of these may still change. For example, electricity costs and heating are normally higher in winter.

Cash outlays for goods and other variable costs are determined partly by sales volume and also by stock levels and payment terms. Consider the following example. Your cost of goods is 50% of your selling price and you have decided to keep a three-month supply of goods on hand. Now if you were forecasting \$200 000 in sales for the first quarter of the year, you would need \$100 000 of goods (at cost) in stock at the start of that quarter. However, this does not describe the outflow of cash to pay for stock. You must consider when the stock is actually paid for. Some of it, such as direct labour in a manufacturing firm, is paid out early. On the other hand, raw material items may be obtained on credit terms ranging from 10 to 90 days or more. Remember, your cash outflow for goods, depends on sales forecasts, stock levels and payment terms.

Intermittent expenses are often overlooked in cash outflow. Some common examples are:

- Loan repayments,
- Purchase of machinery or equipment
- Dividends
- Income and other tax instalments
- Insurance premiums
- Major selling trips
- Training programmes
- Special projects

Preparing the Cash Flow Forecast

Having considered cash receipts and cash outflows, you will now recognise that you have been making a whole series of assumptions and guesses, about how your business will be operating. More important, you have written them down, in black and white and in specific numbers. The numbers you actually achieve are bound to be somewhat different but now you will be able to:

See how things have changed and act before problems develop or opportunities pass by.

Identify why things have changed.

Gain an improved understanding of your business that will assist you in making new assumptions.

For most businesses a 12-month Cash Flow Forecast month by month is sufficient. However, for companies with a heavy movement of cash, such as retailers or restaurants, it is sometimes better to do a Cash Flow weekly, especially during peak seasons.



Here are some tips:

Always date the sheet every time you update or rework it.

Cash Flows are never right on target. Unless there is a major variance, it's better to enter the first two or three months' actual figures before you rework the remainder of the forecast, one changed figure means reworking the whole schedule. If you have used a spread sheet this is not difficult and you can experiment with "What if!"

Always write down your assumptions, there's space provided on the worksheet.

Let's take a look at a simplified budget and cash flow.

Budget

\$ (000)	Month 1	Month 2	Month 3	Month 4
Sales	100	50	50	100
Less: <u>Cost of sales</u>	62	34	34	62
Gross Profit	38	16	16	38
Less: Selling & Admin. expenses	15	10	11	15
Net Profit	23	6	5	23



Although each month shows a net profit, this does not necessarily mean that the same amount in cash will be received. For example: although an item may be sold in Month 1, if credit of 30 days is given, no payment will be received until Month 2. The same could be said of monthly purchases and even some expenses may be paid for in advance or in arrears.

So in compiling a cash flow one must bear in mind the timing of cash received or paid out. We shall now convert the above budget to a cash flow, making the following assumptions:

Cash balance at the beginning of Month 1 is \$10 000.

20% of monthly sales are cash, while 80% is on 30-day terms. Assume this is a new business.

Stock is always held constant so cost of sales is equal to monthly purchases. All purchases must be paid in cash.

Rent is \$2 000 per month but it need only be paid quarterly, i.e. in Month 3.

Cash Flow (\$000)

	Month 1	Month 2	Month 3	Month 4
Money In				
Opening balance	10	(45)	3	4
Sales- Cash	20	10	10	20
Credit	-	80	40	40
Total Money In	30	45	53	64
Money Out				
Purchases	62	34	34	62
Selling & admin exp.	13	8	15	13
Total Money Out	75	42	49	75
Surplus/Deficit	(45)	3	4	(11)



Explanations:

In Month 1 sales amounted to \$100 000 but since only 20% is cash, \$20 000 is received in Month 1 and \$80 000 in Month 2

Selling and administration expenses in Months 1 and 2 are \$15 000 and \$10 000 respectively but \$2 000 each month consists of rent which has to be paid in Month 3. Thus cash actually paid out in Month 1 is \$13 000 and in Month 2 is \$8000 and so on and so forth.

Advantage of the Cash Flow

From this simple example, the principles of the cash flow are clearly demonstrated. Firstly, although the budget assumes profitability, the cash flow shows a cash deficit in two of the four months.

Secondly, the owner of the business is aware of when his shortfall in cash is likely to occur, how long the shortfall will last for and how much additional finance is required. **These are three extremely important questions that a lender will want to know.** In addition he has a **fourth question**-how will loans be repaid? -This can also be demonstrated using the cash flow as a basis.

How to Monitor and Control

When you first prepare a Cash Flow you may see figures that surprise you, - even frighten you. However, let's see how a cash flow can help you. Say your company was using no bank facility at the beginning of the year. By looking along the bottom line of the Cash Flow Forecast, the owner now knows that he will need \$45 000 during Month 1. Let's say \$50 000 to be safe.

In addition to or in substitution of going to their banker this company might consider a planned programme of:

- Speeding up the collection of debtors possibly offering cash discounts.
- Negotiating extended terms with suppliers.

When this company has a surplus of cash in the future, they may consider:

- Putting the money into income earning investments.
- Paying creditors more rapidly.
- Repaying debt ahead of time.
- Equipment renovation, or replacement projects.

Conclusion

A Cash Flow projection is to help you. Once you have learned to prepare one, we know you'll use it ... it's your best Early Warning System.

We suggest you update it monthly- rework it only when it is inaccurate for several months in a row, and you can make some sensible changes to your assumptions.

XYZ Travels
Cash Flow Statement
For the Period ending February 2008

CASH GENERATED FROM OPERATIONS	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Cash Generated from Sales	142,450	83,452	296,505	602,500	792,100	770,860	767,984	923,150	684,000	1,046,500	974,750	850,000
Loans	250,000	0		0	0	0	0	0	0	0	0	0
Total Income(A)	392,450	83,452	296,505	602,500	792,100	770,860	767,984	923,150	684,000	1,046,500	974,750	850,000
OPERATIONAL EXPENSES												
Licenses and Subscriptions												
Ministry of Tourism	0	0	0	0	0	0	0	0	0	0	16,000	0
KATO	0	0	0	0	5,000	0	0	0	0	0	0	0
ESOK					5,000							
Staff Insurance cover	0	0	0	0	33,000	0	0	0	0	0	0	
Communication												
Mobile	4,350	4,500	5,000	5,100	5,320	5,000	5,000	5,000	4,500	5,000	6,400	6,400
Fixed Line & Fax	5,000	4,600	5,000	5,300	6,100	5,400	5,000	5,100	5,800	6,300	5,400	6,000
Internet	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Marketing												
Advertising	22,300	0	22,300	0	0	0	0	0	22,300	0	0	0
Marketing Materials & Branded Staff												
Uniforms	17,500	6,000	7,000	7,000	6,624	3,000	6,000	4,800	6,000	5,400	4,000	0
On-line Marketing	21,700	15,000	1,000	15,875	8,000	8,000	5,788	17,700	4,000	8,000	5,020	5,000
Marketing Support Infrastructure												
Card Payment System(Visa/MasterCard)	0	0	13,000	0	0	0	0	0	0	0	0	0
Staff Allowances	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Admin												
Office Rent	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Bank Account charges	7,079	4,721	3,064	7,934	8,240	5,781	4,537	5,447	11,857	11,532	2,110	3,500
Office Supplies and Stationery	1,500	2,431	1,500	1,200	3,340	2,786	6,203	3,605	3,629	6,926	5,098	6,000
Office Travel	2,200	2,600	3,100	1,980	3,010	2,600	2,780	2,500	3,140	3,320	4,200	6,000
Professional Services - Accounting	18,000	0	0	0	0	1,000	0	10,000	0	0	0	0
Loan Repayment	0	0	0	71,875	0	0	0	71,875	0	0	0	71,875
Office Equipment												
Equipment Servicing and Repairs	3,000	0	1,200	3,000	7,000	2,150	2,400	2,700	0	900	800	1,500
1 Desktop computer	0	0	0	30,000	0	0	0	0	0	0	0	0
1 laser printer	0	0	0	13,000	0	0	0	0	0	0	0	0
Direct Cost Of Sales												
Transport	44,100	25,358	30,870	55,000	98,547	129,300	135,200	189,000	116,520	103,620	107,173	100,000
Hotel Accommodation	33,000	39,308	64,504	145,200	194,200	230,210	283,497	297,000	226,141	641,300	478,548	300,000
Airfare	13,200	11,000	9,000	13,200	36,298	47,264	88,000	85,000	65,000	96,740	118,657	70,000
Park & Conservation area fees	3,500	9,680	9,000	8,580	7,000	64,560	40,500	67,512	59,260	10,100	11,840	85,000
Total Expenses(B)	266,429	195,198	245,538	454,244	496,679	577,051	654,905	837,239	598,147	969,138	835,246	731,275
Net (A-B)	126,021	-111,746	50,967	148,256	295,421	193,809	113,079	85,911	85,853	77,362	139,504	118,725
Opening Balance	0	126,021	14,275	65,242	213,498	508,919	702,728	815,807	901,718	987,571	1,064,933	1,204,437
Closing Balance	126,021	14,275	65,242	213,498	508,919	702,728	815,807	901,718	987,571	1,064,933	1,204,437	1,323,162

MANAGING WORKING CAPITAL

Introduction



Gustave looked across the meeting room to where several of his suppliers and financial backers were sitting. He stared at the back of his hands. How could he, of all people, be sitting in this bankruptcy court? This was the hearing for his Company? He had managed to survive through those first tough three years and things were looking so good - orders were way up - solid repeat business, good faithful customer base - he was forecasting a good profit; how could this have happened?' What Gustave did not realise and what many business owners do not realise until it is too late, is that a business can go bankrupt even though it is growing and profitable. It's simply a case of running out of cash. Money goes out earlier and faster than it comes in. this is referred to as a lack of LIQUIDITY! In other words there was no more flow of money through the business because it was all tied up. His creditors were liquidating Gustave's company. Because no one realises what is happening, it is often too late for Gustave, or the bank, or anyone else, to do anything about it.

The accounting definition of working capital is the difference in money value between the [current assets](#) and [current liabilities](#) of a business. In common terms, however, one refers to working capital as being the short term financing of a business through a combination of various day-to-day sources.

The fundamental principle of working capital management is having just the right amount of money available when required. Every dollar in the business should be earning its maximum return wherever employed.

The analogy has often been made that cash is the lifeblood of any business. Take it away and the business (like the body) will surely expire. A transfusion will miraculously bring the patient back from the brink of death, but only if:

- The blood is of the right kind;
- The problem causing the leakage is attended to.

NB. Many businesses go down not because they are not profitable but because they have poor cash flows. To control and exploit the cash cycle through your business so that it can continue to function on a day-to-day basis, is therefore, the key to managing the working capital (cash flow) as well to the survival and success of any business.

The Working Capital Cycle

Working capital can therefore be broken down into four major components, namely: cash (or bank overdraft), stock, [debtors](#), and [creditors](#).

Each of these items can have a major influence on the working capital (or simply cash) requirements that any business requires on an on going basis.

When a business starts up, the owner may inject a certain amount of cash into the business, which will enable him to purchase his initial stock, pay his workers their first month's wages and other overheads such as rent. He then sells his product and this income may be used to purchase more stock, pay more wages, overheads and perhaps even have a surplus over for his own use. The quicker he can turn his stock over to receive payment, the sooner will the working capital cycle be completed

In reality, extra considerations must be taken into account. Stock is purchased but it is very rarely sold immediately and

usually remains on the shelf for a period of time. While stock lies on the shelf, cash is tied up which could otherwise have been used for many other purposes.

A potential profit might be represented, but until that stock is sold no profit has been made. Until your debtors pay you, no cash is released back into the business. Once the stock is sold, it should be paid for straight away, but credit is often granted. The result is that cash is now tied up in debtors.

On the other hand, while credit may be given, it must be remembered that credit may also be available from suppliers. Ideally, goods should be purchased on credit from the supplier. These goods would then be sold for cash or on shorter credit terms than those granted by suppliers.

This means that goods are sold before they have to be paid for. In simple terms your creditors have financed your debtors.

The Art of Working Capital Management

It was mentioned earlier that the art of working capital management lies in using each dollar employed in the business to its maximum effect. In other words, tying up a minimum of capital while still ensuring the desired return.

In the most simplistic terms good working capital management revolves around time. The time it takes for \$1 invested in the business to return in cash with a little more value attached to it. The longer this process takes the more potential there is for losses.

Where Then Can the Working Capital Flow be Interrupted?

Inventory

In many businesses, cash resources are inevitably committed to holding inventory, thus the business has a priority to convert the inventory back into cash (and profit) in as short a time as possible so that those funds can be reinvested back into stock. Business is ongoing, so if a portion of the goods on the shelf is not sold, the businessman has to look around for alternative sources of revenue with which to fund new purchases. In short, he has to commit extra cash to his stock holding.

In addition there is a cost in holding slow moving or dead stock. The funds so tied up could have been earning interest if they had been invested. Instead the owner would need to use debt-paying out instead of receiving interest.

Paying close attention to various [stock turnover](#) rates will give one an indication, which lines are not moving. Although these items are inevitably the large ticket items the balance between profitability and cash generation should never be upset.

Debtors

One method of turning stock over faster is to give or extend credit. This may improve profitability in the books but it does slow down the working capital cycle. It is true that goods are no longer on the shelf...s but neither is the cash on hand. Only after the expiry of the credit period (hopefully) will payment be made. Once again, within the credit period, cash is not available for reinvestment. Any additional purchases may have to be via a bank overdraft, or other debt, which once again bears an additional cost. Debtors, especially in times of recession or hardship, will also not pay unless pressed to do so. Thus, in reality, the debtor's period could well be longer than anticipated.

Therefore, an item of stock could spend a month or two on the shelf and another month in the form of a debtor before the amount in cash is returned to the business for further use. In the meantime the owner has had to pay for further purchases and running expenses.

How Can the Working Capital Cycle be improved?

The main ways of improving working capital are by increasing the rate of stock turnover and/or cutting back on debtor's days. Within each of these categories there are many possible strategies, e.g.

- eliminating slow moving or unprofitable lines,
- offering discounts,
- arranging consignment stock facilities,
- prompt billings,
- charging penalty interest, etc.

Cash controls

Speed up the flow of **Money IN** and slow-down the flow of **Money OUT** and make full use of what you have (or should have!) Check each of the following:

Speed-up Deposits

Deposit cheques daily.

Make use of Internet Banking. (You can even drop the data directly into a spreadsheet)

Use your control to slow down the outflow of cash

Watch petty cash and advances.

Get company credit cards (MasterCard or Visa) for employee expenses, or any petty expense. This will help record keeping and reduce cash advances.

Pay taxes and bills only when they are due. Schedule payments carefully.

Examine payments in advance; - consider paying insurance etc on a monthly basis.

Make Use of Cash Available

Put cash into short-term interest-bearing deposit instruments e.g. high interest accounts with 3-day withdrawal notice.

By using one account try to consolidate your balances where appropriate.

Credit Controls

Few businesses can deal in cash only, i.e. no credit. However, in the granting of credit there is a fine balance between what is needed to close a sale and being taken advantage of by your customer:

Establish limits for each category of customer and never let their credit slip beyond these limits.

Be careful of being so desperate for a sale that you allow goods to be sold that eventually becomes a bad debt.

Tighten the credit limits when times are tough or to customers in weak industries that are having difficulty.

Beware of the well- established company who suddenly wants to be a customer Question him- who has stopped supplying him?

Use credit agencies, information from banks, and other agencies to check out customers. The cost of these services is low compared with the cost of bad debt.

Retain title and ownership where possible on major items, for example have terms and conditions on the back of your invoices that only allow ownership of the goods sold or delivered to pass to the customer once he has paid. Check with your lawyer, sometimes these conditions cannot be enforced in court but they often force your customers to allow you to take back goods that have not been paid for. Remember that there must ALWAYS be a written acceptance of terms by your customer BEFORE you conduct business.

Consider accepting MasterCard, Visa and other credit cards. Although this may cost you 3 or 5% more, this will, in effect, convert debt into cash sales.

Managing Debtors

Once you've decided on your credit policy, make sure you monitor the accounts. Don't be frightened to be tough; good customers respect others who are good businessmen.

Invoicing and Statements

Invoice the same day you ship goods.

Issue statements at least once a month (if you have many accounts, consider issuing statements on a continual basis, not just at the end of the month).

To those who honour statements only, issue statements faster.

Monitoring

Always monitor [debtors](#) and divide the debtors into at least:

30 days and under

30 to 60 days

60 to 90 days

90 days and over

Monitor 'long' accounts frequently, even daily.

Cut off delivery and do not supply to overdue accounts and then consider:

Progress or partial payments

Post-dated cheques

C.O.D. (Cash on Delivery) of next order

Extended terms; get it in writing

Are people taking discounts after the deadline for a discount offer? If so debit it back next time.

Sales and Distribution Policy

Anyone can sell a product or service that is so under priced compared with your competition that you lose money on it or that is so well serviced that it never needs a service again, or so easily returned that the owner goes broke.

Here are some guidelines:

Know the [gross margin](#) of ALL your products. Create a spreadsheet calculating gross margins and enter all sales weekly into this model and monitor gross profit.

Reward sales personnel on the basis of the gross profit received, not on volume invoiced - any fool can sell to a person who never intends to pay.

Hold tight control of your salesmen who may try to exploit the system to get larger commissions, often at the expense of the organization.

Be cautious with warranties and returns.

Be careful with service policies and monitor accounts.

Watch for the abusers and cut them off, if necessary.

Have a minimum order/delivery policy; have customers group or block their orders, for their sake as well as yours. Remember small transactions take just as much paperwork and overhead costs as larger transactions.

Beware of a single large order- for example: a one-time sale to a government department or a very big institution. If they're slow paying you may be better off without them. Negotiate progress payments whenever possible.

Know which 20% of your customers account for 80% of your sales.

Decide on a distribution policy and stay with it. **Don't change it** just because of circumstances. Your staff will not know what the rules are if you keep changing your policies.

Below are some common guidelines for different types of businesses:

A manufacturer has a higher gross margin but he also has a much higher investment in fixed assets like plant and equipment.

A wholesaler has a lower gross, but has less tied up in fixed assets, more in stock.

A retailer has his biggest investment in stock and often has no fixed assets at all.

Which one of the above are you?

Stick to the rules of your game and don't try to be all things to all people. Don't mix two sets of the above rules together.



Test different price levels to see what the market will bear. If you are overwhelmed with work or orders, instead of refusing the work increase your price. The demand will drop off and your profits will go up. The customers who drop out are often the customers that buy only on price. Try to maintain prices consistent with your quality and image.

Speak to your customers and try to survey them to find out what they think about your services and prices.

Watch your [break-even](#) (see [Pricing and costing](#)) and (see also module [Measuring Performance](#)). Remember that in times of trouble it's easier and safer to lower overheads (you control them), than to increase sales (which is what your competitors are probably trying to do).

If your gross margin is 33.3%, \$1 saved on overheads is worth \$3 in sales!

Purchasing Policy

Purchasing is the start of the 'cash outflow' so watch it carefully. An inexperienced Purchasing Manager can cause a lot of problems and lose the company a lot of money. Bear in mind that your purchase is someone else's sale so it is in his interest to get you to buy, even when it may not be in your interest.

Consider the following:

Do you have a simple re-order policy based on past stock levels and future targeted [stock turnover](#)?

Under whose authority is purchasing, if not directly under your own?

Do you know the true cost of your inventory (warehouse costs, handling, interest costs, etc.)?

If you had three months supply of a product, and the manufacturer offered you a discount of 10% to take another three months supply, would it be to your advantage to take it? (Work it out, the answer could be NO).

When ordering large quantities from a major supplier, can you arrange staggered release and shipment and thus staggered payment?

Do you have alternative sources of supply?

Get quotes from major suppliers, and ALWAYS shop around.

If a supplier is late, can you charge back the cost of the delay?

Is help in planning and control of stock available from any of your suppliers?

Have you done thorough floor planning (the how and where to put your stock)?

Which suppliers have a return policy?

Make sure cost increases can be passed on quickly with price increases

Always use first in first out for your stock so that the stock is always rotated.

The modern method used to cut down on stock levels is 'just in time' delivery - experiment to see if it can be adopted so letting your supplier carry your stock, thus reducing your money tied up in inventory.

Managing Creditors

Your creditors are the most direct and insistent route through which cash will go 'out. It's better to prepare in advance so here are some of the ways you can do it:

Break creditors into 30, 60, 90 and 120 days and over.

Segregate all accounts payable by type,

Those who offer discounts.

Those who are demanding.

Those who don't mind you running over.

Those who charge on overdue accounts.

Could extended terms be available from key suppliers, like a critical time in the year or maybe at any time?
In extreme circumstances.

Will the supplier take post-dated cheques?

Will he accept C.O.D. on new shipments?

Will he give extended terms at reasonable interest rates?



Keep talking to your suppliers, and keep the door open. It's the customers that don't communicate with their supplier that get cut off.

Managing Inventory

The amount of money tied up in inventory can often spell the difference between profit and loss. To better control it, try the following:

Analyse each product by raw material, finished goods, etc.

Know the number of times each major item turns over in a year.

Set targets, which are realistic and then, set up a re-order system.

Sell off, discount or return any out-dated or slow-moving materials or merchandise it may only get more difficult to sell if you hold on to it.

Have you considered having some of your product manufactured under licence for you, rather than make it yourself? (Be careful of lower risk/ higher cost or higher risk/lower cost).

Are you demanding too much in the way of quality control?

Are goods going out the 'back door'? i.e. theft

Is security tight enough?

Use insurance for fire, flood and theft and build these costs into your price.

Production and Operations

It is your job to create an awareness of costs into your employees:

Keep fixed costs low (see also module Measuring Performance).

Have regular meetings to review scheduling (sales, production, etc.).

Always retain some flexibility for the future, like a little unused borrowing capacity, sufficient cash to meet increases in costs, etc.

Another major source of working capital finance is creditors. Creditors can, in effect, finance the operation without the owner being called upon to commit any of his own funds. In this way, goods can be bought on credit and sold before the creditor has to be paid. In practice, a sharp control has to be kept on creditors and the type of stock that is purchased so that the working capital relationship is not eroded, thereby losing its effectiveness.

WORKING CAPITAL & INFLATION

The factor of inflation usually contributes to a double attack on working capital. The first is the increase in the price of goods purchased that will occur over time. The second is the increase in the selling price that will be passed on to the consumer.

Looking at the first point one will notice that, in a continuing spiral of inflation, to buy the same quantity of goods will require more cash. In fact an additional portion of gross profit has to be allocated to the repurchase of stock.

 Example 1.

	First							month:
	Buy	100	bags	at	\$1	each	=	\$100
	Sell	100	bags	at	\$2	each	=	\$200

Due to inflation the price of bags has gone up by 20%

Month 2

Now repurchasing 100 bags cost not \$1.00 each but \$1.20 each thus raising the cost of a hundred bags to \$120 (initial investment + \$20 extra)

One might at this point, say that the owner will cover himself by increasing his own prices. But in many cases this increase in price may:

- Make him uncompetitive, (Resistance by consumers or else the competition do not increase their prices)

- Decrease the demand for the product,
- Bring a substitute product into competition.

This phenomenon is more serious in a recessionary climate.

Example 2.

Day 1 Buys 100 bags at \$1.00 ea. = \$100

Day 30 Sells 100 bags at \$2.00ea = \$200
Buys 100 bags at \$1.20ea = \$120

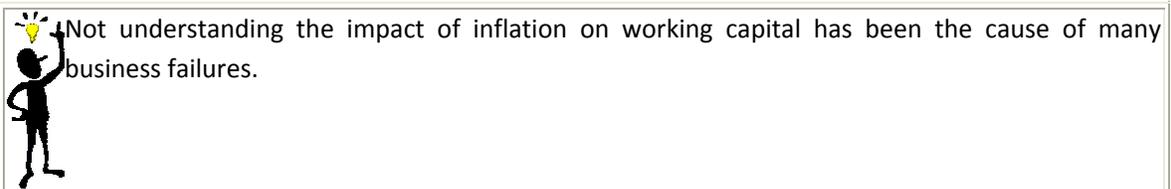
You can see that the first month he made $(\$200 - \$100) = \$100$ profit

Day 60 Sells 100 bags at \$2.00ea = \$200
Buys 100 bags at \$1.44ea = \$144

You can see that the second month he made $(\$200 - \$120) = \$80$ profit

A decrease of 20% in profit!

A probable consequence is that purchases cost more and consumers buy less so that profits already decreasing through the need to finance 'inflated' purchases are vulnerable to an absolute drop in turnover. This, in turn, has consequences for the need to stay above break-even point and contribute towards the fixed costs. (Remember, fixed costs stay constant regardless of the level of sales).



Conclusion

The use of other people's money in your business is usually an expensive resource. Before looking outside for finance, examine your own working capital cycle to make sure that every dollar of your own internal funds is being fully utilised.

Remember each of the basic rules of success:

Come back to your goals

Compare what you have achieved since you started.

Write them down, keep thinking, and keep doing!

Success is not so far away any more!

ESTIMATING CAPITAL AND COSTING

Capital Estimation

Definition - Capital estimation is a planning process for determining the total requirements for doing business. To start and run a business, no matter how small it is, the business requires an entrepreneur to invest capital. It is important to estimate the total requirement of the capital before determining financial feasibility.

There are two types of capital required in a business:

- Fixed capital - is an initial investment in a business to acquire fixed assets (premises, land, machinery, tools, fixtures)
- Working capital - is required to run your business on day to day basis (raw material, wages, salaries, administrative expense, electricity)

Capital estimation is an important aspect of business financing. Estimation is done based on total revenues/income to be collected

How do you estimate sales revenue?

There are all sorts of ways to estimate sales revenues for the purposes of capital estimation.

Sales Forecasting Method 1

For your type of business, what is the average sales volume per square foot for similar stores in similar locations and similar size? This isn't the final answer for adequate sales forecasting, since a new business won't hit that target for perhaps a year.

Sales Forecasting Method 2

For your specific location, how many households needing your goods live within an area? How much will they spend on these items annually, and what percentage of their spending will you get, compared to competitors?

Percentage of sales method 3

This method involves the following steps.

Determine all the balance sheet items that vary directly with sales.

To support higher sales trade debtors and cash will go up, net income will increase, stocks volume will go up, creditors will increase and the amount spend on fixed asset will also increase.

- Express those items which vary with sales as a percentage of sales.
- Increases in assets indicate additional financing requirements.

Importance of capital estimation

1. Better decision making.
2. One is able to identify the correct source of financing and the amount.
3. Determine the number of human resource needed and the wage rate.
4. Better choice of business location.

Costing

Costing is a process of establishing the exact amount paid to acquire a product/service.

Elements of Cost

- **Labour** –Wages, salaries
- **Material** - Input for production of your product or service
- **Business expenditures** –Fixed costs(do not change with the levels of production) variable costs (change with the levels of production)

Classification of costs

Start up/initial costs - onetime costs to start a business.

Cost of goods sold – costs associated with the acquisition of goods/services for production

Operating costs – costs associated with running the business

Start up costs to a business include the following

- Business plan preparation.
- Research and development.
- Product development and starting inventory.
- Staff costs.
- Professional fees(lawyers /accountants)
- Fixtures and equipments
- Facilities leases(offices ,Production site, warehouse)
- Licenses and permits
- Contingencies (unanticipated costs 10%)

Cost of goods sold

- These are all the direct expenses in producing a particular good or service. They include the actual cost of material making up the goods, direct labour expense, in putting the good in saleable condition. These costs do not include indirect costs.

Operating costs (General/administrative costs)

- Utilities
- Salaries
- Advertising
- Insurance
- Interest on loan
- Rent
- Depreciation

Prices of products / services:

Pricing is the monetary value of a product or services that you charge to cover your total costs (direct and indirect costs) and profit that you desire on each unit of product or service.

Mark-up:

When you add a certain percentage of profit desired by you it is called mark-up.

Mark-up: If you desire to mark-up on the cost of wooden cupboard by 20%

Your cost = 13,000/=

Mark up - 20%	=	<u>2,600/=</u>
Selling price		15,600/=
Your selling price	=	15,600/=
Cost	=	13,000/=
Profit	=	2,600/-

Price is important in all business ventures. This is because it determines the profits one will make. In setting the price one has to make marketing mix decisions, estimate the demand curve, calculate the cost, understand the environmental factors, set pricing objectives and determine the selling price.

(Selling price=cost of goods sold/unit +Operating costs/Unit +desired profit/unit)

Breakeven analysis

A **breakeven analysis** is used to determine how much sales volume your business needs to start making a profit. The breakeven analysis is especially useful when you're developing a pricing strategy, either as part of a marketing plan or a business plan.

$$\text{Break Even} = \frac{\text{Fixed costs}}{\text{Revenue per unit} - \text{Variable cost per Unit.}}$$

Why is it important to determine the cost of goods/services/offered by an enterprise?

Lets pick an example of a woman selling tomatoes

	Ksh.
<i>Daily Sales*</i>	
20 kg tomatoes @ Ksh. 15 per kg.	300
<i>Daily Expenses</i>	
Cost of tomatoes: 24 kg @ Ksh 10 per kg.	240
Transport	20
Market fee	10
Total expenses	270
Profit	30

Let's calculate the cost of the tomatoes per kg.

What determines the cost per kg, apart from the purchase price of tomatoes, the level of wastage and the expenses?

Suppose only 10 kg of tomatoes are sold every day. What will be the cost of one kg of tomatoes?

Let's go back to the original figures for the tomato vendor but without the quantity sold and sales figure. Imagine that this is an estimate of costs and selling prices for a proposed new micro-enterprise. You are asked to advice on whether this tomatoes business is feasible, you have to help this woman to work out what would be the minimum level of sales necessary to cover her costs and

earn the wage which was earlier agreed to be reasonable.

What steps do we need to take to determine this?

You should be able to realize that the minimum level of sales can be calculated by finding out how much each kg of tomatoes 'contribute' to the fixed costs, that is, how much of the selling price is left after deducting the variable costs per kilogram.

Selling price per kg	15.00
Variable cost per kg (purchase price plus allowance for wastage)	12.00
Margin or 'contribution' per kg	3.00
Total fixed costs and personal drawing or wage	50.00
Number of kg that must be sold to cover Ksh 50 (Ksh50/3 = 16.66)	17.00

The number of kg that must be sold to cover the fixed cost is 17

What we have now calculated it is what is called the 'break-even point' for the tomato vendor, that is, the level of sales at which she makes no profit (beyond the wage) and no loss. This figure provides a vital guide when someone is proposing to start a new micro-enterprise, and it is also useful when advising somebody whose business is losing money. If it appears possible to reach the break-even point, it may be worth continuing the business, but if not, it may be necessary to make fundamental changes or even to close the business down.

Importance of Costing

1. One is able to accurately identify start up and other financing needs.
2. It helps one determine a sound pricing strategy.
3. Ensure accuracy in valuing inventory and stock.
4. Ability to identify potential areas of cost control.
5. It helps you know how much profit / loss your business is making

BUSINESS PLAN DEVELOPMENT

Business plan writing

1.1.1 Business Plan Meaning

A Business plan is a detailed action programme or roadmap outlining every conceivable aspect of your proposed business venture. Business Plan gives thorough and objective analysis of personal abilities and business requirement for a particular product or service.

1.1.2 Importance of a Business Plan

A business plan is of utmost importance due to the following reasons:

1. It forces you to arrange your thoughts in a logical order.
2. It forces you to simulate (reproduce certain conditions by means of a model) reality and anticipate pitfalls before

they occur.

3. It should be your working action plan, or guideline when your business is up and running.
4. It is an essential aid when applying for financial assistance or trying to sell your idea because it will assist you in determining the viability of your business.
5. It can eliminate potential fatal flaws in your idea
6. It is an essential decision making tool
7. It can be useful when tendering for contracts
8. It can assist you when recruiting new staff
9. It can assist you when trying to obtain credit terms from suppliers

1.1.3 Benefits of a Business Plan

Benefits of a Business plan.

Since it is a representation of your business, it is a selling document. It can serve the business in the following ways:

1. It can help in obtaining financing-The financier looks at the financial statements and determines whether the business will be able to repay.
2. Helps in seeking investment partners- they look for growth prospects.
3. Can help in arranging strategic alliances –e.g. carrying out joint projects, joint marketing,
4. When obtaining large contracts-due to the large financial outlays involved interested parties want to know whether you will be able to fulfil your obligations.
5. In obtaining key employees-they can see the benefits of joining your company.
6. In mergers and acquisitions-you can negotiate a good deal when being bought out.

1.1.4 Qualities of a good/winning Business Plan

a) Simple

Keep the wording and formatting straightforward, and keep the plan short. The reason you're keeping it simple isn't because you haven't developed your idea fully. You're keeping it simple so you can get your point across quickly and easily to whoever's reading it. Remember the following:

- Don't use long complicated sentences.
- Avoid buzzwords, jargon and acronyms.
- Use simple, straightforward language, like "use" instead of "utilize" and "then" instead of "at that point in time."
- Bullet points are good for lists. They help readers digest information more easily.

b) Keep it short but comprehensive

- The average length of most business plans is shorter now than it used to be. You can probably cover everything you need to convey in 20 pages of text plus including appendices for monthly projections, management resumes and other details. If you've got a plan that's more than 30 pages long, you're probably not summarizing very well.

c) Use business charts.

- Make your important numbers easy to find and easy to understand. Use summary tables and simple business charts to highlight the main numbers. Make the related details easy to find in the appendices.

d) Polish the overall look and feel

- Aside from the wording, you also want the physical look of your text to be simple and inviting.
 - Stick to two fonts for your text.
 - Avoid small fonts. Only a few of the more readable fonts are fine at 10 points; most of them are better at an 11 or 12 font size.
 - Always use your spell-checker.

1.1.5 Preparing to write a business Plan

Ten preliminary steps

- a. Ask yourself why you are writing a business plan. Is it to raise capital or as a guide for running the business? The emphasis should change depending on whether it's a plan for starting a company, raising investment money, supporting a business loan or managing an existing business.
- b. List your goals for starting the business and where you see the business in three to five years.
- c. Clearly define your target audience.
- d. Write a table of contents so you'll know exactly which sections you will need to research and find data to support.
- e. Make a list of the data you will need to research. For example, you will need statistics on your demographic audience, your competition, the market, location and so on.
- f. List research sources that will be most helpful
- g. List your management team. If you are unsure of someone's availability, this is the time to determine whether or not they are on board. Gather biographical data on each person.
- h. Start compiling all of your key financial documents. You can determine later which ones you will use in the business plan.
- i. Read sample business plans. Since countless business plans have preceded yours, there is no need to reinvent the wheel. Look for business plans for businesses most similar to yours as a prototype to guide you. You can also talk to other business owners who have written plans before and seek out their expertise.
- j. Determine which software program you will use to write your plan. You can use anything from a basic word-processing program to business plan software. You need to use that which best suits your needs and level of comfort.

Business plan outline

1.1.6 Contents

1.1.6.1 Cover page.

- Name of your company
- Address and phone number
- Chief executive's name.
- Number each plan prominently on the cover page - to allow you to track the plans and to inhibit recipients from copying or widely passing around the plan. (You should also have recipients sign a non-disclosure statement.)

1.1.6.2 Table of contents.

- Logical arrangement (according to the layout) of the sections of your business plan, with page numbers.

1.1.6.3 Executive summary.

- This is the heart of the business plan and is of vital importance to both the preparation and final effectiveness of the plan. When writing it you should assume that your most important readers will read only this section.
- It should be logical, clear, interesting -- and exciting. A reader should be able to read through it in four or five minutes and understand what makes your business tick. The executive summary should be no more than three pages long.

1.1.6.4 The company

- A plan for a start-up describes your strategy for creating the legal entity and how the initial ownership will be divided among the founders. It should also include a table that lists start-up costs and initial funding. A plan for an ongoing or already existing company should describe the legal form of the business, the company history

and the business's past performance. The text itself, however, is fairly simple. Also include the company objectives and mission statement.

1.1.6.5 The market

- Industry analysis that provides a picture of your industry and of the position of your business within the larger framework. This is your assessment of the customer groups you've targeted, other customer groups you might pursue, the competition, and marketing efforts thus far. Is the market growing, how fast is it growing, and what evidence do you have that it is interested in your product or service?

1.1.6.6 The product/service.

- Here is where you describe your product or service and what makes it special and attractive. What are the components of the product/service? How much do you charge? What services don't you provide? What kind of warranty do you provide, and what are its particular provisions?

1.1.6.7 Sales and promotion/Marketing plan.

- This is your assessment of how you intend to carry out your marketing plan -- how you'll reach your customers and sell to them. Do you have an in-house sales force, or will you use manufacturer's representatives, direct mail, or contracted telemarketers to sell your product/service? What kind of public relations do you have planned? Will it be done internally, or will you hire a public relations firm?

1.1.6.8 Management and Organization:

- To present the management and personnel who will run the show? This section can be separated into two sections for more complex companies.

1.1.6.9 Operations:

- To explain how the business is run-work process.

1.1.6.10 Finances.

- Here is where you detail your past results, if there are any, and your expectations for the future. This section should include cash flow projections either projected or actual or both--month by month for at least 12 months including break-even analysis, profit-and-loss statements, and balance sheets. All the figures should be cast in traditional accounting format.
- NB. Profitable companies go under all the time, but companies with positive cash flow can pay their bills.

1.1.6.11 Strategy and implementation

- Make the responsibilities specific for specific people, and make sure every task gets assigned to a single person with a name and a face. This section must describe how these different milestones are going to be tracked and measured.

1.1.6.12 Financial Requirement:

- To present the type and amount of financing needed based on the previous sections, to accomplish the whole plan. It's important to show how you intend to spend the finances. All this could be represented in an all-inclusive budget. When your business plan is written to obtain financing, the financial requirement section may be tailored either as a loan request or as an investment-offering proposal, and then titled accordingly.

1.1.6.13 Exhibits/Appendices:

- By definition, to close the plan and separate any supporting materials that would otherwise interrupt the flow of the story

Presenting your business plan

What makes up a professionally looking presentable business plan?

1.1.7 Format

The norm is to bind your business plan in booklet form with high-quality materials. Better ones have quality report covers in dark or rich colours and are labelled on the front. The title page serves better than a label if laminated or positioned behind a windowed cover or behind a full clear cover. Most types of binding are available at copy centres. Some businesses go the extra step to have printed covers or printed binding strips. Spiral Binding have been used for years and is still acceptable, but you improve your odds for making that favourable first impression by using the latest and most professional-looking, high-tech materials available.

1.1.8 Page layout.

Make sure the layout of each page is balanced and artistically pleasing, with a lot of open or negative space-paragraphs, lines, and characters should not be too closely spaced.

- *Tabs and titles.* Each subject, with titled heading, should have its own section and be separated with indexed partitions keyed to the table of contents.
- *Colour and charts.* Charts, graphs, and illustrations are commonly acceptable if appropriate to the text. Colour is often better than black and white; however, choose reds and blues, not chartreuses, yellow-oranges, or some other unusual colour.
- *Proofreading and copyediting.* Have your figures checked by an accountant or knowledgeable person and the text proofread by an editor or proof-reader. An accurate, easy-to-read, and well-organized text will convey professionalism and credibility.

1.1.9 Important Points to Remember

- An accurate, easy-to-read, and well-organized business plan conveys professionalism and credibility.
- You improve your odds for making a favorable first impression by using the latest and most professional-looking, high-tech materials available.
- Don't necessarily try to balance the material from section to section. Place your emphasis in the proper perspective and accent the features that are most important for your business.
- Always include a cover letter with your business plan, because it may get passed on to other staff members who won't know about your venture.

1.1.10 Common Start-Up Business Plan Mistakes

There are many factors that make up a good business plan. It takes time and many revisions to get it right. Unfortunately, too many business plans are sent to potential investors before they are ready to be read. Below are a few of the key mistakes commonly found in business plans for startup companies;

- *Unrealistic Financial Projections:* Investors expect to see a business plan that paints a realistic financial picture of the anticipated growth of the company. If the plan is overly aggressive and not consistent with growth in the industry, it can cause the plan to be shelved. It is best to be realistic with your financial projections. You need to be prepared to defend and explain all-important assumptions concerning your projections.
- *Not having a defined Target Audience:* No business will appeal to "everyone." The market must be clearly defined and you must present a clear picture of who will buy your product and why they need it.
- *Over-Hype:* Too much hype and the overuse of superlatives can be the downfall of an otherwise sound business plan. Wow them with the business idea, not hype or buzz words.
- *Poor Research:* In an effort to get a business plan together hastily, many business owners do not double-check and substantiate their claims. Make sure your research is accurate and up-to-date.
- *No Focus On Your Competition:* Some business plans state that there will be "no competition," while others indicate only what the competition has done wrong. Investors reading a business plan expect to see such competition and how you plan to compete in the market. You cannot ignore competition or paint an inaccurate picture.
- *Other common errors include:* dry writing, inconsistencies from section to section, and making the plan way too long. It is very important to take time to carefully review each section of your business plan. When you finish, have several other sets of eyes read it before sending it to financiers or investors.

NAME OF THE PROJECT:

LOAN REQUIRED:

PROJECTED ANNUAL TURNOVER:

PROJECTED ANNUAL PROFIT:

CONTACT PERSON:

ADDRESS:

TEL:

EMAIL:

PRESENTED TO:

ADDRESS:

TEL:

EMAIL:

DATE OF PRESENTATION:

Table Of Contents	
Description	Page
Vision Statement	
The business	
Products/Service	
Market	
Success factors	
Skills required	
Production	
Financial analysis	

VISION STATEMENT

Purpose of being in business

Vision (describe what you envisage in the next 5 years)

Core values (what will you value most in regard to your key stakeholders?):

- 1. Customers: _____
- 2. Employees: _____
- 3. Suppliers: _____
- 4. Environment: _____
- 5. Legal requirements: _____

BUSINESS GOALS

Total sales (turnover) in the next one year Kshs. _____

Average sales (turnover) per month: Kshs. _____

Total profit in the next one year Kshs. _____

Average profit per month: Kshs. _____

THE BUSINESS

The name of the business: _____

Nature of business: (salon, butchery, general shop, etc) _____

Form of business (sole proprietorship, partnership, company): _____

Status of business (start-up, expansion): if a start up say when you intend to start and if it's an existing business give a brief history (date started, startup capital, location, income per month, number of employees, etc).

THE PRODUCTS/SERVICES

What products or services do you want to sell?

Why would someone buy your product or service?

Unique features of product: _____

Benefits to consumers: _____

THE MARKET

Target market

Who will be your target market or customer? _____

Describe your target customer:

If individuals (sex, age bracket, level of income, where they live, spending tendencies etc):

If organizations (nature, size, buying capacity per order, etc)

What need of your customers is your product trying to meet?

The product

What features of your product/service will meet your customer’s need?

Market opportunity

What opportunity (gap) are you trying to capture in the market?

Distribution

What distribution channel will you use?

Wholesaler Retailer Consumer Retailer Consumer Direct to the Consumer

Explain your choice

Pricing

How much will you sell your product for?

Explain your choice of price:

Cost of production/profitability

Quality of product

Competitors’ price

Target market

Promotion

How will you promote your product/service (word of mouth, social gatherings, sale agents, samples, posters, etc)?

Explain your choice(s) in terms of:

Effectiveness

Cost/affordability

Market share

What share of the total market can you realistically expect? Is it VERY BIG, BIG, SMALL, or VERY SMALL?

Is this share most likely to reduce or increase in the future? (Give reasons)

Competition

Who are your major competitors- both direct and indirect?

Competitive Analysis (SWOT)

What is the competitive advantage (strengths and opportunities) of your competitors? Is it quality of product or service, packaging, promotion, price, location, delivery, source of supply, skilled labour, etc? State and explain.

What is the competitive disadvantage (weaknesses and threats) of your competitors? State and explain.

What is your competitive advantage (strengths and opportunities)? Is it quality of product or service, packaging, promotion, price, location, delivery, source of supply, skilled labour, etc? State and explain.

What is your competitive disadvantage (weaknesses and threats)? State and explain.

How do you plan to use your strengths and opportunities to counter the competitive advantage of your competitors? State and explain.

How do you plan to take advantage of their competitive disadvantage (weaknesses and threats)?

How do you plan to reduce your competitive disadvantage (weaknesses and threats)?

Are there ventures similar to yours that have gone out of business (or are struggling) lately? If yes, explain what challenges are causing the failure or the struggle:

How do you plan to overcome those challenges in your own business?

RISKS/SUCCESS FACTORS

What possible risks or factors can hinder the success of your business (product, skill, source of supply, high capital, insufficient demand, government regulations)? List and explain.

How will you take care of these risks?

SKILLS REQUIRED

What skills are critical to the success of your business and how will you get them?

PRODUCTION

What premises and equipment do you need for production and how will you get them?

What supplies will you need and where will you get them?

What is your plan B if your major supply source fails?

CAPITAL REQUIREMENTS

Budget

What is the required financing and on what will it be spent? *(Attach an itemized budget indicating Total Budget, Personal Contribution and Loan Required)*

Total Budget (Kshs.) _____

Personal contribution (Kshs.) _____

Loan required (Kshs.) _____

Cash flow projections

How do your costs compare with income? (Attach a 12-month cash flow analysis capturing loan and monthly repayments)

EVALUATING A BUSINESS PROPOSAL

Business Proposal: - Written offer from a seller to a prospective buyer

Importance of business proposal

- A proposal puts the buyer's requirements in a context that favors the seller's products and services and educates the buyers about the capabilities of the seller in satisfying their needs
- A successful proposal therefore results in a sale where with parties get what they want. It creates a win-win situation

Types of business proposals

1. SOLICITED BUSINESS PROPOSAL

- They are written in response to published requirements contained in a request for proposal (RFP), Request for Quotation (RFQ) or an invitation for a bid (IFB) for example: A corporation or Government body seeking a business to fulfill a project or complete a task. An open bid is placed on the market with other companies comparing for an interview spot.
- Request for proposal (RFP)-Provided detailed specification of what the customers want to buy and sometimes include directions for preparing the proposal as well as evaluation criteria the customer will use to evaluate offers. Customers use RFPs when their needs cannot be met with available products or services.
- Customers issue Request for Quotation (RFQ) when they want to buy large amount of a commodity and price is not the only issue. For example when delivery or availability or service are considerations RFQs proposals primarily consist of cost data with small narratives addressing customer issues such as quality control.
- Customers issue Invitation for Bids (IFBs) when they are buying some services such as constructions. The primary consideration is price.
- Before issuing an RFP, RFQ or IFB the customer may issue a Request for information whose main purpose is to gain “Marketing Intelligence” about what products, services and sellers are available.

COMPONENTS OF A FORMALLY SOLICITED PROPOSAL

- 1 Requirements Matrix, which matches customers requirements with the paragraphs and page numbers of where these requirements are addressed in the proposal
- 2 Executive summary which outlines the primary benefits of the sellers solution to the customer’s requirements
- 3 Technical volume which demonstrates how each requirement will be met
- 4 Management volume which describes how the program will be managed
- 5 Cost volume which provides all the casting date as well as implementation plans and schedules.

2. INFORMALLY SOLICITED PROPOSALS

These are results of conversation between a seller and a prospective customer. Unsolicited proposals are usually marketing brochures used to introduce a product or service to a prospective customer. They are usually used as “leave-behind” at the end of initial meetings or “give-aways” at the trade shows or other public meetings.

COMPONENTS OF INFORMALLY SOLICITED PROPOSAL

- 1 Description of the seller’s capabilities or products
- 2 Discussion of key issues
- 3 A description of the buyer’s specification and how they will be met
- 4 The cost of offering
- 5 A schedule of delivery of the products or services
- 6 Proof of prior experience i.e. testimonials from previous customers, projects descriptions of previous projects

EVALUATION TIPS

- 1 Address of individual/organization submitting the proposal
- 2 Title of the operation
- 3 Area of operation
- 4 Budget
- 5 Target Group[(Beneficiaries)
- 6 Duration of project
- 7 Partner to whom proposal is submitted
- 8 Legal owner of proposal
- 9 Project Executor

BUSINESS OPPORTUNITIES SELECTION

Features of an opportunity

1. It heralds a new beginning i.e. voice sensitive computers will make keyboards and keyboarding skills irrelevant/secretary.
2. It offers an alternative to contemporary situation. E.g. Genetic mapping will be employed as identification devices, replacing easily overcome personal identification numbers (PINS). E.g. a transgenic pig will soon be used to produce organs for human transplant. This will populate pig farms, transforming agriculture to medical science.
3. **Pro-active and circumstantial**
Partnering arrangements; Equity + Universities are a good example of pro-active corporate.
Circumstance: Large population in Kenya has no saving culture; Equity has designed various accounts.
4. **Self perpetuating phenomenon**
If a society has unique skill/opportunity, no doubt it will most likely get more. For the society without it, the barriers seen to insurmountable e.g. genetically engineered crops. They will utilize nitrogen directly from the air instead of the ground, reducing the need for most fertilizers.
5. **It consumer-oriented**
Irradiated food will make food safe to eat and fresh year round.
6. **It comes in over-all**
It's elusive to lazy mind and vivid to industrious mind. E.g. individual may view a used tyre as an environmental hazard, while another as raw material for manufacturing durable, affordable and environmentally friendly shoes.

It's imperative to note that before selecting a business opportunity you are advised to generate market oriented business ideas based on the following:

Resources you already possess

Skills you can count on

Needs of people you already know problems people experience in daily life

Problems people experience in daily life.

Let us consider the underlying facts on business opportunity selection.

1. RESOURCE

A resource based theory states that an entrepreneur uses resources that are

- a) **Rare** (if you are smart why aren't you rich
What's knowable to all is an advantage to none
- b) **Valuable**
You wouldn't want to belong to a club that would have you as a member. (Barriers to entry must be high)
- c) **Hard to copy**
Some aspects of entrepreneurship are hard to copy; or even analyze, because no one, including founder can understand how they work.
- d) **Non substitute**
Non-substitute resources are strategic resources that cannot be replaced by common. e.g. Artist – Churchill

Reputation – (Moi, Mandela)
Organizational
Technological

2. SKILLS

A potential entrepreneur is advised to make use of skills that they possess to avoid the ***“ME TOO BUSINESS SYNDROME”***

Skills could range from banking, cooking, computer, etc

An entrepreneur could combine a skill with passion to come up with a unique product or service. E.g. vacuum cleaner, [they were initially used in hospital but currently they are applied in domestic chores.

3. NEEDS

Human needs are varied. Basic needs form the basis of business. They include food shelter, clothing and sex.

An astute entrepreneur would cleverly generate ideas from society needs and create an enterprise propelled by quest to fulfill the need. E.g. A need to socialize beyond the African taboo. [Dating firms]

E.g. a need to express your opinion without fear (SEBULENI programme)

4. PROBLEMS

The ultimate goal of an enterprise is to make profit. The means and process will be determined by the utility of satisfaction derived from the consumption of the goods/service. This can only be achieved solving consumer's problem.

e.g. the quality of goods or services. Currently in the market may be questionable/not good enough.

The services may be available but expensive.

COACHING

SCENARIO

Store manager Ian McCormick was thrilled with Barbara Kim's work. She was simply the best assistant department manager he had ever seen. Barbara made friends with everyone who came into the store and customer would bring their items over to her and wait in line just for a chance to visit with her. When a department manager position opened up, Ian was glad to give Barbara the promotion. And Barbara was even happier. She told Ian, "I can't tell you how much this mean to me. I will do anything to make this work."

As a department manager, Barbara was just as friendly as ever – too friendly, in fact. She seemed incapable of saying "no" to her former co-workers. she let them off nearly every time they asked, throwing the work schedule into disarray and leaving checkout lines open. Customers who were once happy about Barbara were now complaining. Transaction error rates also increased. Ian brought this to Barbara's attention several times, and each time Barbara said she would talk to the clerks about being more careful. But mistakes continued. Ian knows that Barbara has potential but he's not sure what to do about this situation now. Something definitely needs to be done.

Reinforcement: coaching

The following suggestions are activities you can do to practice and reinforce the coaching behaviors.

1. Talk to several instructors about ways that they deal with a student whose performance is not at the level it should be. What kinds of techniques do they use? Which, if any, of the coaching behaviors described to the instructors do they use?
2. Most of us are aware of coaches and what they do in an athletic team setting. Observe different coaches (on television to firsthand) and how they deal with individuals on their team. What types of behaviors do they exhibit? Based on what you see, what coaching advice could you use as a manager?

MENTORING

SCENARIO

Lora Slovinsky has worked for your department in a software design firm longer than any of your other employees. You value her skills and commitment and you frequently ask for her judgment on difficult issues. Very often, her ideas have been better than yours and you've let her know through both praise and pay increases how much you appreciate her contributions. Recently, though you've begun to question Lora's judgment. The fundamental problem is in the distinct difference in the ways you both approach your work. Your strengths lie in getting things done on time and under budget. Although Lora is aware of these constraints, her creativity and perfectionism sometimes make her prolong projects continually looking for the best approaches. On her most recent assignment, Lora seemed more intent than ever on doing things her way. Despite what you field were clear guidelines, she was two weeks late in meeting an important customer deadline. And while her product quality was high, as always, the software design was far more elaborate than what was needed in this stage of development. Looking over her work in your office, you feel more than a little frustrated and certain that you need to address matters with Lora.

Reinforcement: mentoring

The following suggestions are activities you can do to practice and reinforce the behaviors needed in mentoring.

1. If there are individuals on your campus who act as mentors (or advisors) to first time students, make an appointment to talk to one of these mentors. These mentors may be upper-division students or they may be professors or college staff employees. Ask them about their role as a mentor and the skills they think it takes to be an effective mentor. How do the skills they mention relate to the behaviors described here?
2. Athletic coaches often act as mentors to their younger assistant coaches. Interview a coach about her or his role as a mentor. What types of things do coaches do to instruct, teach, advise and encourage their assistant coaches? Could any of these activities be transferred to an organizational setting? Explain

SKILLS IN MARKET RESEARCH

Accurate and thorough information is the foundation of all successful business ventures because it provides a wealth of information about prospective and existing customers, the competition, and the industry in general. It allows business owners to determine the feasibility of a business before committing substantial resources to the venture.

Market research provides relevant data to help solve marketing challenges that a business will most likely face--an integral part of the business planning process. In fact, strategies such as market segmentation (identifying specific groups within a market) and product differentiation (creating an identity for a product or service that separates it from those of the competitors) are impossible to develop without market research.

Definitions of market research

- 1) Market research is the collection and analysis of information about consumers, competitors and the effectiveness of marketing programs.
- 2) Market Research is a systematic, objective collection and analysis of data about a particular target market, competition, and/or environment. It always incorporates some form of data collection whether it is secondary research (often referred to as desk research) or primary research which is collected direct from a respondent.
- 3) The process of gathering, analyzing and interpreting information about a market, about a product or service to be offered for sale in that market, and about the past, present and potential customers for the product or service; research into the characteristics, spending habits, location and needs of your business's target market, the industry as a whole, and the particular competitors you face.

Methodology used for market research

Quantitative Research

Quantitative research is numerically oriented, requires significant attention to the measurement of market phenomena and often involves statistical analysis.

For example, a bank might ask its customers to rate its overall service as excellent, good, poor or very poor.

Quantitative surveys can be conducted by using post (self-completion), face-to-face (in-street or in-home), telephone, email or web techniques. The questionnaire is one of the more common tools for collecting data from a survey, but it is only one of a wide ranging set of data collection aids.

Qualitative Research

Qualitative research provides an understanding of how or why things are as they are. For example, a Market Researcher may stop a consumer who has purchased a particular type of bread and ask him or her why that type of bread was chosen.

As with quantitative techniques, there are also various types of qualitative methodologies. Research of this sort is mostly done face-to-face. One of the best-known techniques is market research group discussions (or focus groups). In addition, qualitative research can also be conducted on a 'one on one' basis i.e. an in-depth interview.

Types of market research

Market research is generally either

- Primary or
- Secondary

Primary market research

This is research you compile yourself or hire someone to gather for you. It involves testing such as focus groups, surveys, field tests, interviews or observation.

One advantage of primary research is that it is conducted or tailored specifically to that product.

The disadvantage of primary research is that it is relatively expensive and time consuming.

Secondary market research

In secondary research, the company uses information compiled from other sources that appears applicable to your new or existing product/service.

The advantages of secondary research are that it is relatively cheap and easily accessible.

Disadvantages of secondary research are that it is often not specific to your area of research and the data used can be biased and is difficult to validate.

Uses of market research

A wide variety of information used to support marketing decisions can be obtained from market research. A selection of such uses is summarized below:

Information about the market

- Analysis of the market potential for existing products (e.g. market size, growth, changing sales trends)
- Forecasting future demand for existing products
- Assessing the potential for new products
- Study of market trends
- Analysis of competitor behavior and performance
- Analysis of market shares

Information about Products

- Likely customer acceptance (or rejection) of new products
- Comparison of existing products in the market (e.g. price, features, costs, distribution)
- Forecasting new uses for existing products
- Technologies that may threaten existing products
- New product development

Information about Pricing in the Market

- Estimates and testing of price elasticity
- Analysis of revenues, margins and profits
- Customer perceptions of “just or fair” pricing
- Competitor pricing strategies

Information about Promotion in the Market

- Effectiveness of advertising
- Effectiveness of sales force (personal selling)
- Extent and effectiveness of sales promotional activities
- Competitor promotional strategies

Information about Distribution in the Market

- Use and effectiveness of distribution channels
- Opportunities to sell direct
- Cost of transporting and warehousing products
- Level and quality of after-sales service

Feasibility Study

Small business owners use market research to determine the feasibility of a new business, test interest in new products or services, and improve aspects of their businesses, such as customer service.

Market research skills & talents

The field of marketing research calls on the following skills:

Key Skill Area	Requirement
People skills:	Medium
Sales skills:	Medium
Communication skills:	Medium
Analytical skills:	Very High
Ability to synthesize:	Medium
Creative ability:	High
Initiative:	Medium

Must be good with Data

Market-Research Analysts research market conditions by collecting, organizing, and interpreting data from local, regional, national, or other areas to determine potential sales of a product, service, or retail facilities.

Team Oriented

Market researchers usually work on a research team with statisticians, motivational research specialists who design survey questions, pollsters, interviewers, IT specialists and a variety of others.

CONCLUSION

- Marketing research is best done by listening to your customers, knowing what they want, and letting their needs guide your actions.
- Pay attention to what customers actually say they need and want, rather than what you believe that customers should need and want, to increase chances of success.

CREATING LINKAGES

Definition of linkage

Creating linkages refers to the process of fulfilling our intentions while meeting others expectations

A simple and basic truth is that products must fulfill the primary intention that your customers have for using them. Just because you find the product endlessly useful and fascinating, doesn't mean customers will. You may think that people will love your idea for disposable paper shoes, but if the buying public isn't interested, no matter how much you spend on marketing, your product will fail.

So the product must be designed from the customer's perspective, and your marketing must clearly demonstrate how the product will achieve the specific result they seek. The marketing plan and advertising channels should work to position the product as the essential resource for meeting potential customers' expectations and interests.

Characteristics of effective linkages

- Mutually beneficial relationships:

These are symbiotic relationships that benefit all the actors in a value chain. Various market actors' focus on **their own core competencies and through collaborative action realizes synergies that improve the competitiveness of the entire chain.**

- Knowledge transfer

These involve upgrading of production process, technology, equipment, management systems etc which is critical for survival and growth of firms in a competitive marketplace.

- Quality standards

Lead firms can provide a wide range of embedded service to affiliate suppliers and buyers to ensure consistent quality of ended product and adopt the quality standards to meet market demand.

- Embedded service

Lead firms can provide a wide range of embedded service to affiliate suppliers and buyers to ensure consistent quality of end products and services. These embedded services are considered a necessary cost of doing business.

- Financial flows

Large firms may employ a variety of financial instruments (supplier credit, working capital loan, leasing services etc) to support the operations of their linked suppliers

Strategy for creating linkages

The successful company links their marketing and client fulfillment processes and systems in the most beneficial way for the customer; therefore you should ask and answer the following questions:

1. What is the basic functional need that your product must fulfill for customers?
2. What is the primary emotional need that your product must satisfy for customers?
3. What are the best feature configurations to meet those needs?
4. How will you most effectively highlight those attributes for your customers?
5. What other value-added benefits are associated with your product (convenience, availability, security, warranties and so on)?

Marketing and client fulfillment are best done by listening to your customers, knowing what they want, and letting their needs guide your actions. Business leaders who chart their direction by paying attention to what customers actually say they need and want, rather than by what they themselves believe that customers should need and want, will always have a higher chance of success.

In fact, the difference between success and failure can be answered by a simple question: Are you talking, or are you listening?

Theoretical Example: Market Linkage Model

An agricultural cooperative grows fruits, vegetables and horticulture products, which it sells in domestic, and export markets, saw a business opportunity to leverage its exclusive database of agricultural market data. Until this time only cooperative members had access to the comprehensive information market, however, producers and buyers alike could benefit from this valuable information. Therefore, the cooperative launched a market data and research social enterprise as a means to augment its social programs by extending services to nonmembers. The market linkage social enterprise sells information on local and export market for types of agricultural products, including buyers and producers, prices, export duties, shipping, and chemical and fertilizer regulations, storage, etc. The enterprise has two main services: database search and market information updates that can be purchased individually or by subscription; and market research services such as feasibility analyses and market studies. Most of the social enterprise's clients are farmers, other cooperatives, trade unions, producer groups, small agricultural firms and food processors. The cooperative uses the income generated by its social enterprise to subsidize member services concerning crop improvement, sustainable farming, animal husbandry and agricultural loans.

CONCLUSION

A successful company links their marketing and client fulfillment, processes and systems in the most beneficial way for the customer

WHAT MAKES A GOOD LEADER? 10 CORE COMPETENCIES OF GOOD LEADERSHIP

These 10 core competencies comprise good leadership

Visionary

Good leaders create a vision, a picture of the future, of where they want to take their organizations. Leaders can improve both the quality and acceptance of the vision by partnering with their peers, executive team, key employees throughout the organization or outside consultants. To get the best vision you need lots of ideas, and people support what they help to create.

Inspirational

Once a vision is established, great leaders can inspire everyone in the company to get onboard. Employees in great organizations are passionate about what they do. This inspiration extends to customers, investors, suppliers, boards of directors and all other stakeholders.

This doesn't mean good leaders have to be charismatic or great public speakers, though some are. Leaders may inspire by example or in low-key ways. Every word and action demonstrates their passion for the vision.

Strategic

Strategic leaders are clear and directly face the strengths and weaknesses of their own organizations, as well as their external opportunities and threats. They think in terms of leverage, fishing where the big fish are and partnering to gain market advantage. While interested in one sale, they would rather create pipelines and strategic alliances that generate thousands, or hundreds of thousands, of sales.

Tactical

Wired like businesspeople, good leaders are bottom-line oriented and extraordinarily committed to results. They thrive

on facts, figures, numbers and data. They're interested in ROI, ROE and EBIDTA. If not numbers-oriented themselves, they surround themselves with strong financial talent.

Focused

Once vision and mission (a brief, clear statement of the reasons for an organization's existence) are established, good leaders achieve what they set out to do before launching new initiatives. By contrast, poor leaders may have dozens of conflicting programs and priorities. Leaders with 20 priorities essentially have no priorities.

Persuasive

Not necessarily salespeople, good leaders can bring others to their point of view using logic, reason, emotion and the force of their personalities. They motivate by persuasion rather than intimidation. The key here is the leader speaking from his or her heart.

Likeable

Good leaders are people-centric. They may be scientists, engineers or technical experts by background, but they recognize interpersonal skills are paramount. They display high degrees of emotional intelligence, and thrive on finesse and likeability.

They want to be liked -- and they are. Again, the key is what's inside the leader. Likeability comes from the inside out.

Decisive

Sometimes shooting from the hip, good leaders can make decisions quickly -- often with incomplete data. As Theodore Roosevelt said, "In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing."

Rarely is a leader able to get 100 percent of the information needed for a decision. Typically it is "60 percent and go" or "80 percent and go."

Ethical

Good leaders are direct and straightforward. They set clear performance expectations and hold people accountable. This requires being direct and truthful, which can be difficult but -- more often than not -- is natural for the principle-based leader. Good leaders know it's hard to beat the truth.

Open to feedback

Good leaders are open and dedicated to lifelong learning. They seek feedback about their performance through direct conversations and objective tools such as 360-degree reviews. Seeking continuous improvement in their companies, they also seek it for themselves.

Evaluating 'transformational and transactional leadership'

James MacGregor Burns introduced a normative element: an effective Burnsian leader will unite followers in a shared [vision](#) that will improve an organization and society at large. Burns calls leadership that delivers "true" value, integrity, and trust *transformational leadership*. He distinguishes such leadership from "mere" *transactional leadership* that builds [power](#) by doing whatever will get more followers. But problems arise in quantifying the transformational [quality](#) of leadership - evaluation of that quality seems more difficult to quantify than merely counting the followers that the straw man of transactional leadership James MacGregor Burns has set as a primary standard for effectiveness. Thus transformational leadership requires an evaluation of quality, independent of the [market demand](#) that exhibits in the number of followers.

Assessments, as of 2006, of transformational and transactional leadership commonly make use of the Multifactor Leadership Questionnaire (MLQ), developed by Bass and Avolio in 1990 and revised in 1995. It measures five dimensions of transformational leadership:

1. idealized influence - attributions
2. idealized influence - behaviors
3. inspirational motivation
4. individualized consideration
5. intellectual stimulation

The three dimensions of transactional leadership measured by the MLQ cover:

1. contingent reward
2. management by exception (active)
3. management by exception (passive)

Summary of leadership performance

In summary, leadership performance has been conceptualized very broadly, often incorporating outcomes such as effectiveness, emergence, and advancement. As with more general considerations of job performance (Campbell, 1990), it is important to distinguish between leader performance and effectiveness. While it is important to evaluate the influence of leadership on organizational outcomes (Kasier et al., 2008), specifically assessing leader performance, or behaviors that have expected value to organizational outcomes, allows practitioners and researchers to avoid conceptual confusion. Various taxonomies that have been developed in the leadership and management literatures, specifically with regards to functional leadership theory. These taxonomies are useful for identifying behaviors that are likely to contribute to organizational outcomes, and thus those behaviors that should be considered when evaluating leadership performance.

In addition to emphasizing the importance of behaviors over outcome oriented effectiveness measures, it is also worthy to note the nature of leadership changes across organizational levels, and as a consequence so does the criteria for success. Generally speaking, leadership can be conceptualized in terms of three higher order levels (Katz & Kahn, 1978; Jacobs & Jaques, 1987). At the lower level, leaders are responsible for the administration of structure (Katz & Kahn, 1978) and solving everyday problems, focusing on short-term results (Jacobs & Jaques, 1987). At the middle level, leaders are responsible for clarifying the structure imposed by upper level leaders and translating in into a workable plan (Katz & Kahn, 1978). At the upper level, leaders originate structure to pass down the levels (Katz & Kahn, 1978), create corporate culture, and manage transactions between the organization and the external environment (Jacobs & Jaques, 1987). As leaders move up through the levels of an organization, the performance standards they will be responsible for and the criteria and they be evaluated against will change. Thus, the way leadership should be defined relies upon the context that it is occurring in; similarly, leadership may have a different influence on organizational outcomes based upon the level at which leadership is occurring.

PRODUCT DEVELOPMENT & COMMERCIALIZATION

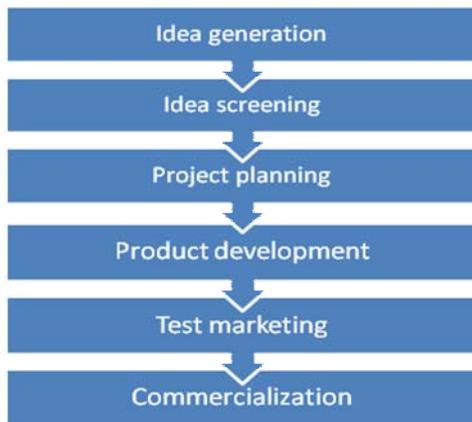
Product Development, Production and Quality Management

Important points to note:

- Product development can take many years. For example, Hills brothers (now owned by Nettle) spent 22 years in developing its instant coffee, while it took General foods (now owned by Phillip Morris) 10 years to develop Maxim. It took me over four years to develop my training product.
- Of the thousands of new products being introduced in the market, only few of them are becoming successful.
- The primary reason found for new product failure is the inability of the product to meet customer needs. This can be attributed to inability to provide better value than competing products. The key to developing a successful new product is focusing the product on meeting customer needs as defined by the customer themselves.

Product Development

The New Product development process



Research, Technical Support and Incubation

For technology based products, research institutions like KARI and KIRDI can be very helpful in areas of research, technical support and even incubation. These institutions should be consulted and involved especially in the research and product design and development stage to ensure any necessary scientific and technical guidance is provided from the beginning. KIRDI for instance is providing technical training, guidance in research and product development, technology transfer, common manufacturing facilities and market linkages in an incubation arrangement to entrepreneurs. They are open to business development collaborations.

Mass Production and Commercialization

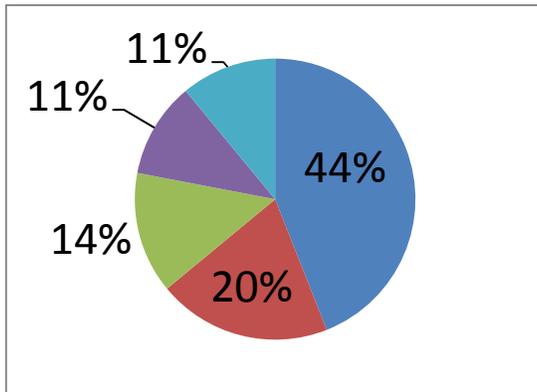
The problem of custom made products

Many youths tend to adopt the strategy of custom making products to individual customers. As much as this may result in customer satisfaction, it poses the challenges of limited demand and high cost of production to such enterprises. It denies them the advantage of economies of scale. Once a product is complete and market tested, the entrepreneur should work on a standard product that can be mass produced and made available to targeted customers. For instance, a good fashion designer should not sit and wait for customers to make tailor made designs. They should research and identify a fashion line say targeting the youth and narrow down to 2 or 3 designs that can be made readily available in the market.

Appropriate production technology and subcontracting

Another challenge that young entrepreneurs face is that of small scale manual production. A pea nut producer who uses a basic kitchen manual technology can manage to supply her neighbours and a few more friends. The production capacity of such an entrepreneur can be enhanced by acquiring an affordable jua kali made pea nut butter processing machine. Such a machine might increase her production capacity and income by 10 times. Such an entrepreneur can also train other young entrepreneurs and subcontract them to coproduce to meet huge orders. The next level would be approaching an industrial partner like KIRDI for access of common manufacturing industrial facilities.

Total Quality Management



44% Quality
20% Delivery performance
14% Service
11% Technical expertise
11% Price

Quality means satisfying the customer's needs and expectations, the first time and every time thereafter. From this definition it is important then that every business establishes its quality concept and standard with documented processes and procedures that help to produce the same kind of product or service all the time. This is something that micro and small enterprises find difficult to do especially because their production processes are not scientific. Whatever the challenge, the entrepreneur must find an appropriate and affordable way of achieving and maintaining quality.

A US survey by *purchasing* (1992) magazine on what customers want most found that 44% of all respondents valued quality most. That is why entrepreneurs should make TQM a top priority. The heart of TQM is total customer satisfaction. That is why quality should be defined from the perception point of the customer. Products and services that satisfy a customer don't happen by accident. Neither does TQM. It takes:

- A lot of hard work, careful planning and listening to customers
- A quality policy with documented measurable processes, procedures and standards
- Measuring performance frequently and
- Involving of everyone in the business, from the top to the bottom

TOP TIME MANAGEMENT MISTAKE... CHOOSING TO DO WHATEVER GRABS YOUR ATTENTION NEXT!

When you are done with your current task, how do you choose what to do next?

When I was first starting out, I didn't really pay too much attention to what task was next on my list... I would jump right in and do whatever task grabbed my attention next.

As I learned more about time management and effectiveness, this was one of the first bad habits that I eliminated, and my productivity significantly improved.

This is a common productivity killer because the things that grab your attention are not always very important, and they often don't represent the best way to spend your time.

Things that grab your attention tend to be urgent. It could be the latest crisis, an interruption, a telephone call, or an impending deadline.

Do you remember the old adage "the squeaky wheel gets the grease"? Urgent things are often very squeaky!

The point is that urgent things are not always important, and important things are not always urgent.

When you focus only on the urgent things each day, you won't leave enough time to deal with the things that are really important but not very urgent. This is what I call the "tyranny of the urgent."

The Solution is...

The solution is to make a plan and then work your plan. Instead of doing whatever grabs your attention next, use your plan to figure out the best way to use your time based on your top priorities for the week. That way, you'll spend more of your time on important things, whether or not they are urgent.

Your plan gives you a solid framework to decide moment-by-moment whether that squeaky wheel trying to grab your attention really is important, or whether it is just a distraction that you can postpone to a more appropriate time.

If you eliminate just this one mistake, you'll soon notice that you're spending more time on the things that really matter and your productivity will significantly improve.

- **Get organized** using a to-do list that really works
- Work with **multiple projects** without feeling overwhelmed
- Use color-coded priorities to *focus on what is most important*
- Use the Outline to break down big projects into smaller tasks
- **Feel more focused and productive** while you work
- Schedule your projects in the calendar to **really get them done**
- Plan your weeks and days for maximum productivity
- Never miss another deadline again
- **Save time** and significantly **increase your productivity**
- Use weekly planning to MAKE time for what's most important
- **Get a lot more done!**

ISSUES IN LENDING I

Self Appraisal and Debt Management

Credit Vs Debt.....

- A credit-debt relationship is defined as '**that which is owed by one entity to another.**'
- An entity may be an individual, company, government or any other type of institution or organization.
- Credit and debt represent flip sides of the same coin. **Credit is that which is provided, debt that which is owed.**
-

Why borrow.....

- To meet shortage of cash
- To meet the business expenditures
- To expand the business
- To invest
- To build wealth
- To improve status, through empowerment

Introduction

- It is crucial for an entrepreneur to do a self-appraisal before taking any loan or going for any credit facility.
- The appraisal creates a ground for future repayment efforts. It is a situational analysis done by a borrower in the light of satisfying premeditated debt obligations.

Self Appraisal

The purpose of self-appraisal is to help the entrepreneur determine by himself/ herself whether he/she is credit worthy.

This process reinforces **personal assessment** done on the loan application, feasibility study of the business, business records and business plan.

Essentials for Self appraisal

- His/her educational background in relation to the Enterprise one is intending to enter, for one to determine his/her managerial ability.
- Past experience especially the one related to the type of Enterprise he/she want to borrow money for.
- Past as well as current business performance in terms of sales volume.
- Past borrowing and record of servicing such loans based on the Entrepreneurs' sources of income.
- The assets he/she has that can act as security for loan.
- Availability of alternative financing
- Is your profit margin adequate?

Specific questions

- Are you doing a lot of business and showing a lot of profit, which may indicate that expenses are not controlled?
- Is your market sufficient?
- When are you not making profit or losses?
- What is your plan for repayment?
- Do you forecast your cash income and expenditures realistically?

Key focus areas in self appraisal

Your Character

- Your ability to manage the Enterprise business.
- Your ability to handle the business resources. With utmost discipline!

Purpose of loan

- To determine the type of loan e.g. short-term or long-term you should go for.
- To determine if loan will meet your objectives
- **Amount of loan:** How much loan you should go for to avoid excess/ deficit funding or defaulting
- **Ability to repay:** To determine your payment ability. Are the necessary resources and sources to obtain cash in place?
- To determine other sources of income
- **Collateral for the loan:** To determine how much assets are at your disposal, which can be used as collateral, and determining your net worth.
- **Margins:** What costs will borne in getting the loan? The interest rates? Are they affordable? Is the margin enough to cover interest charged? **The cost of credit:** is the additional amount, over and above the amount borrowed, that the borrower has to pay. It includes interest, arrangement fees and any other charges. Some costs are mandatory, required by the lender as an integral part of the credit agreement. Other costs, such as those for credit insurance, may be optional

Character assessment

- Level of entrepreneurial motivation
- Ability to set achievable goals

- Attitude towards risk taking
- Commitment and self confidence
- Orientation towards efficiency and systematic planning
- Initiative and ability to make right and firm decisions
- Persistence

On approvalIt's Time for Serious Business, time to manage the disbursed funds.

Managing borrowed funds

- It is important to understand that borrowed funds are to be returned after an agreed period of time in FULL. This is based on that paying is an obligation to be fulfilled.
- Make a personal commitment to pay on receipt. Some people commence default on receipt.
- The funds must be therefore be employed in productive efforts immediately. Yields from the funds must be used to meet the cost of the loan and pay the principle
- Stick to the repayment schedules- Overlapping instalments will confuse the full repayment. Take note of penalty fees for non-timely payment. They add on to the cost.
- DONT divert funds- Use them for the right and declared purpose. You have planned for it and got advise from the lender. You win the confidence of the lender.
- Employ maximum discipline- Don't use borrowed funds for extravagance!
- Keep the lender posted: Do not be silent when things go wrong and are unable to pay. The lender might have the key to a solution.
- If you can, pay the loan even before time. You will save on interest.

Loan Cycle

- **Pre- Application(Initial interview)**- This involves:
 - Knowing the client(s)
 - Getting an impression of the business/proposal
 - Checking character to see whether applicant understands the business.
 - **Application**- Physical verification of documents and the completion of the loan application/proposal form. Must include the signing.
 - **Business/residential Visit**- For a firsthand analysis of the business, obtaining information on; motivation, entrepreneurial skills, level of organization etc: knowing the location for monitoring purposes, In depth character assessment
- **Appraisal**- Of the business plan, financial information (if any).
- **Approval/decline.**
- **Disbursement**- Release of funds to borrower.
- **Loan monitoring and recovery**
 - Warning signs,
 - Business progress,
 - Group cohesion,
- **Repayment**

Group level default management

- Members meet and collects loan repayment
- Members count and reconcile.
- If any member has not paid, they pay for the member
- If members cannot raise money that day, penalties begin to be charged from the following day
- If members are tired of paying for the defaulter, they inform the Micro Credit Officer
- Members then go to defaulter's house to negotiate and ask the member to pay back the loan.
- If member cannot pay the money, members try to get back their money from her savings
- At times the member's savings may not be enough to recover the member's money
- The members then opt to sell the defaulter's pledged items
- The members look for a buyer

- Members sell the property
- Members bank the proceeds

ISSUES IN LENDING II

Loan Appraisal, Disbursement, Monitoring & recovery

Introduction

- Definition of Credit
- Principles of Lending – What do borrowers want?
- Principles of lending – Do's and Don't's
- Lending Decisions.
- Loan Monitoring & recovery
- Delinquency Management
- Group Level Default management

What do borrowers want?

Minimum Hassle

- There are many things we cannot change. Legal requirements, etc.
- Take responsibility for your customer's request.
- Get it right the first time, every time- You will save time.
- Try to go the extra mile- exceed expectations.

Easy Access

- Can your clients always reach you when they need you.
- Offer to visit your client at his/her premises.
- Be proactive

Informed Lenders

- Know your customer's business. KYC (Seasonal, Main Customers, etc)
- Read the news papers- Get current information.
- Get behind the numbers.

Quick Response

- Even if it is **No**. Tell your client quickly.
- Don't ever submit a credit application if you think it is not viable.
- Always return your client's phone calls promptly.
- Never avoid taking a phone call from your client.

Honesty

- Be Honest with your clients.

What to consider before lending?

Do's

Look at the Big Picture After "Crunching the Numbers":

- Does the business plan make sense?
- Do the projections make sense?
- Is there truly a need for a loan?
- Does the loan request fit the proposal?(compare purpose to amount)

REVIEWING THE APPLICANT & THE APPLICATION (APPRAISAL)

Loan Appraisal

Loan appraisal is a systematic process of

Analyzing a potential borrower's Capacity and Willingness to pay a loan

Appraising micro clients

- Group
- Character appraisal
- Business Appraisal
- Household Appraisal
- Environment

DO consider the risks carefully:

- Competition
- Regulatory
- Political
- Market
- Management
- Concentration
- Business trends
- Environmental

DO Prepare for Site Visits:

- Review the business records.
- Get credit references from other parties e.g. suppliers.
- Familiarize yourself with the business sector.
- Prepare relevant questions in advance

DON'T be Afraid to Ask Questions:

- No question is meaningless.
- Customers, especially the owners, enjoy talking about themselves and their business. Let them talk

DON'T let the Borrower's Natural optimism Influence you too much:

- Remain objective at all times.
- Review business records and projections with the assumption they reflect the best case scenario.
- Prepare a sensitivity analysis of the projections assuming the worst case scenario.
- Try to imagine the worst possible occurrences that might impact your customer.

DO be Responsive to Customers:

- Respond to your customers request promptly.
- Process loan applications as quickly (but thoroughly) as possible.
- When you decline a loan request, call the customer and explain the reason why his loan was declined.

DO put Conditions and Covenants in the Loan Documents:

- Use conditions and covenants that are attainable under average operating conditions.
- Make sure that conditions and covenants are not abridged when the loan documents are signed.
- Make sure the customer understands the conditions and covenants before he /she signs the loan documents

DON'T Advance loan funds if:

- The customer is not compliant with all conditions and covenants in the loan documents.
- The customer is past due on any loans.
- The loan documents are incomplete.

AFTER THE LOAN IS MADE

DO Call on Borrowers regularly:

- A phone call or a visit from your borrower is no substitute for a site visit.
- You must get out from behind your desk and visit your borrower's business.
- You may be surprised at what you see.
- You should visit your borrower once a quarter, possibly more depending on size of loan and condition of borrower.

DO Enforce Covenants:

- There is no point in having covenants if you don't enforce them.
- Enforcing covenants protects the interest of the lender, your first priority.
- Your borrower will respect you for your vigilant management of his account

DO Keep Credit Files up to date:

- Write "call" memos promptly after site visits and phone calls to record accurately the information received.
- Put all correspondence and other documents in chronological order in the file.
- Keep the file in a manner so that others can read the file and understand the account.
- Keep only one file for one account, and keep it in a safe place

DO Keep Supervisors informed:

- Provide your supervisors with your call reports.
- Inform your supervisors promptly of any problems in your account.
- Record problems in the credit file.
- Never let a problem account rest. Make problem accounts your highest priority.

DON'T ignore warning signals:

- Sudden changes in behavior (i.e. failure to return phone calls or permit site visits).
- Delayed submission of documents or financial statements.
- Late loan payments
- Damaged collateral
- Dishonesty and deceit
- "Rich" lifestyle
- Late tax payments
- Declining Sales
- Lower Bank Deposits
- Complaints from suppliers
- Bad publicity
- Management or employee turnover

Canons of Lending

- C character
- C capacity
- C conditions
- C credit
- C collateral

Elements of Good Lending Techniques

1. A logical approach
2. Ability to interpret both financial and non-financial information
3. Ability to draw conclusions from that information
4. Bringing everything together in an overall decision/recommendation.
5. Applying common sense

Logical approach

- Character
- Ability
- Margin
- Purpose
- Amount
- Repayment
- Insurance

1. Character

- Borrower respectable & trustworthy?
- Track record in honouring obligations-Has Mr. X borrowed before and how was the debt serviced?
- New customers: KYC, Customer visit.
- Integrity and Honesty, Connections
- Personal Liabilities(type & Amount)
- Age/Health

2. Ability

- Length of borrower's industry experience
- Mix of abilities: Finance/production/Marketing
- Experience with fiancé difficulties
- Planning and strategy skills
- Succession planning
- Can customer manage his financial affairs

3. Margin (Cost of Loan)

- Interest margin
- Commission and fees

4. Purpose

- What will our money be used for-
- Industry sector and risks inherent
- Environmental Factors
- Policy considerations met

5. Amount

- Total cost of transaction/project Vs customer's stake
- Current and projected business gearing
- Is the amount correct-How has the amount been arrived at to avoid over/under financing
- Customer's stake

6. Repayment

- Historic financial performance?
- Projected financial performance?
- Can repayment be met without strain?
- Margin of safety
- Borrowing structure?
- Repayment within guidelines

7. Insurance

Security

- Is security necessary?

- Valuation basis?
- Inherent merits/demerits of security type?
- Acceptability

Protection

- Insurance

Various types of lending

- Working Capital/Asset Conversion (Operating cycle)
 - Short-term assets (stock & debtors)
- Acquisition of Assets (Capital investment cycle)
 - Long-term assets (Buildings, vehicles, machinery, equipment)

Term loans

- (which *repay over time*)
- Vs.

Working Capital

- (which *revolve against assets*)

Term loans

- Repayment over time by generation of cash flow from operations (NI + Dep.)
- Forecast Total Debt Service Coverage
- Term loans easier to judge since performance is explicit and payments are regular
- Most growing businesses can show positive net income

Working Capital/Asset Conversion Loans

- most common form of credit
- finances receivables and inventory
- credit linked to liquid assets: a/r
- loans "revolve" (advance & repay) and never fully repay principal
- look for "coverage" or "margin" not as security but as repayment potential

Loan Approval, Security Documentation & Disbursement

Loan Approval

- A Credit committee may Approve, pend, or decline a facility.
- On approval:
 - Client signs a letter of offer.
 - Executes any other legal document e.g Chattels mortgage.
 - Returns the documents to the Lender.
 - Loan is disbursed.

Monitoring & follow up

Definition.....

- Is the process of constantly gathering, evaluating information and preparing reports for use in making informed credit decisions
- Loan monitoring involves continuous process of managing risks associated with lending from the date of 1st disbursement to full repayment

Follow up

- FOLLOW UP
 - This is action taken when a borrower begins to get into repayment difficulties or actually fails to comply with the original agreement.

- Here prompt action will often spell the difference between success and failure.
- Often the facility will be referred to as a **“problem loan”**
- Regular monitoring is key to a healthy portfolio and can save time in the long run.
- Very often it is forgotten, not done or at times given the lowest priority.
- The tendency is to focus on new deal and portfolio build up until it is too late.
- It is therefore advisable to strike a balance between portfolio build up and monitoring

DELINQUENCY MANAGEMENT

‘When you are the servant’

Types of Delinquent Clients.....

- **The sudden non-paying member.**
- **The occasional non-paying member.**
- **The chronic non-paying member**

Consequences of Delinquency...

- Exercise.
 - 1. To the lender
 - 2. To the Officer
 - 3. To the customer

Group level Default Management

- Members meet and collect loan repayment
- Members count and reconcile.
- If any member has not paid, they pay for the member
- If members cannot raise money that day, penalties begin to be charged from the following day
- If members are tired of paying for the defaulter, they inform the Micro Credit Officer
- Members then go to defaulter’s house to negotiate and ask the member to pay back the loan.
- If member cannot pay the money, members try to get back their money from her savings
- At times the member’s savings may not be enough to recover the member’s money
- The members then opt to sell the defaulter's pledged items
- The members look for a buyer
- Members sell the property
- Members bank the proceeds

PROJECT MANAGEMENT

Project management is a carefully planned and organized effort to accomplish a specific one time effort.

Project management is the discipline of planning, organizing and managing resources to bring about the successful completion of a specific project goals and objectives

Majorly, a project management involves development of a project plan and its implementation. The project plan development averagely entails defining the project goals and objectives, specifying tasks or how goals will be achieved, resources needed and timelines for completion. The implementation ought to be enriched with careful controls to stay on the “critical path” i.e. to ensure plan is being managed according to plan.

Project management is a process entailing majorly the following:

- Feasibility study
- Project design/planning
- Project implementation

- Project monitoring& Evaluation

What is a project?

A project is a temporary process, which has a clearly defined start and end time, a set of tasks, and a budget, that is developed to solve a well defined goal or objective (PMM, 1997).

Temporary process- a project is considered temporary because once the end goal is achieved, the project is completed. The end point of a project thus must be indicated clearly by the beginning of the project. If it is to benefit 34 youths per constituency, it should clearly be said so in this case, the project shall seem completed if the intended goal and objective is achieved within the intended number of youths.

Well defined goals- projects require well defined goals to determine project completion. Without well defined goals and objectives, a project lacks purpose.

Goal setting- Lewis Carroll in his "Alice in wonderland" tells of the following conversation;

Alice: "would you tell me, please, which way i ought to go from here?"

Cat: "that depends a good deal on where you want to get to,"

Alice: "I don't know where"

Cat: "then it doesn't matter which way you go".

WHO IS A PROJECT MANAGER?

A project manager is an officer or professional in the field of project management.

A project manager has the responsibility of the planning, execution and closing of any project.

A project manager is the person accountable for accomplishing the stated project objectives. Key project management responsibilities include creating clear and attainable project objectives, building the project requirements, and managing the triple constraint for projects, which is cost, time and scope.

A project manager is often a client representative and has to determine and implement the exact needs of the client, based on knowledge of the institution they are representing. The ability to adapt to the various internal procedures of the contracting party, and form close links with the nominated representatives is essential in ensuring that the key issues of cost, time, quality and above all, client satisfaction, can be realized.

Project management is quite often the mandate of an individual project manager. Who is the AIB holder (Authority to incur Blame).This individual seldom participates directly in the activities that produce the end result , but rather strives to maintain the progress and productive mutual interaction of various parties in such a way that the overall risk of failure is reduced.

The project manager must assemble a team considering not only the technical skills of the actors but also the critical roles and chemistry between the actors.

A team has three components always

- ❖ Project manager
- ❖ Core team

- ❖ Contracted team

ENTERPRISE PROJECT MANAGEMENT-Is the field of organizational development that supports organizations in managing integrally and adapting themselves to the changes of a transformation.

STRATEGIC ENTERPRISE MANAGEMENT – Refers to management techniques, metrics and related tools that institutions can use to make strategic decisions

PRINCIPLES OF STRATEGIC ENTERPRISE MANAGEMENT

- ❖ Financial Reporting- this is a consolidation of Financial and managerial reports
- ❖ Planning, budgeting, and forecasting
- ❖ Corporate performance management and score cards
- ❖ Risk management

RISK – Uncertainty.

Most management issues that influence project arise from Risk. Risk arises from uncertainty. A successful project manager focuses on his /her main concern and attempts to reduce risk significantly. Often by adhering to a policy of open communication ensuring that project participants can voice their opinions and concerns.

CHARACTERISTICS OF A PROJECT

1. A project is a finite endeavor i.e. having specific start and completion dates
2. Project is undertaken to create a unique product or service which brings about beneficial change or added value.
3. It is not a routine affair, permanent or repetitive to produce the same product.
4. Requires development of distinct technical skills and adoption of separate management philosophy.

ESSENTIALS OF A PROJECT PLAN

- SCOPE- Defines what will be covered in a project. Number of beneficiaries, amounts, regions etc.
- RESOURCES – What can be used to meet or cover the scope?
- TIME – What tasks are to be undertaken and when.
- QUALITY – The spread or deviation allowed or provided from a desired standard.
- RISK – defines in advance what may happen to drive the plan off course, and what will be done to recover the situation

PROJECT DEVELOPMENT STAGES

Fundamentally, a project undergoes five stages namely:

1. Initiation
2. Planning/development/design
3. Implementation/production/execution
4. Monitoring & evaluation
5. closure

The above five stages must be tracked using project control systems

Project control system is that element of a project that keeps it on-track, on time and within budget. Project control begins early in the project with planning and ends late in the project with post- implementation review, having a thoroughly involvement of each step in the process. Each project should be assessed for the appropriate level of control needed: too much control is too time consuming, too little control is very risky.

If project control is not implemented correctly, the cost to the business should be clarified in terms of errors, fixes, and additional audit fees.

Why are control systems so essential?

They are needed for cost, risk, quality, communication, time, change, procurement, and human resources.

PROJECT DEVELOPMENT STAGES DISCUSSED.

1. INITIATION

The initiation stage determines the nature and scope of the development .if this stage is well done, it is unlikely that the project will stall. The key project controls needed here are an understanding of the business environment and making sure that all necessary controls are incorporated into the project.

The initiation stage should include a cohesive plan that includes;

- Study analyzing the business needs in measurable goals
- Review of the current operations
- Conceptual design of the operation of the final product
- Financial analysis of the costs and benefits including a budget.
- Stakeholder analysis, including users, and support personnel for the project
- Project charter including costs, tasks, deliverables and schedule

2. PLANNING AND DESIGN

After the initiation stage, the project is designed. The designing of the product is done to ensure it complies with the market expectations and client needs. The design is tailored around the gathered analysis of the products end consumer, environment and market. The results of the design stage should include a product design that:

- Satisfies the project sponsor, end user, and business requirement
- Functions as it was intended
- Can be produced within quality standards
- Can be produced within time and budget constraints

3. IMPLEMENTATION

Implementation consists of the processes used to complete the work defined in the project execution so that potential problems can be identified in a timely manner and corrective action can be taken, when necessary, to control the execution of the project. The key benefit is that project performance is observed and measured regularly to identify variances from the project management plan.

4. MONITORING AND CONTROLLING

Monitoring and controlling denotes those activities performed to observe project execution or implementation so that potential problems can be identified in a timely manner and corrective action can be taken, when necessary, to control the implementation of a project.

This process ensures that performance is realized and measured regularly to identify variances from the project management plan.

BUT what is monitoring and controlling

Includes activities such as;

- Measuring the ongoing project activities(*where we are*)
- Monitoring the project variables i.e. cost, effort against the intended plan and project base line (*where we should be*)
- Identify corrective actions to properly address issues and risks (*how can we get on track again*)
- Influencing the factors that could circumvent integrated change control so only approved changes are implemented.

Monitoring stage assists in provision of feedback between project phases, in order to implement corrective or preventive actions to bring the project into compliance with the project management plan.

Monitoring and controlling is at best referred to as Project maintenance and it is an ongoing process which involves among others;

- ❖ Continuing support of end users
- ❖ Correction of errors
- ❖ Updates and evaluation over time.

MANAGING CHANGE

A project has its surprises and among them is the aspect of change. The way changes are handled whether of personnel, resources, scope or even budget affects the project circle greatly.

Change is a normal and expected part of a project cycle. Beyond implementing the change in the field, the change normally needs to be documented to show what was actually adjusted and when. This is at best referred to as change management. The post election violence effect on youth business enterprises brings changes which must be managed. A youth entrepreneur who is hospitalized and stops repayment schedule is a change that needs to be managed.

Change can only be appropriately managed when and where monitoring and controlling systems are active!

Records must be kept to best explain changes.

Changes are so mundane such that they can transform to risks if unmanaged.

It's crucial that when changes are introduced to the project the viability of the project has to be assessed again. It is important not to lose sight of the initial goals and targets of the project.

It has been observed that when changes accumulate, the forecasted end result may not justify the proposed investment.

5. PROJECT CLOSURE

Project closing includes the formal acceptance of the project and the ending thereof. A youth group that has completed repaying its loan is a project that needs to be closed.

Administrative activities include the archiving of the files and documenting lessons learnt. This ought to be a ceremony and published to encourage others to repay. Equally the group's efforts should be recognized and certificate of completion offered. Alongside should be a recommendation for them to a lending or financial institution for further funding.

The following must be undertaken;

Close project: to finalize all activities across all of the process groups to formally close the project or project phase

Contract closure: necessary for completing and settling each contract, including the resolution of any open items

PROJECT MANAGEMENT AS A PROCESS

INPUT

Documented need to act Project plan templates Lessons from previous projects Existing standards External information Resources

OUTPUT

Project products delivered Project objectives achieved Lessons learnt documented
--

PROCESS

Project initiation Project planning Project execution Project monitoring Project closure
--

FUNDAMENTAL PRINCIPLES OF PROJECT MANAGEMENT

1. The commitment Principle

A mutually acceptable commitment between a project sponsor and a project delivery team must exist before a viable project exists.

2. The success principle

The success the project is to produce a successful product

3. The tetrad Trade-off Principle

The core variables of the project management process, namely: product scope, quality grade, time-to-produce and total- cost- at –completion must be mutually consistent and attainable.

4. Unity- of – command principle

A single channel of communication must exist between project sponsor and the project team leader for all decisions affecting the product of the project.

5. Cultural Environment (Suitability) principle

Management (sponsor) must provide an informed and supportive cultural environment to ensure that the project delivery team is able to work to the limits of their capacity.

6. The management principle

Policies and procedures that are effective and efficient must be in place for the proper conduct and control of the project commitment.

7. The strategy principle

A strategy encompassing first planning then doing, in a focused set of sequential and progressive phases, must be in place.

MONITORING & EVALUATION

THE M&E UNIT

- The Monitoring and Evaluation Units operates under the Audit and M&E department.
- The Units is charged with the responsibility of providing a “watch dog” role to the fund through internal tracking, reporting and communicating on the Funds successes, failures, challenges and lessons learnt from programme interventions.
- The Unit reports to the Audit, Monitoring and Evaluation Manager who reports to the Board Subcommittee Audit, M&E.

Specific responsibilities of the Unit include:

- Review of and strengthening of YEDF M & E system and framework
- Establishment and operationalization of a M & E unit
- Strategic Plan development and dissemination
- Providing in-house technical assistance in staff training and capacity building on M&E related issues and aspects
- Conducting periodic impact assessments
- Performance monitoring and contracting
- Preparation and development of periodic YEDFB consolidated reports
- Budgeting for M&E activities

One of the key achievements of the Unit has been the development of an Integrated YEDF M&E System

THE M&E SYSTEM

The M & E System document is a powerful project management tool that will be used to help project managers and decision makers on the following issues to track progress towards the achievement of YEDFB goals/objectives and demonstrate the impact of specific program components as outlined in the Strategic Plan.

- ❑ Why – Purpose for M&E
- ❑ Which – Performance questions and information needs
- ❑ What – Content target for M&E
- ❑ How – M&E Methodology/strategy
- ❑ When – Appropriate intervention period

- Who – Stakeholders/target group

Some key questions that guided the development and now the implementation of the YEDF M & E System for were;

- Whether the operations at the Fund are in line with the vision and mission of the Fund.
- Are the strategies being employed and the activities being implemented properly designed, to realize the vision, mission and strategic objectives of the Fund?
- This M & E System document is a guide to using monitoring and evaluation to improve the impact of YEDFB programmes.
- It will employ a learning approach that uses achievements, challenges and lessons learnt for better decision making and accountability.
- The system will help primary stakeholders to learn together in order to improve their development interventions on a continual basis.
- The youth
- The Public
- implementing partners (MOYAS, FIs, C-YES Committees, EDA's, Employment Agencies)
- YEDFB Board and staff

PURPOSE & SCOPE

The overall purpose of the M&E system will be to track progress in realising YEDF vision, mission and strategic objectives.

- The system will guide on;
 - methodologies to be used,
 - plans for communication,
 - reporting,
 - critical reflection processes and
 - necessary conditions
- That will ensure that M & E contributes to;
 - relevance,
 - ownership,
 - effectiveness,
 - efficiency and
 - sustainability of all YEDFB programmes.

Performance Questions, Indicators, and Information Needs

- How comprehensive should the system be taking into consideration the information needs of the Fund? The Fund is coming up with YEMIS which will among other things act as a data base for core functions of the Fund. How the data should be utilised to inform not only loan disbursement and recovery but also other objectives like:
 - Setting indicators and targets on the Fund's goals, Objectives and activities
 - Aligning the performance targets under the annual performance contracts with resources
 - Sourcing for baseline information on socio, economic and demographic issues/aspects on the target group
 - linking our core functions/activities and resources (human, material and financial) to the objectives
 - Establishing causal relationship between activities and results
 - M&E Operational Procedures and guidelines in place
 - Reporting formats
 - Standardized field data collection tools for M & E activities
 - Annual work plan and budget

Methods for Information Gathering and Organising

Methods of Data Collection

- Documents review (e.g. reports from FIs and the C-YES),
- personal interviews,

- Field surveys,
- Focus group discussions and
- Periodic (midterm and end of year impact assessments and evaluation)

Information organizing

- The YEMIS
- Registry/Filing system specifically for the M & E Unit
- Activity reports

Plan for communication and reporting

The targeted stakeholders include:

- The public including other government institutions
- The Board of Directors
- The YEDFB Secretariat
- The beneficiaries
- FI's and
- C-YES committees

Communication plan/channels-existing forums:

- Board/board subcommittee meetings
- Management meetings
- Staff meetings/training seminars
- Stakeholder meetings/workshops/seminars/forums

M & E Reporting Protocol

- Quarterly Credit/Financial and narrative reports submitted by DYO's (C-YES & FIs) to the lending Department
- The reports should be due two weeks after the end of each quarter
- LI department to distribute the reports to concerned units and departments
- Reports to be discussed at the next management meeting/and subsequently at relevant subcommittee meetings.
- Similar reporting protocol for other components of the fund.

Communication means

- Activity based reports (stressing on findings/issues emerging/outputs and recommendations for improvements)
- Quarterly progress reports stressing on results oriented and objectively guided outputs, outcomes, impacts, challenges and lessons learnt from YEDF programme interventions.
- Performance contract reports detailing extent to which performance contracts targets are being achieved.
- Annual consolidated reports in the above format but in addition reporting on new emerging project implementation designs, strategies, technologies, new product design, best practices, cost effectiveness, efficiency, ownership and sustainability of programmes for future purpose
- Biannual newsletters
- Media documentaries/talk shows, print media articles, presentations of Research papers, and concepts in organised forums.

Critical Reflection Processes and Events

- The information which will be gathered through M & E and other related activities will be used for the following:
 - Development of the M&E work plan, framework with partners and stakeholders
 - Participatory review of YEDF Programme strategic direction among YEDF Board and Staff
 - Monthly Alerts directed to YEDFB departmental heads on progress on work plan implementation
 - Quarterly progress reviews with programme implementation partners to discuss successes and problems faced
 - Annual participatory Programme reviews with all stakeholders
 - Midterm reviews (at the half way of the strategic plan period)

Plan for Necessary Conditions & Capacities

- Human resource capacity
- Incentives for implementing the plan
- Operational support
- Organizational structure
- Information management system
- Financial resources

Conclusion

- In the start up to the implementation of the M&E System summarized above, the M&E Unit has conducted a few activities test the applicability of the System.

These are:

- Reviews of YEDF Operational Tools, Documents, Strategies and manuals
- Field visits
- Meetings with a few FI's
- Work plan development and budgeting
- PC Development
- Reporting (Field reports, Monthly status reports and Quarterly reports)
- Key In the pipeline now is the M&E Strategy and Framework.
- The strategy will by extension explore appropriate methodologies (means) of carrying out M&E activities in a rational manner (objectively, cost effectively, results based, and timely)
- The Framework will establish an M&E implementation matrix (Log frame) to highlight indicators and targets to be realized (extent and when) on YEDF programmes and activities